

**KWAME NKURUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS**

***PROBLEMS OF TAX COLLECTION IN GHANA. CASE STUDY OF THE KUMASI
METROPOLIS***

BY
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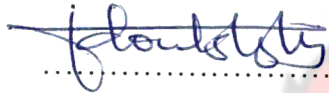
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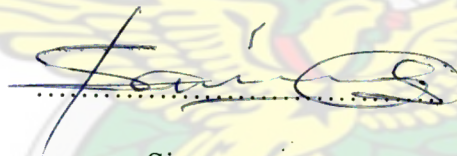
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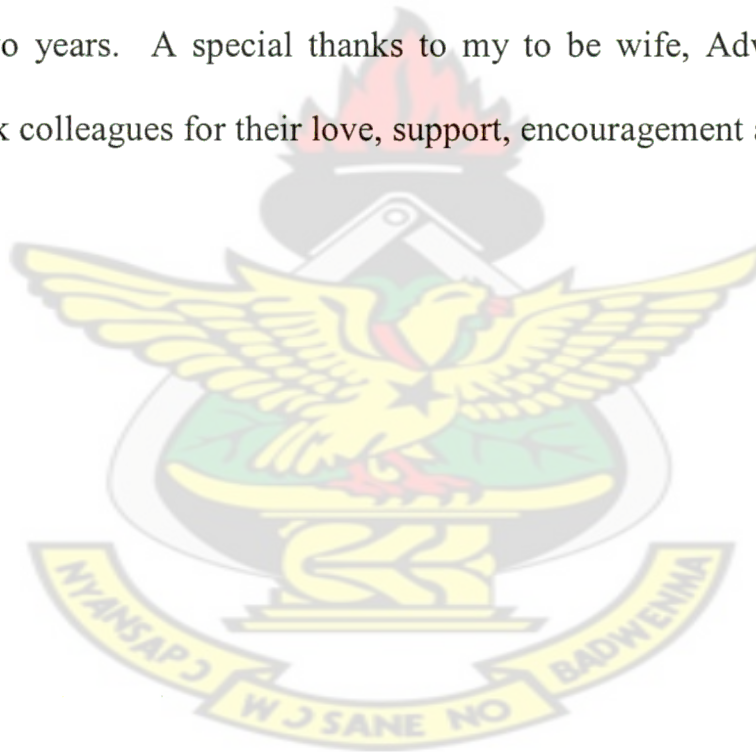


TABLE OF CONTENT

	Page
Attestation of Authorship	i
Acknowledgement.....	ii
Table of content.....	iii
List of Tables.....	iv
Abstract.....	v

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study	1
1.2 Statement of the Problem.....	2
1.3 Research Objectives.....	3
1.4 Research Questions.....	3
1.5 Justification.....	4
1.6 Scope of the Research.....	4
1.7 Limitation.....	5
1.8 Organisation.....	6

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction.....	7
2.2 What is Taxation.....	8
2.3 Tax administration in developing countries.....	9
2.4 Tax Mix.....	12
2.5 Taxation and Growth.....	14
2.6 Taxing Businesses.....	16
2.7 Challenges of Tax Administration	18
2.7.1 <i>Difficulties in Taxing the Informal Sector</i>	21
2.7.2 <i>Inappropriateness of Tax Mechanisms</i>	22
2.7.3 <i>The Incentive Problem</i>	23
2.7.4 <i>The Incentives for people to pay their Tax</i>	24

CHAPTER THREE: RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction.....	26
3.2 Research Design.....	26
3.3 Population and Sample.....	27
3.4 Data Collection Procedures and Techniques.....	28
3.4.1 <i>Primary Data</i>	29
3.5 Validity and Reliability.....	29
3.6 Data Analysis.....	30
3.7 Profile of IRS in Ghana.....	30

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction.....33

4.2 General Information.....33

4.3 Questions on factors militating against Tax Officers.....35

4.4 Questions on Set Targets.....39

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

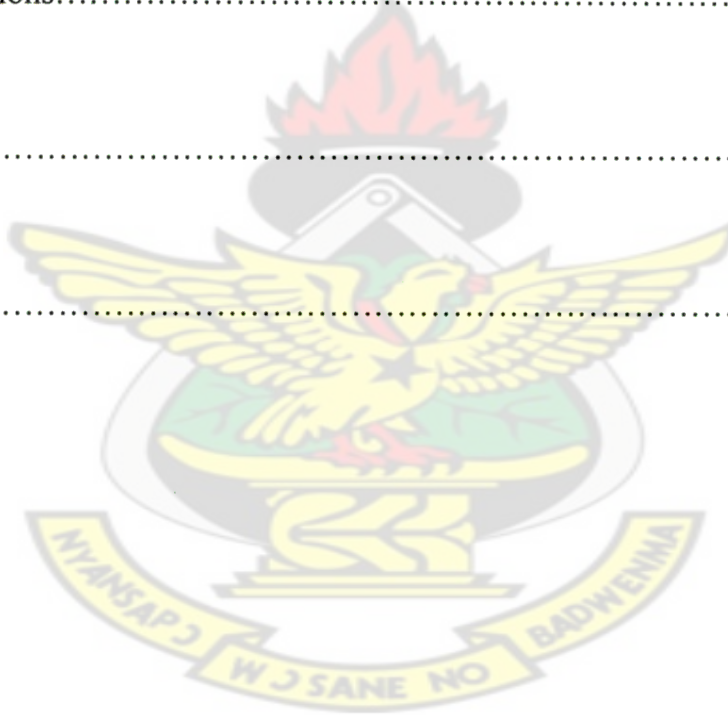
5.1 Introduction.....41

5.2 Summary of Findings43

5.3 Recommendations.....45

REFERENCES.....49

APPENDICES.....52



LIST OF TABLES

Table 4.1: The gender of the respondents

Table 4.2: Age group of the respondents

Table 4.3: Those responsible for problems solving

Table 4.4: Employees who have had training



ABSTRACT

Ghana like any other developing country around the world receives financial assistance from the donor countries in the form of budget support and project assistance. These funds most often than not are revenue collected from the citizenry in these countries we have tagged developing partners and donor countries. In most cases the state resort to borrowing from bilateral and multilateral international organizations which attracts so much interest to be paid in due course with either our raw materials or from our reserves.

It is this light that Ghana has had some tax reforms to be able to meet the required tax for its developmental agenda but there seems to be that all the reforms have not yielded the needed results for Ghana. The study therefore sought to find out the main problems that affect the tax collection agencies while discharging their duties and how best these problems could be solved to collect much more revenue for the developmental agenda of the state.

The study was conducted at Internal Revenue Service in the Kumasi Metropolis to find out the main problems tax officers encounter when discharging their duties. Questionnaire was administered to solicit this information. The empirical results strongly support the research thesis.

The researcher found that the main problems in the agency have been low motivation resulting from low remuneration which has made it difficult for the staff to be efficient and effective. Large tax districts and capacity constraints in the service are also found to be problems. It was recommended that the tax officers should be given the needed logistics to be able to meet the set targets within a given period. It was also recommended that effective taxpayer education should be embarked on to sensitize the general public the need to honour their tax obligation.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Why do we have taxes? The simple answer is that, until someone comes up with a better idea, taxation is the only practical means of raising the revenue to finance government spending on the goods and services that most of us demand. Setting up an efficient and fair tax system is, however, far from simple, particularly for developing countries that want to become integrated in the international economy. The ideal tax system in these countries should raise essential revenue without excessive government borrowing, and should do so without discouraging economic activity and without deviating too much from tax systems in other countries.

Slemrod and Bakija (1996) once said that the hardest thing in the world to understand is income tax. Nevertheless, it is vital that income tax is understood as it forms a critical element of how a government affects the lives of its citizens. Lamont (1992) states that of all the powers of government, other than its authority to declare war, none bears so incisively upon the welfare of citizens, both privately and in their economic enterprise, as does its power to tax. The effect of taxation is that subjects are forced to give up hard earned earnings or possessions, or, in the early days, also payments in kind, without receiving visible benefits in return (Coetzee, 1993; Theron, 1994).

The Minister of Finance in South Africa, Trevor (1999) stated that the obligation to pay one's fair share of taxes as and when they fall due is part of the new morality which democratic governance must inculcate in every South African. He accepted that tax evasion and fraud are among the most insidious forms of criminality that plague the South African society and that millions of rand are diverted everyday from the fescues by tax criminals. There appears to be a

substantial tax gap between the tax that is theoretically collectable from economically active people in developing countries and the tax that is actually collected. One of the main reasons for the tax gap is non-compliance by taxpayers and potential taxpayers, with tax legislation. One of the causes of non-compliance has been demonstrated to be the attitudes and perceptions of people.

It is upon this background in the developing countries that this research sought to find the problems in tax collection in Ghana and how this is affecting its economic development.

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1.2 STATEMENT OF THE PROBLEM

Taxation has been and continues to be one of the major sources of revenue in the economic development of a country. It is also a major avenue of revenue to the government of Ghana to enable it finance its numerous economic and social projects. The role played by taxation in Ghana therefore cannot be over emphasized. It is for this reason that any problem facing tax collection agencies in Ghana must be researched into and lasting and concrete solutions found so as to ensure a smooth collection of taxes. Despite the major reforms by successive governments in tax administration due to major role played by taxation in Ghana, the Internal Revenue Service (IRS) which is the only institution charged to collect domestic taxes in the country faces numerous problems. Kumasi branches of IRS are of no exception to these problems. This is the reason why the researcher wants to study the causes of the problems facing tax collection agencies in the city and to suggest better ways of solving these problems.

1.3 RESEARCH OBJECTIVES

This study aims to enhance the understanding of the problems of tax collection in Kumasi Metropolis by the Internal Revenue Service and its impact on the economic development in Ghana. The major objectives of this study are;

- (i).To identify the factors that militate against the tax officers in the performance of their duties;
- (ii) To examine the targets set by the IRS and how they are achieved;
- (iii) To find out from IRS why individuals and corporate bodies evade tax and how to discourage it.

1.4 RESEARCH QUESTIONS

The assertion that there have been serious problems in revenue collection in the country leads to the researcher to find;

- a. What factors militate against the tax officers in the performance of their duties?
- b. Why the target set by the IRS sometimes become difficult to achieve?
- c. What should be done to curb these problems?
- d. What should be done to discourage tax evasion?

1.5 JUSTIFICATION OF THE STUDY

Taxation forms the most important means by which governments generate revenue to fund the fiscal policies contained their budgets for the well-being of the people.

Due to this it is significant to find out the problems of the main collectors of the income tax in Ghana, the Internal Revenue Service and how it affects the economic development of this

country. This will enable the authorities to minimize these problems if not eliminating them so that socio-economic development of this country will be improved.

The study will further reveal how employees of IRS could be motivated to work harder to be able to collect more revenue for the state

The study again is significant because various methods of tax evasion by the tax payers will be exposed and the needed solution could be recommended to increase revenue collection.

1.6 SCOPE OF THE RESEARCH

In an attempt to identify the problems of tax collection in Ghana, the research focused on the problems encountered by the Internal Revenue Service offices in Kumasi Metropolis as the city is full of informal sector individuals and corporate bodies who are purported to be paying tax to the state. The research was specifically limited to those taxes collected by the Internal Revenue Service in Kumasi Metropolis and also sorts to consider those individuals and corporate bodies whose tax jurisdiction is the Kumasi Metropolis IRS. This has become necessary because IRS is the sole agency responsible for collecting income tax and therefore the researcher sought find out the problems they face while discharging their duties.

1.7 LIMITATIONS OF THE STUDY

Every study has its limitations and this study is no exception. First of all, the size of the empirical investigation is relatively small and the number of respondents is limited.

Furthermore, with the tax collection agencies the focus is on the problems of collecting the tax and its impact on the socio-economic development in Ghana. The study covers these problems but is not investigating the entirety of the collecting agencies such as VAT, Customs Excise and Preventive services and other local authorities who also collect levies.

Additionally, the participating districts are all located in one geographical area within Kumasi, which means that the results are only valid for this region and other results could occur in other regions or cities.

Furthermore, this study researches the opinions of tax officers who have work with the IRS at one particular point in time and does not distinguish between different episodes in time. Again, only the summarised and unified data is investigated and no further information is gained about the different regions where this research could not take place. However, even though it is important to realise the study limitations, it is equally important to realize that their effect on the main purpose of the study is only marginal.

Here, the focus is on the problems of tax collection and its impact on the socio-economic development of our country, Ghana. Therefore, it is important to concentrate on this objective and leave question that are not directly connected to this goal for further research.

1.8 ORGANISATION OF THIS THESIS

This thesis is organized into five chapters. Chapter one provides an introduction to the problems of tax collection in Ghana and its impact on the economic development and sets out the objectives and significance of this study. The chapter again discussed the problem of the study,

justification, scope and limitation of the study. Chapter two outlines what taxation is, identifying who is to pay tax and the essence of taxation. It again highlights the background of IRS in Ghana and difficulties in taxing the informal sector as well as difficulties in the tax system. Chapter three deals with the methodology of the thesis including data collection and analysis. Chapter four explains the research findings and discusses the implications of this study and Chapter five is about the recommendation and conclusions.

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CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

The process of state-building is slow and complex but is now increasingly recognized as the necessary condition for effective social and economic development (Everest-Philips, 2008). An effective state requires a social contract between a ruling elite and its population, based on a political settlement that allows the elite to collect taxes without excessive coercion in return for delivering basic freedoms and essential public goods (Brautigam, Fjeldstad, and Moore, 2008). The state-building approach to taxation, therefore, recognizes tax as one of the few core capabilities that any state needs in order to function. Further, the more effective the tax system, the stronger the capability, prosperity, and legitimacy of the state (Bird, Martinez-Vasquez, and Torgler, 2006). This insight is not new: Aristotle and Confucius both noted that a prosperous and politically stable society required a political leadership and administration funded through fair and effective tax systems. In a lecture in 1755, Adam Smith famously observed that little else was required to 'carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice.' This is easily said, but the details of how to deliver that result in practice remains a major obstacle to international development.

This was recognised by Ghana's report on tax reform in 1983-1993. Taxation to pay government to provide non-market goods and services, regulate economic and social conditions, redistribute income. In the modern society, to accomplish the development of political and economic structure of society has become more complex (Terkper, 1994). The government responsibilities

increased as well. As a consequence, taxation now serves far wider purposes. However, taxation continues rising of revenues and remains the primary source of the income required by the state to ensure the protection, social welfare and prosperity of its citizens (Martinez-Vazquez and McNab, 2000).

2.2 WHAT IS TAXATION

It is incumbent on, a responsibility and a duty of persons of a given country to pay sums of money from their income earned from any recognized economic activity and transaction to the state to finance public expenditure (Obeng, unpublished).

According to Encarta (2008), Taxation is the system of raising money to finance government. All governments require payments of money—taxes—from people. Governments use tax revenues to pay soldiers and police, to build dams and roads, to operate schools and hospitals, to provide food to the poor and medical care to the elderly, and for hundreds of other purposes.

Without taxes to fund its activities, government could not exist, as recent research has highlighted the importance of tax as 'state-building' (Brautigam, Fjeldstad, and Moore 2008).

Tax may also be defined as sums of money paid, in whatever form, to the state by persons so obliged by law (Obeng, unpublished).

According to Ricardo (1821), taxes are a portion of the produce of the land and labour of a country, placed at the government; and are always ultimately paid, either from the capital, or from the revenue of the country.

For the purposes of this research, tax may be defined as “a person’s share, contribution and obligation for the maintenance of socio-economic order, and good governance, and to enjoy the sovereign rights, privileges and power of the state”.

2.3 TAX ADMINISTRATION IN DEVELOPING COUNTRIES

In most developing countries, tax administration was in a poor state in the 1970s (Radian, 1980). Tax bases were grossly under-assessed, collection rates were low, and penalties existed more in law than in fact. In some countries, tax evasion was seen to be more a badge of honor than a crime. Low tax morale (Frey, 2002) combined with inadequate and unwilling enforcement to produce an adverse "tax culture" (Edling and Nguyen-Thanh, 2006). Staff was underpaid and under-skilled, recordkeeping was manual, modern procedures for assessment and collections were not in place, and tax systems were often so complex that they made a bad situation worse (Toye, 2000).

Faced with such realities, some countries (and advisors) opted to concentrate on improving tax administration, others attempted to devise tax systems that could work with bad tax administration, and still others continued to ignore the interdependence of tax policy and tax administration (Arbelaez, Burman, and Zuluaga, 2005).

To some extent tax policy in some countries in the latter part of the 20th century was influenced by foreign advisors (McLure, 1990). The role of such advisors was presumably never to substitute for government decision makers or politicians but simply to bring the best thinking about tax policy to bear -- for example, in Indonesia in the early 1980s (Gillis, 1985). In some instances, advisors also paid considerable attention to the details needed to help make the case for those who would have to sell the reform (Bahl, 1991). In other cases, their contributions

shifted and often lifted the level of the debate even if their specific proposals rarely made it into law (Musgrave and Gillis, 1971). Sometimes outside advisors may have served a useful role in bringing unpopular messages that government officials did not want to embrace in public but were not unwilling to have “forced” upon them (e.g., raise the gasoline tax rate, eliminate certain exemptions from the VAT, or reduce protective tariffs) -- or at least this is a common rationalization put forth by those who (like us) have at times carried the banner of the IMF into fiscal battles around the world (Vazquez, 1992).

Where the contribution of such advisors was positive, it was usually more from the cumulative effects of exposing policymakers to elements of what had to be done to get good tax policy than from the success of any particular set of specific tax structure proposals. In the best cases, good tax policy eventually got into the ring with good tax politics (Moore, 2004). What seemed at first to be radical and unthinkable in the context of a particular country came over time to be seen as within the feasible choice set. An example was the introduction of a flat rate broad-based individual income tax into policy discussion in Jamaica in 1984. At first viewed with shock owing to its clear departure from the existing progressive system of statutory rates (applied to a base riddled with exemptions), over time the proposal gained acceptance and was adopted in 1986 (Bahl, 1991).

Some of the factors just mentioned seem less relevant today. For example, perhaps in part because the lessons have been so well learned, tax reform in most developing countries is less driven by fiscal crises now than in the past (McLure and Zodrow, 1997). Budgets are more under control in most developing countries than was the rule 30 years ago.

On the other hand, Agosin et al (2006), stipulated that trade mobilization and capital mobility have created new revenue problems for many developing countries, and new challenges for tax policy.

Concern with vertical equity and progressivity also plays a smaller role with respect to tax reform than in earlier years (Bird and Zolt, 2005). Tax administrations in most developing countries are not up to the task of implementing taxes intended to redistribute income away from the rich and upper middle class, such as capital gains taxes, a comprehensive progressive income tax, or a property tax assessed at full market values (Bahl, 2008). Even if a nominally progressive system is implemented, its impacts may sometimes be regressive, as when higher corporate tax rates result in up capital flight and job losses (Heady, 2004). Across much of the political spectrum, many experts and an increasing number of policymakers now accept that for the most part distributional concerns are better addressed on the expenditure side of the budget, where benefits may be better targeted to low income people (Barreix and Roca, 2007). With respect to the revenue side of the budget, perhaps the main consensus view now when it comes to distribution is that taxes should not unduly burden the very poor (Bahl, 2008).

2.4 THE TAX MIX

Emerging countries are generally less capable of using the tax system to redistribute income (Bird and Zolt, 2005). Income and wealth taxes play a relatively small role in the tax structure of such countries as compared to developed countries. In Latin America, for example, personal income taxes collect less than one percent of GDP. The personal income tax is often merely a wage withholding tax (Gendron, 2007). In many countries taxes on labor in the formal sector comprise over 90 percent of personal income tax revenue. The very rich often pay relatively little

in income taxes. The appearance of progressivity may be necessary for the tax system to be politically acceptable; but in practice no significant tax liability is imposed on higher incomes (Gupta, 2003). Nonetheless, income taxes have an important role in emerging countries. Even if a country's sole objective is economic growth, a clear case exists for taxing corporate income, if only to collect a fair share of the revenue that multinational and large domestic businesses derive from the economic activities in that country (Bhatangar, 2000).

Since corporations are the engine of development in all modern societies, a tax on corporations is in effect a tax on the modern, growing sector of the economy. According to Fjeldstad et al (2003), Countries need to tax that sector to secure the revenue they need to meet expanding expenditure demands and to ensure that those who benefit most from development pay their fair share. But they must also ensure that corporate taxes are not so high as to discourage growth. In general, the best approach for emerging countries is thus to impose a moderate, stable tax on all corporations, probably at the same rate as a flat income tax imposed on other forms of capital income received by persons (Bird and Zolt, 2007). In principle, consumption taxes should cover more services in part to reduce regressivity. Unfortunately, it has proved difficult to include many services in the consumption tax base, especially those that may be consumed disproportionately by the rich. Thus, even the best-designed consumption taxes are unlikely to be very progressive, at least within the market sector of the economy (Bird and Zolt, 2007).

A modest degree of progressivity in the personal income tax on wages and salaries may thus provide a useful offset to the possible regressive impact of the consumption taxes. Both corporate and personal income taxes may thus play an important role in developing and

transitional countries (Zolt, 2007). However, given the current economic context in many countries, the most important part of the tax regime in such countries is likely to be a broad-based VAT, probably supplemented by a few high-rate excise taxes on selected items. The tax system in Ghana is not much different from that of the other developing and emerging countries (Terkper, 2003). This has been direct and indirect taxes.

In sum the most effective way to reduce inequality is not through taxation but rather through spending programs targeted at the poor. Expenditures aimed at improving primary education or primary health services are likely to prove more effective at reducing inequality than trying to change the tax system to tax the rich. The role of the tax system in emerging countries is essentially to raise the revenue for such expenditure programs rather than to play a substantial redistributive role in its own right (Bird and Zolt, 2007).

2.5 TAXATION AND GROWTH

Even in developed countries with stable, long-established tax systems and excellent data, there is still much we do not understand about taxation, growth and equity (Zolt, 2007). Our understanding in emerging countries is even less complete. Consider, for example, the trade-off between growth and equity (Taliervo, 2004). According to Davoodi et al (2000), most societies want to be richer. Most also want the increased wealth to be distributed fairly. Are these objectives compatible? Despite much theoretical and empirical inquiry as well as political and policy controversy no simple answer exists. Some contend that because growth never occurs across economic sectors evenly, it is inevitable that increased inequality will result (Zolt, 2007). Others contend that societies in which resources are distributed more equally will do better in the

long term. Still others suggest that, whatever the answer may be, countries can devise policy measures that are fully compatible with achieving both more growth *and* more equity (Shah and Whalley, 1990). While the answer likely depends on a country's specific circumstances, the current situation in many emerging countries offers so many opportunities for improvement that some countries may be able to have their fiscal cake (growth) and eat it too (redistribution). Over the past 50 years, there have been many policy prescriptions for economic growth (Easterly, 2002). Policy advisors have, in rough chronological order, called in turn for increased capital investment, improvements in education, population control, reduction of government controls on market activities, and loan forgiveness programs as "silver bullets" that would result in improved economic performance in developing countries. Unfortunately, none of these policies has worked as advertised (Bird and Jun, 2007).

Similarly, there is no magic tax strategy to encourage economic growth. Some countries with high tax burdens have high growth rates and some countries with low tax burdens have low growth rates (Mueller, 2003). Looking at the relationship between growth rates and tax rates in the United States over the last 50 years reveals that the U.S. had its greatest periods of economic growth during those years where the tax rates were the highest (Slemrod and Bakija, 1996). Of course, this does not mean that high tax rates are the key to economic growth: growth rates in the U.S. might have been even higher in those years with high tax rates if the rates had been lower (Lledo, Schneider and Moore, 2003). The point is simply that the relationship between taxes and growth is complex. Many emerging countries have sought to improve their economy by introducing a variety of tax incentives for investment, for savings, for exports, for employment, for regional development, and so on (Shah, 1995). Such incentives are often redundant and ineffective, giving up revenue and complicating the fiscal system without achieving their stated objectives. Even to the extent that

incentives may be effective in inducing investors to behave differently than they would have done in response to market signals, the result is often distorting and inefficient, diverting scarce resources into less than optimal uses (McLure, 1999). Tax incentives also result in very uneven tax burdens, with domestic companies often subject to full taxation (at least in theory), while other firms, often foreign investors, and benefit from tax incentives that reduce their effective tax rates. A limited role may exist for certain simple incentives as part of a growth-oriented fiscal policy, as some East Asian experience suggests (Bird and Chen, 1998). But tax incentives can not compensate for the absence of such critical factors as a sound macroeconomic policy, good infrastructure and a stable governance system.

2.6 TAXING BUSINESSES

The focus on business taxation is also political: governance cannot directly change from a weak state funded by a narrow tax base to a liberal democracy of citizen-taxpayers with a high intrinsic 'tax morale' (willingness to pay) (Torgler, 2007). For example, both Finland and Sierra Leone collected 31% of total current revenue in income and property taxes in 1990, yet the state-building difference is shown by the fact that Finland was able to collect more than seven times the revenue take, as a share of GDP, than Sierra Leone (Lieberman, 2002). While in developed countries, the proportion of individual income taxpayers as a percentage of the total population ranges between 35% and 78%, with an average of about 46%, figures for developing countries are between 0.14% and 12%, with an average of less than 5% (Bird and Zolt, 2005). The private sector pays most of the tax in developing countries; therefore, it must be at the centre of a state-building tax system. Historical parallels confirm that a missing element in tax as state-building is

the role, ideas, interests, and incentives of the business community to make the state more responsive, capable, and accountable.

Low-tax countries tend to have lower income per capita, but higher per capita incomes are not necessarily associated with higher tax takes. According to von Soest (2006), in 2003, Zambia, with a per capita income of \$785, collected 18.1% of GDP in tax, whereas Uganda had a per capita income of \$1167 but collected only 11.4% of GDP. At the same time, the levels of tax collection certainly do not necessarily indicate better state-building – that the state has the capacity and national purpose to promote rapid economic growth – nor that a state or government is perceived by its citizens to be legitimate. Recent episodes of political violence in Kenya and Zimbabwe, two relatively high-tax states, illustrate that relatively high tax collection does not preclude violent challenges to the state's authority (Di John 2008; Fox and Gurley 2005). To progress beyond a narrow tax base and to avoid 'state capture', a state-building tax system requires the effective treatment of business and not just large corporations and medium-sized companies but also MSEs (micro- and small-sized enterprises). MSEs in all developing countries employ the overwhelming majority of the economically active in the population and the overwhelming majority of voters (von Soest, 2006). Sustained economic growth depends on MSEs, but in most developing countries, MSEs remain overwhelmingly in the informal economy (Joshi and Ayee, 2002).

Many studies have demonstrated the benefits of formalization for strengthening economic growth dynamics. The informal sector is less productive than the formal economy (Palmade, 2005). Firms in the informal sector are extremely sensitive to the business climate and grow

more slowly and generate fewer jobs. They are market constrained (they cannot take government contracts), potentially resource-constrained (they can only access finance in the informal market and cannot participate in donor-funded projects), and are unable to participate in capacity building (Gupta, 2000). Formalization may not always be appropriate. The benefits of being regulated may be comparatively small for those involved in subsistence activities. A small business taxation reform, therefore, targets enterprises that are likely to benefit significantly from obtaining formal status, through accessing new markets and financial services, and security of tenure and investments (Everest-Philip, 2007). MSEs may not generate significant revenues in the short run, will but do as in the long run as firms grow – and formal firms grow much faster than the informal economy so are critical for the growth and job creation on which social development, prosperity, and political stability will depend (Adom, 2000).

2.7 CHALLENGES OF TAX ADMINISTRATION

The best tax policy in the world is worth little if it cannot be implemented effectively. Tax policy design must take into account the administrative dimension of taxation (Bird, 2004). Tax design in developing countries is also strongly influenced by economic structure. Many emerging countries have a large traditional agricultural sector that is not easily taxed. Many also have a significant informal (shadow) economy that is largely outside the formal tax structure (Zolt, 2007). The potentially reachable tax base thus constitutes a smaller portion of total economic activity than in developed countries. The size of the untaxed economy is in part a function of tax policy. The resulting lower tax revenues often lead governments to raise tax rates, further exacerbating incentives to evade taxes. Improving tax administration is thus central to the choice of tax structures and to improving taxation in emerging countries (Rutkowski, 2007).

According to Torgler (2007), the political will to administer the tax system effectively, a clear strategy for achieving this goal and adequate resources for the task. It helps, of course, if the tax system is well designed, appropriate for the country in question, and relatively simple, but even the best designed tax system will not be properly implemented unless these three conditions are fulfilled. Most attention is often paid to the resource problem -- the need to have sufficient trained officials, adequate information technology and so on. Bird and Wallace (2004), however, states that, without a sound implementation strategy, even adequate resources will not ensure success. And without sufficient political support, even the best strategy cannot be effectively implemented.

The existence of a tax-paying culture among tax payers through embedding in a set of rules, values and relationships ensures that a technically efficient tax authority may be able to use the routines and attitudes which underpin that culture to enhance collections... the use of public embarrassment of individuals by the South African Revenue Authority has been extremely successful because there is a culture which makes exposure of non-payment a source of shame (Friedman, 2003).

Unfortunately, but unsurprisingly, few politicians are eager to incur the economic and political costs of major tax policy and tax administrative reforms (Martinez-Vazquez, 2007). Frequently, international agencies require such tax reforms as a condition for loans. Developing countries, desperate for revenues, launch frantic efforts to raise revenue without hurting politically powerful interests or without providing the time, resources and consistent long-term political support needed for effective tax administration. Unfortunately the tax officers do not receive the needed support from those in the helm of affairs to be able to enforce their responsibilities. Aye

(2003) stated that the bureaucracy in the system makes it difficult for tax officers to be efficient and effective on their duties. Reluctance to collect taxes efficiently and effectively without fear or favor is understandable in those countries with a fragile political foundation. But no magic way exists to obtain a viable long-term tax system without substantial political support (Bird and Wallace, 2004).

The tax administration must be given an appropriate institutional form, which may (or may not) mean a separate revenue authority (Taliervo, 2004). It must be adequately staffed with trained officials. It should be properly organized, which generally means an organizational structure based on a function rather than on a tax-by-tax basis. Computerization and appropriate use of modern information technology is important, but technology alone is not sufficient and improvements must be carefully integrated into the tax administration (Bird and Gendron, 2007).

Effective tax administration requires qualified tax officials. Tax authorities need to collect the information needed for effective administration from taxpayers, relevant third parties, and other government agencies. The information must be stored in an accessible and useful fashion and used to ensure that those who should be on the tax rolls, are that those who should file returns, do, that those who should pay on time, do, and that those who do not comply are identified, prosecuted and punished as appropriate. All this is easy to say and hard to do -- but it is not impossible. Countries such as Singapore and Chile provide models of what can and should be done (Bird, 2007).

According to Martinez-Vazquez (2007), the modern approach to tax administration rests on treating the taxpayer as a client (albeit not a willing one) to be served and not a thief to be

caught. Unfortunately, the latter attitude seems to prevail in many emerging countries. Of course, some taxpayers are not honest, so a second important task of any tax administration (after facilitating compliance) is to reduce tax evasion. In addition to undertaking the difficult tasks involved in extending the reach of the tax system into the informal economy to the extent feasible, close attention must also be paid to such simple but often neglected tasks as ensuring that those who are in the system file on time and pay the amounts due (Torgler,2007). Adequate interest charges must be imposed on late payments to ensure that non-payment of taxes does not become a cheap source of finance (Martinez- Vazquez, 2007). Similarly, an adequate penalty structure is needed to ensure that those who should register do so, that those who should file do so, and that those who under-report their tax bases are sufficiently penalized to increase the costs of evading tax. All this may sound obvious and easy but experience around the world suggests that it is neither of these things in many emerging countries. Enforcing a tax system is neither a simple nor a static task in any country and it is especially difficult in the changing conditions of emerging countries. Unless this task is tackled with seriousness and consistency, however, even the best designed tax system will fail to produce good results (Evans, 2003).

Another major task is keeping the tax administration honest. There is a perception in the developing countries like Ghana, that revenue collected from tax payers are used by few elites while the poor masses 'go hungry'. No government can expect taxpayers to comply willingly if taxpayers believe the tax structure is unfair or the revenue collected is not effectively used. But even a sound tax structure (and a sound expenditure policy) can be vitiated by a capricious and corrupt tax administration. Developed countries took centuries to develop and implement sound tax administration practices aimed at preventing dishonest tax officials' result succumbing to

obvious temptations (Webber and Wildavsky 1986). Unfortunately, many emerging countries are trying to maintain large government operations on a precarious fiscal foundation without having resolved the corruption problem. Corruption undermines confidence in the tax system, negatively affects willingness to pay taxes, and reduces a country's capacity to finance government expenditures.

2.7.1 DIFFICULTIES IN TAXING THE INFORMAL SECTOR

To enhance revenue collection and bring a fairer distribution of the tax burden which is currently borne by those employed in the formal sector, the Budget proposes that during 2007 “the government will develop and implement a system to assess and collect income tax using the value of vehicles registered ... because a significant percentage of vehicle registrations are from informal sector operators most of whom are not taxpayers” (Budget of Ghana, 2006).

Two general difficulties can be discerned. First, most business transactions are done in cash and even some establishments would not accept bank cheques. The transaction of all business in cash is one of the means by which a businessman can conceal taxable profits. By so doing, he is able not only to manipulate his records and turnover figures for tax reduction purposes but he is also to eliminate all third party information leading to his purchases and sales. Secondly, most self-employed people are indifferent to proper record keeping. However, in tax administration a very important task is the correct determination of the income of the taxpayer so that a meaningful assessment of the tax liability could be made. Without proper record keeping, this cannot be done. The low standard of record keeping is mainly due to illiteracy (Agyeman, 1982).

2.7.2 Inappropriateness of tax mechanisms

Ghana has used direct and indirect mechanisms to collect tax from the informal sector. Direct taxing through formal systems of accounting and income calculation and formal payment channels has not worked effectively because collection costs tended to be high in relation to the amounts collected and discretionary. To overcome these problems, the less distortionary VAT was initially withdrawn and later reintroduced (Ayee, 1997). In spite of its introduction, the VAT has not been to penetrate informal sector activities. To strengthen the capacity of government to mobilize resource, the Ghana Poverty Reduction Strategy I focused on increasing revenues not by increasing taxes but by instituting measures that will widen the tax base and involved minimizing revenue leakages, reducing the incidence of tax avoidance and strengthening the capacity of the revenue collecting institutions (Budget of Ghana, 2003).

Taxation based on formal systems of income calculation, accounts and payment options is not appropriate to much of the informal sector. Direct presumptive taxation may be more promising. In presumptive systems, assessments are based not on calculations of actual income, but on broad indicators of the scale of profits likely being made (Bird and Wallace, 2003, Chipeta, 2002, Sadka and Tanzi, 1993). Depending on the nature of the economic activity, the indicators may be the size and capacity of machinery, the square footage of commercial space, number of employees or the number of customers served. The introduction of presumptive taxation is usually combined with the simplification of self-assessment systems. It has been initiated widely in the developing world. Ghana has had a form of presumptive tax since the early eighties. While presumptive taxation has met with some success, it too has failed to adequately penetrate the informal sector and the returns to efforts have been low (Terkper, 1995; Appiah-Kubi, 2003).

2.7.3 The incentive problem

Not only are the three revenue agencies over-stretched, but typically their staff try to avoid working on the informal sector. Compared to virtually all alternatives, including corporate taxation or customs and excise, working on the informal sector is relatively low status, unrewarding, and sometimes even dangerous. Patrolling poorer areas to identify tax evaders and monitor tax payments with nowhere near the required level of resources is a thankless task. In particular, educated tax officials dislike interacting with illiterate poor, disenchanting and sometimes violent citizens who resent being harassed for taxes when they are attempting to eke out a meagre living. The scope for corrupt supplementation of earnings is low relative to other types of postings, and corruption typically will imply taking money in small amounts from already poor people.

As our own research in Ghana shows, motivation tends to be low among tax officials assigned to work with the informal sector. Promotion prospects are few, and they are excluded from the more lucrative positions (Ayee, 2007). The Internal Revenue Service (IRS) does not have the capacity to implement, monitor and enforce taxation. It is the only revenue agency which is yet to be computerized. This coupled with inadequate logistics such as vehicles, office space and inadequate conditions of service to motivate staff have made it impossible to make significant inroads into informal sector taxation. Strategies employed by the IRS such as on-the-spot checks, closing down of shops, public education on tax and the demand of tax clearance certificate for appointment to public office to stimulate tax consciousness in the informal sector has achieved marginal success. These are jobs to be avoided, especially by the more senior officials. In such

circumstances, it is hard for governments to focus more on taxing the informal sector (Joshi and Ayee, 2002).

2.7.4 The incentives for people to pay their tax

A number of reasons have been advanced for the willingness of people to pay their tax. First, payment of tax is regarded as a social or collective choice, that is, the relationships between the preferences of the individual members of the state or society and the collective choices made by governments. People are willing to pay tax because of the “social contract” that exists between them and their governments. Citizens expect government to provide goods and services, whether public or private goods and their effective provision enable citizens to pay tax in return for the enjoyment of these goods. In other words, government expenditures require the generation of revenues and people pay tax as a result of a combination of the public interest and self-interest (Bird and Oldman, 1975; Brown and Jackson, 1978). Secondly, people pay tax because it is linked to governance. People pay because of government’s effective coercion since people will not pay voluntarily. In the words of Friedman (2003) “we obey the rules when the government does its job and ensures that the systems are in place to force us to comply”. Thirdly, people pay tax voluntarily because they feel they are contributing to a state with which they identify or a government programme which they support. Fourthly, and more importantly, tax-paying depends on an underpinning culture, which does not necessarily depend on the claim that it stemmed originally from loyalty to a political order.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY AND DESIGN

3.1 INTRODUCTION

The purpose of this study is to explore the problems of tax collection in Ghana. In this chapter the research design and methods used for achieving this objective of the study will be presented. It specifically addresses the nature and size of respondents, the tools and procedures that have been used in this study. It also explains the reasons for adopting some specific methods and perspective to collect and analyze the data, and some possible strengths and weakness associated in these approaches. Research is a complex process which requires the researcher to follow certain procedures in collecting, analyzing data so as to validate the findings. Therefore a researcher before embarking on a research needs to develop a research design. Such a design is viewed as “overall planning and preparing the methodological procedure for obtaining the intended knowledge” (Kvale, 1996).

3.2 RESEARCH DESIGN

The research was a case study at the Internal Revenue Offices in the Kumasi Metropolis to look into problems of tax collection in Ghana. In the study, the researcher found the factors that militate against the tax officers when discharging their duties and how often they achieve the target set. The study was based on the use of questionnaires, interviews and documentary sources. The questionnaires and the structured interviews used resulted in information and that was quantitatively and qualitatively analysed. These approaches were used because they were appropriate statistical tools for finding from the sampled population. The method enables to draw an unquantifiable but rich, that is ,comprehensive and in-depth, data that help to deeply

understand the phenomena (Anderson 1998). Moreover, the method is quite important to draw the attitudes and feelings as well as experiences of those who have been involved in and responsible for tax collection at the Internal Revenue Service in Ghana.

3.3 POPULATION AND SAMPLE

Sampling is usually applied in empirical research because it is too unwieldy, too expensive, too time consuming or simply unnecessary to study an entire population (Goezt and LeCompte, 1984). In the literature Cohen et al (2001), differentiates between two basic types of sampling: probability and non probability sampling.

In this study, the population comprised all Internal Revenue Service officials in Ghana. However, due to time and other resource constraints, purposive sampling technique was used to select officials in the six (6) districts of the IRS in Kumasi Metropolis for the study. Judgment or purposive sampling is a non-probability sampling technique in which an experienced individual selects the sample based on his or her judgment about some appropriate characteristic required of the sample members (Zikmund, 1994).

The idea behind these criteria was that the data gathered from those individuals would be of high quality and credible. The board of this institution is charged with well planned responsibilities. Officials were therefore consulted so as to identify the appropriate respondents. Once the individuals for the exercise were identified, preliminary attempt were made to familiarize them with the objectives of the study. In all eighty (80) identified tax officers in the Kumasi metropolis were selected from the list of one hundred and twenty (120) employees. This

is because some of the officers were clerks and service persons who do not directly involve in enforcing tax laws. For the purpose of this study, an average of thirteen (13) permanent tax officers were selected from each district in the Kumasi Metropolis and these selected tax officers were communicated to individually for their permission to take part in the answering of the questionnaire.

3.4 DATA COLLECTION PROCEDURES AND TECHNIQUE

Deciding on the data collection techniques is one of the most important aspects of any research. It depends on the research question(s) and the researcher's interest in the topic. The method indicates what the researcher views as valuable knowledge and the researcher's perspective on the nature of reality or ontology (Glensne, 1998).

The use of multiple sources of data and research methods is quite important to explore the research problems from different angles (Cohen & Manion, 1994). Besides enabling to generate rich data, such an approach is believed to enhance the validity of the study.

Only primary data was used in this study. Structured questionnaires on both closed- ended and open-ended and interviews were used as the primary data collection tool . Eighty (80) tax officers responded within a period of one week. The interview was also conducted on these same respondents on issues which were not captured in the questionnaire. Other information was brought up by the respondents themselves and the researcher took note on them.

3.4.1 Primary Data

The main data gathering tool used in the primary data collecting phase of the study was questionnaires and interviews. Qualitative interviewing was also considered along side as it is the “art of hearing data” (Rubin & Rubin, 2005) so that the researcher gets insights into the multiple perspectives of the different interviewees. Interviewing give the interviewer the opportunity to establish a personal relationship with interviewees in order to obtain the necessary information for the study (Rubin & Rubin, 2005). Moreover, a qualitative interview allows the respondents to describe what is important to them using their own words rather than being restricted to predetermined categories, thus respondents may fell more relaxed and candid in the interviewing process. The questionnaires consist of structured questions so as to get uniformed results from the interviewees. Structured questions were preferred as they give flexibility to the researcher to modify, explain, omit, or include certain questions in the context of the conversation (Merriam, 1998). The selected respondents were communicated to by the researcher via face-to-face where questionnaires were delivered by hand to each respondent and collected later and in some cases telephone questionnaire method was adopted to administer them. It was necessary to conduct the interview via telephone as the researcher fall short of the time to spend in various offices whilst they were busily working.

3.5 VALIDITY AND RELIABILITY

The terms validity and reliability have been more prominent in the quantitative research but they are also applied to qualitative research though addressed differently (Brock-Utne, 1996; Cohen et al, 2000). In qualitative research the term trustworthiness has been used by various authors to incorporate reliability and validity (Guba and Lincoln, 1994).

In this study, trustworthiness was maintained in the following ways. Triangulation of methods was employed (questionnaire and document analysis). This enabled both methods to complement each other due to the fact that, in research every method has its weakness and strengths.

3.6 DATA ANALYSIS

Data analysis is one of the major components of any research, quantitative or qualitative. The approach and method adopted affects the results and conclusion of the study. This therefore means that the careful and necessary utilization of the right data analysis techniques can have great impact on the outcome of the research. In this direction, the quantitative techniques of data analysis were used in the study. That is data was organized and represented in tabular forms to show the percentages of the respondents. They range from creating simple tables or diagrams that show the frequency of occurrence and using statistics such as indices to enable comparisons, through establishing statistical relationships between variables to complex statistical modeling.

3.7 PROFILE OF INTERNAL REVENUE SERVICE IN GHANA

According to Adom, (2000), Income Tax Administration in Ghana started in September, 1943 with the passing into law of the Income Tax Bill on 22nd September, 1943 as the Income Tax Ordinance No.27 of 1943. Initially, the Department collected tax from only a few limited liability companies and a very small number of individuals.

Over the years other taxes and duties were added to the Income Tax.

These were:-

- i) Minerals Duty 1952
- ii) Betting Tax 1952
- iii) Casino Revenue Tax 1955

Between 1961 and 1963, additional taxes and duties were introduced. Among these are Property Tax (1961), Entertainment Duty Tax (1962), Airport Tax, Hotel Customers Tax, Standard Assessment and Excess Profits Tax, all in 1963.

Pay As You Earn (PAYE) was introduced with effect from 1st July, 1961 and the tax year was changed from April – March to July – June. The tax year was again changed to January – December with effect from 1st January 1983.

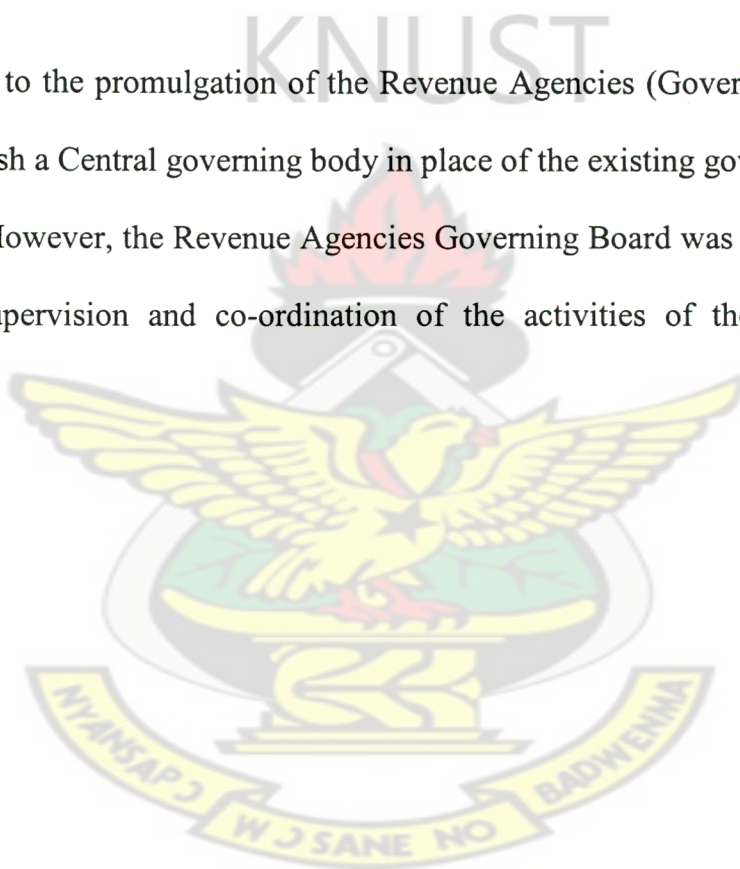
In July 1963, the Income Tax Department was renamed Central Revenue Department to reflect the broad scope of taxes to be collected. All these years – 1943 – 1985 the Department was a civil service department.

However, in July 1986, the Provisional National Defence Council (PNDC) government took a decision on structural changes in the organisation and legislation – The Internal Revenue Service (IRS) law – 1986 (PNDCL.143) – was passed. This law transformed the hitherto Central Revenue Department into a public service organisation. Prior to the promulgation of PNDCL.143) in 1986 the government in 1985 established the National Revenue Secretariat

(NRS) with a ministerial status to supervise the Revenue Agencies. This role was performed with virtual autonomy from the Ministry of Finance.

In 1991, the National Revenue Secretariat was relocated under the Ministry of Finance and Economic Planning (MFEP). With the coming into force of the Constitution of the Fourth Republic, the NRS lost its ministerial status and was placed strategically between the Sector Ministry and the Revenue Institutions.

Further restructuring led to the promulgation of the Revenue Agencies (Governing) Board Act, 1998 (Act.558) to establish a Central governing body in place of the existing governing boards of IRS, CEPS and VATS. However, the Revenue Agencies Governing Board was constituted in the year 2001 to ensure supervision and co-ordination of the activities of the three Revenue Agencies.



CHAPTER FOUR

4.0 DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

This chapter deals with the analysis of data collected during the research using the instrument described in the chapter three above. Analysis of the main data gathered from the questionnaire administered based on the research problems in chapter one were considered. The questionnaire was divided into three parts; General information about the respondents, Factors militating against tax officers and effects of set targets on the tax officers.

4.2 GENERAL INFORMATION

The respondents for this study were made up of 62.5% male and 37.5% female. This was not selected on any special reasons but was due to staffing trends in IRS districts in Kumasi and also due to probably men willing to work with figures than women.

Table 4.1: The gender of the respondents

	No. of Response	Percentage (%)
Male	50	62.5
Female	30	37.5
TOTAL	80	100

Source: Field Data, 2009

All the respondents were married and had been working with IRS for not less than five years. It was revealed that labour turnover at these districts were very low notwithstanding the ill-

motivated condition under which they are working. This made the respondents capable of giving vivid information about the problems they face while discharging their duties as they have had enough experience working as tax officers in the agency.

The results also revealed that fifteen (15) of these respondents representing 18.75% were between 20 and 40 years. Forty (40) of these respondents representing 50% were between 41- 50 years. Twenty-five (25) of them representing 31.25% were above 50 years. This data shows that 31% of these respondents will be headed for retirement in the next few years. This is because the revenue agencies are not competitive on the labour market. They employ highly skilled personnel, train them at high cost and in no time lose them to enterprises in the private sector who usually provide better incentive package for their workers. This situation has resulted from the fact that the condition of service is not attractive enough.

Table 4.2: Age groups of the respondents

Age group	No of Respondents	Percentage (%)
20-40	15	18.75
41-50	40	50
51 and above	25	31.25
TOTAL	80	100

Source: Field Data, 2009

4.3.0 QUESTIONS ON FACTORS MILITATING AGAINST TAX OFFICERS

4.3.1 DO YOU FACE PROBLEMS WHILE DISCHARGING YOUR DUTIES?

All the respondents (100%) attested that they face problems while discharging their duties. The main problems revealed were capacity constraints, large size of tax district, large size of informal sector, no data on potential tax payers, logistical constraints and inadequate motivation were the major problems mentioned by the respondents. It was revealed that four of the six districts visited were without computers and those who have are just for the district manager. This has made their work very cumbersome because searching for their previous information is another story. Also there is no database on the potential taxpayers who are mostly in the informal sector of the economy. Therefore the collectors have to walk a longer distance fishing out people to pay tax which sometimes it is dangerous thing to do.

As to whether it is the responsibility of the tax district to solve the problems mentioned above 35 of the respondents representing 43.75% said no and 45 of them representing 56.25% said yes. This indicated that the tax officers do have divergent views as to who should solve their problems. Should it be the government as minority of the respondents is purporting or the management of various districts should rather solve the problems for the successful and efficient performance of their duties? One would have expected that prompt action is taken to provide the needs that will enhance smooth operations so as to avoid relying on foreign donors for assistance to support the annual budget.

Table 4.3: Those responsible for problems solving

Response	No. of Respondents	Percentage (%)
Yes	45	56.25
No	35	43.75
TOTAL	80	100

Source: Field Data, 2009

For logistical problems, all the respondents (100%) revealed that they have problems and went on to mention computers, telephone, stationery, statutory forms, vehicle, among other things were mentioned as non existing in various districts in Kumasi metropolis. These have gone a long way to affect their performance since for instance tax education which suppose to be one of the core function of the IRS is virtually impossible due lack of enough transport to convey these officers to various communities and business centers. Again, due to lack of computers these tax officers keep records manually and this makes it difficult tracing a client's information to determine their tax compliance.

Also, absence of data on potential tax payers has made it very difficult to know those who are evading tax and even determining how much one must pay as tax. This has resulted in constant scuffle between the potential tax payers and the tax officers on how much to be paid.

4.3.2 DO YOU FACE TAX EVASION PROBLEMS?

All the respondents (100%) revealed that there is a problem of tax evasion in the metropolis. This has been attributed to the fact that there is large size of the informal sector and because there is little data on the potential tax payers who have refused to register their businesses, it becomes virtually impossible to trace them.

Again due to lack of tax education most people fail to declare their incomes on gifts they receive, capital gains on property sold and many other items and earnings they suppose to pay tax on to the tax authorities. Five (5) of the respondents representing 6.25% revealed that there is perception among the potential tax payers that money collected is used by the politicians to enrich themselves and also majority of the rural dwellers are distanced from the real benefits of taxation which include good schools, drinking water, health facilities, roads, etc. As a result, there is low rate of compliance. Also a lot of transactions take place across the counter. Payments are done with cash and generally no records are kept. It becomes extremely difficult to establish the true levels of incomes for tax purposes. All these perceptions are going on due to inadequate tax education therefore there is the need to have massive tax education throughout the country.

As for the percentage of tax evasion to tax collected in a year, the respondents could not pinpoint as there was no available data on it. This is because the tax officers only deal with the few tax payers they have their information to determine how much to be collected within a period but not how much is evaded within a period. Also, because the audit division of the service is not allow to audit these taxpayers, they find it easy under declaring their profits, this also brings about tax evasion.

4.3.3 PUNISHMENT FOR TAX EVASION

All the 80 respondents affirmed that there are punitive measures for those who evade tax in Ghana. The punishments mentioned included among other things imprisonment, ceasing a property of the defaulter and paying a penalty. The latter measure was said to be regular as far as application is concerned but the others are sitting in the tax laws but not applied. This is because there are no stringent measures in place to enforce the tax laws in Ghana and this has affected the implementation to its fullest as other school of thought says people in the developing countries should rather be encouraged to pay tax on their meager incomes rather than enforcing the strict tax laws on them (Adom, 2000).

Again, it was affirmed by all the respondents that in their respective districts they have applied the punitive measures especially paying a penalty on individuals and corporate bodies who evade tax.

On a question as to what should be done to avoid tax evasion, it was pointed out by the respondents that taxes should be reduced to attract more people to pay. There should be more tax education for people to understand the need to honour their tax obligations. This could be done by bringing tax to the doorstep of the tax payer by visiting them more frequently. This means employing more hand to do the job.

Also, there must be an audit on the incomes of the taxpayers to really know how much they get so that the right amount could be collected from both individuals and corporate bodies. This has become necessary because most of the taxpayers in the informal sector do not pay right amount

of tax because they under declare their profit and have not been disclosing gifts and capital gains they receive at all to these revenue agencies.

4.3.4 DO YOU HAVE A SET TARGET TO ACHIEVE AS A TAX DISTRICT?

All the 80 respondents said that they have a target to achieve. This target is set by the research unit of IRS in consultation with ministry of finance. The value for the target is mostly based on the previous year's figures and sometimes when the ministry of finance introduces new tax they bring estimated figures expected to be collected within a given period.

Unfortunately, the tax officers do not participate in the setting of the target which to them it has been the culture so there is little they could do about it. This target is evaluated weekly, monthly, quarterly, half annually and annually by the management of each district and each district accountant will feed the regional head office with returns. It was also revealed that districts are not penalized for not able to achieve the set target for the period in question. This inability has been there for long time due to the already stated problems but needs to be changed because the attitude of some of the tax officers may be a contributory factor. Probably because they are not punished for not able to achieve the target these tax officers do not attach seriousness to their job.

4.3.5 REWARD FOR ACHIEVING THE SET TARGETS

All the respondents affirmed that they are rewarded when they are able to achieve the target at the end of the period. The incentive packages for meeting the targets are mostly bonuses and letter of recommendation. That is the head office will write to commend the management and staff for good work done and will be asked to keep it up. These rewards could be promotions, job

rotation, salary increment and other end of year packages for outstanding staff in various districts.

4.3.5 TRAINING PROGRAMMES FOR THE STAFF?

This question was asked to find out how often the tax officers are taken through training to improve on their skills in order to discharge their duties efficiently and effectively. It was revealed that 30 of the respondents representing 37.5% have not had the opportunity to attend training programmes to sharpen their skills. This is because the budget for the agency is not enough to organize these training for all of them regularly. 50 of the respondents have had training before but for a long while because the training is organized annually but for very few officers. This means that training programmes are not regularly organized for the staff therefore one can be with IRS and will never be updated in modern ways of tracking potential tax payers even though training programmes are admittedly seems to be the best way to update workers all over the world.

Table 4.4: Employees who have had training on the job

Response	No of Respondents	Percentage (%)
Yes	50	62.5
No	30	37.5
TOTAL	80	100

Source: Field Data, 2009

4.3.6 WHAT SHOULD BE DONE FOR IRS TO BE ABLE TO COLLECT MORE TAX

The researcher asked this question to solicit the opinion of the respondents on what should be done for them to be able to collect more taxes for the state. The response on this question was very divergent. In the opinion of the tax officers the following can be done to be able to collect more taxes. On the question on how the problems mentioned above could be solved all of the respondents (100%) said there must be increase in the number of employees in order to reduce the workload which has been creating back log week after week. Creation of more tax districts also featured prominently. This has been seen as seriously affecting the work of the tax officers as the size of one tax district is bigger than a constituency use in electoral processes. Due to this, it becomes difficult for these few tax collectors and assessors to reach all the potential tax payers. Therefore creating more tax districts and employing more hands will help solve these problems.

20 of the respondents representing 25% reiterated that there should be increase in cash flow to various districts, logistics and computerization of the service. By increasing the cash flow the various districts will be able to procure basic materials which affect their daily activities like stationery. Computerizing the service will help keep the database of taxpayers and potential tax payers which will in turn prevent tax evasion. In this technological age it is inexcusable to operate revenue agency without a single computer in most districts. This ought to be tackled as soon as possible in order to be able to collect more tax for the state.

4.3.1.1 OFFER TAX EDUCATION TO PUBLIC

All the respondents (100%) attested to the fact that they offer tax education to the public as to why they should pay tax as it is one of the core functions of the Internal Revenue Service but unfortunately, this laudable function is performed one week in a year. This means that a lot of

people have not had enough insight as to why they should pay tax but paradoxically wants to have social amenities in their communities. Therefore there is an urgent need to employ people to offer tax education to the public. This will help people to appreciate that paying tax is obligatory but not a wish to augment the desk education as taxpayers visit the premises of the revenue agencies. This tax education can take many forms like radio and television advertisements, posters and mobile vans and also door to door visit by the collectors can be adopted to create the awareness.

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CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents the conclusions and observations from the study. The observations and conclusions were drawn from the analysis of the data collected and the responses obtained from the questionnaire administered. Appropriate recommendations are made based on the outcome from the data analysis.

5.2 SUMMARY OF FINDINGS

The following conclusions were made based on the findings from the study:

Low motivation resulting from low remuneration in the tax collection agencies has made it difficult for the staff to be more efficient and effective. This has also brought about lack of commitment and intentional display of lukewarm attitude by some of these tax officers. The situation where some staff receives smaller or non existence incentive and consultants who come for information from them to draw tax reforms end up getting higher consultancy fees, while the tax officers do not receive any additional financial rewards for implementing the perceived rigid tax strategies without additional reward, clearly attest to this fact.

Again, the study revealed that there is capacity constraint within the service. This has resulted to fewer people doing so much work. Due to this the staff spends a longer period dealing with clients to the extent that people will have to be in a long cue to pay a small amount of tax. This time consuming aspect of the tax collection scares people away from voluntarily coming forward to honour their tax obligation. Instead of employing permanent staff to augment the effort they resort to national service persons who for one reason or the other are always absent from the office.

Also, it was revealed that large size of the tax district was a major hindrance in tax collection. Because Kumasi metropolis is vast and densely populated as well as it being full of informal sector workers it is very difficult moving around to locate all these potential tax payers.

Further, the study found out that there are delays in release of government funds to the districts to purchase stationary and other logistics for their daily operations. Due to bureaucratic nature of the organogram of the IRS they always have cash flow problems which in turn affect procurement of materials for various districts.

Another conclusion that could be drawn from the study is failure of government to make available computerized system which could have helped the system networked. This could also contribute to delays in filing the returns to respective quarters

Because of this bottleneck, the district accountants have to manually prepare all these daily returns which have been creating back logs in all the districts. Having been able to prepare the return manually, the district accountants will have to make a call to inform their superior how much they were able to collect. This may cause distortions in the figures as there is possibility of under declaring the amount collected.

Finally, the study also revealed that people do have perception that few people like the politicians only enjoy the proceeds from the taxes collected therefore there is no need paying tax.

This has been possible because the tax education which supposes to be a core function of the Internal Revenue Service is virtually non existing. Due to this there a number of taxes where the state do not benefit from because the tax payers do understand why they should pay. For

instance, most Ghanaians do not know that they suppose to pay tax on gift on amount exceeding GHS50, on rent income and on capital gains. Is IRS blamable for their inability to educate the public about their tax liability? Certainly not, because the state has failed to provide the needed equipment and personnel who can organize and educate the public thoroughly as to why they should honour their tax obligation to the state. The little that they are able to do is just desk education as tax payers visit the premises of IRS.

5.3 RECOMMENDATIONS

The recommendations presented here aimed at contributing to finding solution to some of the problems that inhibit against tax collection in Ghana particularly those relating to revenue agencies to be able to discharge their duties efficiently and effectively.

5.3.1 Taxpayer Information and computerization

Taxpayer information gathering, collation and dissemination are very important to ensure fair assessment to tax and equitable distribution of the tax burden. All tax systems must therefore give taxpayer information top priority by creating vibrant Information Units. In addition, common Taxpayer Identification Numbers for instance facilitates taxpayer information gathering and dissemination. This can be effectively done when the systems of the revenue agency is computerized to make easy verification of information.

5.3.2 Tax Rates

High tax rates do not promote tax compliance but rather promote tax evasion. Government of Ghana is therefore encouraged to systematically reduce the tax rates for both direct and indirect

taxes so as to promote voluntary compliance by these low income citizens. Also, it may widen the tax net to capture a lot of people into the tax brackets. This will help the agency to introduce new taxes and implements the existing taxes which are difficult to collect.

5.3.3 Audit Investigations

Taxpayers have developed complex evasion schemes. With the introduction of electronic commerce, this problem may become explosive in future. Tax Audit, Investigations and general monitoring duties must be intensified. Efficient collation and dissemination of taxpayer information are pre-requisites for effective tax audits. This in the opinion of the researcher should be done in collaboration with the register general's department which mandates the corporate bodies especially to prepare and publish final accounts.

5.3.4 Human Resources

Policy initiation, innovations and implementation evolve around people. The tax revenue institutions compete with the private sector on the labour market for skilled labour. In order to be able to attract and retain competent tax officials, their remuneration and general conditions of service must be comparable to their competitors on the labour market. This will motivate the staff attracted and check corrupt practices that leaks revenue. This should go with effective training in line with technological advancement.

5.3.5 Taxpayer Education

Tax revenue institutions have the arduous responsibility of marketing an unpopular social service. Ghana's experience in 1931 when income tax was first introduced and again in 1995

when VAT was first introduced shows that if people are not sufficiently educated about their civic responsibilities as taxpayers, they are likely to resist the imposition of any new taxes. Other may not see the need to pay tax because there is no direct benefit accruing to them. The agency must adopt the strategy adopted by marketing departments of well organized business organizations. Government should assist to educate the citizenry their rights and obligations as far as taxation and state building is concerned.

These and many more have been accepted to be possible to help the tax officers collect more taxes for the state if implemented.

Finally, it is recommended that there should be continual review of tax system to introduce more flexible and 'easy to pay' taxes so that the tax bracket will capture a lot of potential tax payers. Also training programmes for tax officers should be regular and tax education which should be one of core functions of the agency should be done in all the media.

In conclusion, the researcher is of the opinion that the study has contributed into revealing the main problems tax officers go through while discharging their duties. To the researcher, the study have also revealed critical areas in the subject area which calls for further research to be able to fully appreciate the need to motivate revenue agencies to collect taxes and also to appreciate importance of tax collection in nation building.

To this end, the researcher recommends further research into tax evasion and compares other revenue collection agencies and their impact in the development of Ghana.

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APPENDIX 1

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY BUSINESS SCHOOL

QUESTIONNAIRE TO BE ADMINISTERED TO ELICIT DATA ON THE PROBLEMS OF TAX COLLECTION IN GHANA

Note: This questionnaire is part of thesis to be submitted in partial fulfillment of the requirement for Master of Business Administration and the confidentiality of the respondent is seriously adhere to:-

KNUST

A. GENERAL INFORMATION

1. Sex: Male () Female ()

2. Functional position of the Respondent

3. Marital Status:

a). Married ()

b). Single ()

c). Divorced ()

4. Number of years you have been working with IRS

a). 1-5 years ()

b). 6-10 years ()

c). 11-15 years ()

d). 16-20 years ()

e). 20 years or more ()

5. Age group:

- a). 20-30 years ()
- b). 31-40 years ()
- c). 41-50 years ()
- d). 51 years and above ()

Please answer the following questions by ticking the appropriate box:

B. FACTORS MILITATING AGAINST TAX OFFICERS

- 6. Do you face problems while discharging your duties? Yes () No ()
- 7. What are some of such problems? Tick more than one
 - a). Capacity constraints ()
 - b). Large size of tax district ()
 - c). Large size of informal sector ()
 - d). No data on potential taxpayers ()
 - e) Any other, please specify
- 8. Is it your responsibility as a district to solve the problems stated above? Yes () No ()
- 9. How in your opinion do you think these problems mentioned could be solved?
 - a) Increase the number of employees ()
 - b) Creating more tax districts ()
 - c). Mechanism to identify informal sector ()
 - d). Any other, please specify
- 10. Do you have computer in your office? Yes () No ()
- 11. Do you have vehicles for your operations? Yes () No ()

12. Do you have telephone in your office? Yes () No ()
13. Do you have regular supply of stationery? Yes () No ()
14. Is it difficult to calculate how much one should pay as tax? Yes () No ()
15. Why do you think people evade tax? Tick more than one box
- a). Small income of taxpayers ()
 - b). lack of tax education ()
 - c). lack of infrastructural development in their area ()
 - d). Any other, please specify
16. Is there any punishment for those who evade tax? Yes () No ()
17. If yes, what is the punishment for not paying tax? Tick more than one
- a). Imprisonment ()
 - b). Paying a penalty ()
 - c). Ceasing a property ()
 - d). Any other, please specify
18. Have your district punished individuals and corporate bodies for not honouring his or her tax obligation before? Yes () No ()
19. What do you think should be done to avoid tax evasion?
- a). Reduce taxes to be paid ()
 - b). more tax education ()
 - c). More stiffer punishment to offenders ()
 - d). Any other, please specify

20. Do your outfit offer education to the public as to why they should pay tax? Yes () No ()

21. If yes, how often do you offer the education?

- a). Monthly ()
- b). Quarterly ()
- c). Half- annually ()
- d). Annually ()
- e). Any other, specify

22. If no, why? Please tick more than one

- a). Lack of funds ()
- b). Lack of educators ()
- c). Difficulty in reaching potential taxpayers ()
- d). Any other, please specify

23. Do you pay tax as a tax officer? Yes () No ()

24. In your opinion, what do you think should be done for IRS as a tax collection agency to be able to collect more taxes for the state?

.....
.....

C. SET TARGETS

25. Do you have a set target to achieve as a tax district? Yes () No ()

26. Who sets this target?

27. Did you achieve the set target last year? Yes () No ()

28. What is the periodicity of performance reporting related to target?

- a). Monthly ()
- b). Quarterly ()
- c). Half- annually ()
- d). Annually ()
- e) Any other, please specify

29. Are you penalized for not able to achieve the stated target? Yes () No ()

30. What are some of the managerial sanctions for not meeting targets?

- a). Transfers ()
- b). Queries ()
- c). Demotion ()
- d). New assignment ()
- e). Any other, please specify.....

31. Are you rewarded for achieving the set target? Yes () No ()

32. If yes, what are some of the incentive packages for meeting targets? Please tick more than one

- a). Bonuses ()
- b). Promotions ()
- c). Salary increment ()
- d). New assignment ()
- e). Any other, please specify

33. Do you attend training programmes on how to do the work? Yes () No ()

34. If yes, how often do have the training?

- a). Monthly ()
- b). Quarterly ()
- c). Half- annually ()
- d). Annually ()
- e). Any other, please specify

KNUST

Thank you.



APPENDIX II

ABBREVIATIONS AND ACRONYMS

DFID	Department for International Development
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Products
IFC	International Finance Corporation
IMF	International Monetary Fund
IRS	Internal Revenue Service
MSEs	Micro and Small-sized Enterprise
UK	United Kingdom
VAT	Value Added Tax

