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CHALLENGES OF PAYING TAX: A CASE STUDY OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE KUMASI METROPOLIS

BY

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CANDIDATE'S DECLARATION

I hereby declare that this submission is my own work towards the MBA and that to the best of my knowledge no part of it has been presented for another degree in this university or elsewhere except for the references to other people's work which have been duly acknowledged.

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DEDICATION

To my wife, Gifty Donkor

ACKNOWLEDGEMENT

ABSTRACT

This study uses a sample size of 400 respondents to examine the challenges of paying tax in the Kumasi metropolis in the Ashanti Region of Ghana using descriptive statistics, the study find out that lack of understanding of the tax laws; lack of proper book keeping; distance between the office and place of business is too high; cumbersome procedure involved in paying taxes to be the main challenges of paying tax by the small and medium scale enterprises. The study also found that, to the Ghana Revenue Authority; the procedures for tax filling are too complicated; inadequate managerial skills; inadequate managerial skills; government interference; inaccurate reporting of income and tax liability (keeping two separate books); and inadequate logistics. The study recommends tax reform and education; simplification of the tax law, monitoring and enforcement of tax laws, opening of more tax offices, stiffer punishment, proper use of tax revenue, reduction of tax rates and improvement in tax collection methods.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Income tax is regarded as a compulsory or legal claim on the incomes of citizens of a country. Baafi (2010) defines Income tax as compulsory financial support that citizens of a state provide to their governments for the benefit of the entire state.   Income taxes are imposed for so many purposes in Ghana. Edgar and Sandler (2005) identified five main purposes of levying taxes; stimulation of economic growth, stabilizing of the economy, allocating resources to various sectors of the economy and as, a support for social development and identification of the scope of the market place.

The collection of taxes has been one of the major sources of revenue for governments across the globe in which Ghana is not an exception. According to the Ghana Banking Survey (2013), Small and Medium Scale Enterprises (SMEs) are estimated to be about 90% of all firms in Ghana. The report further noted that the private sector which is largely dominated by SMEs accounts for about 49% of gross domestic product in 2012. Majority of workers from whom the government can taxes from, work in the SMEs. Most of the activities of the SMEs are classified under the informal sector of the economy and workers in the informal sector account for about 80 percent of the entire labour force in Ghana (Carrol, 2011). The SMEs which form a chunk of the informal sector are characterized by high number of self- employed people, job insecurity and inadequate income (Farrell et al., 2000). According to Schneider et al (2010) the informal sector which includes mostly SMEs, represents a major source of tax revenue for the governments of most countries in view of its large size. However the challenges faced in taxing the informal sector, low incomes earned by

players of the sector, high cost involved in taxing the sector, administrative challenges were cited as the main reasons why the sector has not been adequately taxed (Pimhidzai and Fox, 2012). The contribution of SMEs to government tax revenue has been noted to be very minimal. Shortfall in government tax revenue has been identified as a reason for government's inability to meet its budgets targets (Kloeden, 2011). Despite the government limited income it continues to spend on certain key sectors of the economy by borrowing from both the domestic and international financial institutions and organizations.

The problem of low income from taxation has become more compounded with the attainment of middle income status. In view of Ghana's middle income status, there is the need for a substantial investment in infrastructure to match up with the country's new status. This implies that the government requires more income for spending on these investments. Taxing the SMEs was identified as a major source of fund for infrastructural projects (Joshi and Ayer, 2008). The Ministry of Finance and Economic Planning (MOFEP) recounted that the state faces several challenges in taxing its citizens including those in the informal sector operating SMEs leading to shortfall in revenue targets to the state (MOFEP, 2014). Though MOFEP admits there are challenges, it has hardly come out with some of these challenges. It is for this reason that this study aims at finding out the challenges the government faces in taxing the SMEs and also the reasons why some SME operators refuse to pay taxes.

1.2 Statement of the Problem

Considering the fact that the informal sector is mainly made up of SMEs which employs about 80% of the labour force in the country (Carrol, 2011) and contributes to about 49% of the country's GDP (Ghana Banking Survey, 2013), it is expected that much tax revenue would have been gotten

from this sector. A report by the Ghana News Agency (GNA) in 2009 indicated that out of 226,760 SMEs registered by the Registrar General Department, only 53,352 were tax compliance. In addition, the records show that the informal sector contributes less to the tax revenue of Ghana. According to Keen (2012) since the SMEs are characterized by low income earners, low tax yield, high cost in administering the tax system, tax experts have raised concerns about the use of the state's meager resources to enforce tax compliance in that sector of the economy. Some of these reasons account for low level of taxes in the SMEs.

Despite the SMEs' low tax contribution, it remains a potential source of tax revenue for the government. The number of SMEs is teeming up day after day; it is therefore surprising why the government has not been able to rake in the required tax revenue from this sector.

The study aims at finding out why the government has been unable to collect the necessary tax revenue from the SMEs and also why businesses in the sector (SMEs) refuse to be tax compliant.

1.3 Objective of the Study

The general objective of the study is to examine out the challenges the government, represented by the Ghana Revenue Authority (GRA) faces in collecting taxes from the SMEs and why some sector SMEs refuse to be tax compliant in the Kumasi Metropolis.

 Specifically this study aims at;

1. Examining the various reasons some SMEs refuse to be tax compliant.

2. Investigating the challenges the SMEs face in paying taxes.

3. Examining the challenges the GRA faces in collecting taxes from the SMEs.

1.4 Research Questions

In achieving the above objectives, the study shall attempt to answer the following questions;

1. What are the reasons why SMEs refuse to be tax compliant?

2. What are the challenges the SMEs face in paying taxes?

3. What are the challenges the GRA face in collecting taxes from the SMEs?

1.5 Significance of the Study

The study contributes to expansion of existing knowledge on income tax compliance in the informal sector in the Kumasi metropolis and Ghana as a whole. The study will enable SMEs in the Kumasi metropolis understand the essence of honouring their tax obligations for the development of Ghana. In practice, the study will be of significant benefit to the entire informal sector of Ghana. Firstly, a number of challenges confronting the informal sector regarding taxation would be identified and suitable solution found to them. Secondly, the study would enable the players of the informal sector to understand the essence and the need to pay taxes. The result of the study shall enable us understand the challenges both the Ghana Revenue Authority and SMEs face in tax administration. Solutions to these challenges will help increase government tax revenue in the country.

1.6 Scope of the study

The study covers the challenges the GRA and SMEs face in tax administration in the Kumasi metropolis. The deVaus (2002) formula was used to determine the sample size of three hundred and eighty SMEs for the study. In addition, twenty officials of the GRA, domestic division were also used.

1.7 Limitation of the Study

The major constraints to the study have been the limited sampling size employed for the study. This was necessitated by the time constraint.

1.8 Organization of the Study

The study is made up of five chapters. Chapter one deals with the background of the study, problem statement, objectives of the study, brief methodology and scope of the study. Chapter two contains both theoretical and empirical literature on the topic. Chapter three discusses how the objectives of the study were achieved. Chapter four presents and discusses the results of the study. Chapter five provides a summary, conclusion and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Definition of Taxation

Income Tax is a mandatory transfer of funds from the citizenry and institutions of a country to their government (Bird, 1992). Baafi (2010) defines Income tax as compulsory financial support that citizens of a state provide to their governments for the benefit of the entire state. Ali – Nakyea (2006) defines taxation as the levying of mandatory contributions by public officers of a country, to defray the cost of services rendered.

2.2 History of Tax in Ghana

According to Atuguba (2006) before the colonial rule, the whole society was governed by the chieftaincy institution. As part of the governance structure the chiefs had their Courts, the Police force and the Treasury. The rulers were empowered to administer taxes on their subjects. The taxes were in the form of cash and in kind. Different taxes were administered at different localities. The taxes comprised property rates; special development rates; funeral contributions; market tolls etc. With the help of the town crier or gong-gong beater the Chiefs communicated information on taxes to every tax payers. It was a requirement that citizens who had attained the 21 years pay taxes. In some communities, identifiable group were required to special taxes. The proceeds from such taxes were used for the upkeep of the rulers and for financing infrastructural projects. The decision to administer new taxes was left to the discretion of the chiefs and elders. The payments of taxes were usually made annually. Various ways of administering effective tax system were deduced. Heads of clans collected taxes on behalf of their families and paid them to the chiefs. The heads were empowered to settle tax related conflicts. Unresolved issues were referred to the chiefs. Penalties, including being ostracized, special fines, physical labour, and banishment were imposed on tax defaulters. The system was bedeviled with challenges such as lack of records on tax revenue.

With the introduction of the colonial system, the existing governance structure and its tax administration were maimed. The court, system of police and the treasury were abandoned. However the colonial administration used the chiefs to collect taxes for the citizens. The chiefs were paid. Two legislations were enacted to prolong the British rule in Ghana, then Gold Coast in 1843. To administer effective tax system the poll tax law was enacted in 1852.

The British had all the legal rights to administer effective tax system in the Gold Coast by 1908. Residents of Ghana had a culture of kicking against the various tax systems over the years. In an attempt to kick against the newly introduced tax, series of demonstrations and riots were organized. This forced the British authorities to discontinue the programme.

In 1931, there was an attempt by the then governor Sir Alexander Ransford Slaterto reintroduce income tax. However because of the resistance put up by the members of the legislative assembly's he had to back down.

However in 1943, Governor Sir Allan Burns was forced to reintroduce the income tax because of the massive decline in the main stay of the economy, cocoa. Income Tax was reintroduced to fill the funding gap.

In 1986 Ghana's tax administration was set up.

2.3 Tax Laws

The 1992 constitution stipulates that taxes can be levied only when it is backed by an Act of Parliament. They are various Acts which regulates tax administration in Ghana. They are the Value

Added Tax (VAT), Internal Revenue Service (IRS) and Customs, Excise and Preventive Service (CEPS).Internal Revenue Service (IRS) was backed by Internal Revenue Act, 2000 (Act 592). The Act was amended in 2002, 2003, 2004 and 2006. Customs, Excise and Preventive Service was backed by 1993 (P.N.D.C. Law 330).the Value Added Tax Service was also backed 1998 (Act 546). Ghana Revenue Authority was set in 2009, merging the Value Added Tax (VAT), Internal Revenue Service (IRS) and Customs, Excise and Preventive Service (CEPS).

2.4 Structure and Tax System

Taxes are classified according to the proportion of one's income he/she pays as tax. The forms of taxes are progressive tax system; regressive tax system and proportional tax system.

1. Progressive Tax System

It is a form of tax which ensures that higher income earners pay higher taxes while lower income earners pay lower taxes. For example, if a ten percent progressive tax system is levied on the incomes of two tax payers who earn GH₵2000 and GH₵3000 respectively, the tax payer who earns GH₵2000will pay GH₵200 as tax while the GH₵3000 will pay GH₵300.

2. Regressive Tax System

A tax system is said to be regressive when lower income earners are made to pay more as taxes as compared to the higher income earners. For example, if a tax stamp of GH₵200is levied on 2 transport operators who earn GH₵1000 and GH₵5000 respectively. The one who earnsGH₵1000 will pay 20% of his/her income as tax while the GH₵5000 income earners will end up paying only 4% of his income as taxes.

3. Proportional Tax System

A tax system is said to be proportionate if the same proportion of one's income is paid as tax. For example in Ghana every company pays a certain % of its Net operating profit as tax. If every company in Ghana is paying 25% of its net profit after interest as tax it is a proportionate tax.

2.5 Principles of Taxation

Adam Smith itemized Equity, certainly, convenience and Economy as principles of taxation (Hardwick et al., 1994)

1. Equity Principle

By the principle of equity, tax payers who have the ability to pay more taxes should be made to pay more than people who do not have the ability to pay more. Progressive tax system is a system of tax that can be used to ensure Equity.

2. Certainty Principle

A tax system is said to be certain when the tax payer knows in advance how much he/she is paying as tax and the time to pay is also known to the tax payer. The tax official must also know how much he/she is collecting as taxes from each particular tax payer and the time for collecting such taxes. For example, it is a practice in Ghana that public sector workers' tax liabilities are deducted from their salaries at source.

3. Convenience Principle

The convenience principle stimulates that location of the tax offices for paying taxes and the methods of levying taxes should be convenient to the tax payer. For example if the tax office is

solely located in Accra, the capital town of Ghana it would be inconvenient for the residents of Kumasi to pay their taxes in Accra.

4. Economy Principle

The economy principle states that the tax yield should not exceed the cost incurred in collect such taxes. For example, if a sum of one hundred million cedis is incurred to collect a total of one hundred and ten thousand cedis, then the principle of economy has not been adhered to.

2.6 Purpose of Taxation

Taxes are imposed to raise revenue for the government of every country including Ghana.

Edgar and Sandler (2005) identified five main purposes of levying taxes. They are

1. To stimulate economic growth

2. As economic stabilizer

3. To allocate resources to various sectors of the economy

4. As a support for social development

5. To identify the scope of the market place

1. Economic Growth

Activities of both private and public sectors ensure economic growth in developing countries. This is done by ensuring that the economy earns more tax revenue to pay for its capital expenditure. Foreign investments are needed to promote economic growth in developing countries. Various Governments in Ghana use tax incentives to attract foreign investment leading to economic growth.

2. Stabilization

Taxes are used to stabilize the economy of every nation particularly developing countries. According to Bird (1992), when the national income of a country rises it leads to an increase in tax yield whiles the government resorts to deficit financing to maintain the economy when the nation income falls. Taxation is an instrument used to facilitate economic stability in developing countries including Ghana.

3. Distribution of Income

One of the roles of taxation is to redistribute income. Income disparities in developing countries such as Ghana can be curbed by increase in government expenditure in certain key sectors of the economy. Personal income tax system is used to redistribute income. In practice, it has noted that personal income tax in progressive since it results in income disparities.

4. Taxes are used as support for Social Development

In Ghana taxes are used as a support for social development. Successive governments have used part of the revenue they earn from Taxation to provide social infrastructure. In Ghana most of the public schools are funded with taxes revenue raised from the citizenry.

2.7 SMEs

Bolton committee (1971) identified SME as a firm with a small market share and mostly managed or run by its owner(s). The European commission (EC) identified small enterprise as a firm which employs between 10 and 99 employees whiles a medium enterprise was identified as a firm which employs between 100 and 499 employees.

Unido (1983) has also categorized firms in developing countries with 5-19 employees as small firms and firms with 20-99 employees as medium enterprise. The Ghana Statistical Service has identified small firms as firms employing 10 employees and medium scale enterprise as firm employing more than 10 employees. In view of the fact that it is largest sector of the developing economy, SMEs are the vessels through which the economies of developing countries could grow. Carroll (2011) established SMEs which employs about 80% of the labour force in the country and contributes to about 49% of the country's GDP in 2012 (Ghana Banking Survey, 2013). National Board for Small Scale Industry also defines small enterprise as an enterprise which engages 10 workers and more and owns plant and machinery valued at 10 million cedis (US & 9506, using 1994 exchange rate).

From the various definitions above it could be noted that small and medium scale enterprises in Ghana employ between 5 to 100 workers.

Bolton committee (1971) listed the sectors in the SMEs as manufacturing; construction; mining and quarrying; retailing; miscellaneous; service; motor trading; wholesale trade; road transport; catering etc. Carrol (2011) pegged the employment at the sector to about 80% and accounting for about 49% of the gross domestic product in 2012 (Ghana Banking Survey, 2013).

Notwithstanding the tremendous contribution of the SMEs to socio economic development, the sector is bedeviled with so many challenges which affect their operations. Among them are registration and licensing requirements. The cumbersome nature of laid down procedures to be followed in registering and commencing SME enterprise in Ghana has also been identified as a challenge.

Adu-Amankwah (1999) has grouped the SMEs into rural and urban informal sector. Among the SMEs in the rural communities are Agriculture, fishing and fish processing, rural agro-based processing activities.

2.8. Organizing the SME Sector

Nyamekye et al (2009) also organized the SME into trade union and organized groups.

Trade Union	Organized Groups
1. Ghana Private Roads Transport Union	Car owners, drivers and attendants
2. General Agriculture workers Union	Farmers
3. Timber and Workers Union (TWU)	Sellers of timber, charcoal burners, carpentry associations, sawyers association etc.
4. Local government workers' union	Petty trading, craftsmanship, waste collection, Association of Butchers' sellers of charcoal.
5. Public service workers	Receivers of National lotto and Ghana Union of professional photographers.
6. Maritime and Dockworkers' Union	Enterprises working shipping in industry.
7. Ghana Federation of Labour (GFL)	Enterprises in the Tie and Batik, farming etc.

Source: Nyamekye et al., 2009

2.9 Characteristics of SMEs in Ghana

1.Individual Ownership of SMEs

This type of SME is owned by individual or self-employed including family members who are employed in such business. Carrol (2011) stated that such enterprises are owned and operated by an individual known as sole proprietorship such as husband and wife who come together to form partnership.

2. Ease Entry

There are no entry barriers to SME operation. The capital requirement needed to enter into SME is also very small. For example some SME such as hairdressing or dress making are established in homes. Since it is labour intensive only basic tools such as sewing machine are needed to commence business. There is also no regulatory requirement regulating entry.

3. Local Resources are used

SMEs use local resources for their operations. For example, SMEs engaged in wood processing use wood from the local market. Palm oil processing use palm kernel from the local market.

Inadequate resources account for one of the reasons why SME use mainly local resources.

4. Labour Intensive

SMEs in Ghana are labour intensive. Because of inadequate resources SMEs are unavailable to acquire sophisticated equipment needed for their operations. SMEs owners buy locally manufactured equipment for their activities. For example in the Agricultural sector, the farmers continue to use basic tools such as holes and cutlasses instead of the sophisticated combined harvesters for their operations.

2.10. Constraints to SMEs Development

SME are bedeviled with so many challenges. Among them are the following.

1. Finance

One of the major constraints of the SMEs is access to finance. Ghana Banking Survey (2013) mentioned access to finance as a major challenge facing the SMEs in Ghana. Inability to access credit is attributable to the risky nature of their businesses. SMEs lack the collateral security which is a requirement for accessing finance from the commercial banks in Ghana.

2. Domestic Demand

SMEs are constrained by lack of demand for their products especially those engaged in the manufacturing sector of the economy. Firstly, the Ghanaian citizens have developed a strong taste for foreign products which has adversely affected the demand for locally produced goods. Secondly the local products are perceived to be of inferior quality and consequently there is a low demand for locally produced goods. Low level of demand can impede the growth of the SMEs.

3. Lack of Managerial Skills

The owners of the SMEs do not have the requisite knowledge and experience to manage their businesses effectively (Carrol, 2011). This can lead to frequent collapse of such businesses in Ghana. Players of the SMEs are predominately illiterates and semi literates who lack the competencies to manage their businesses effectively and efficiently. High cost of support services provided by consultants and financial institutions also worsens the situation. Inadequate training is a major constraint of the SMEs.

4. Lack of Equipment and Technology

SMEs are unable to acquire the needed or the requisite equipment and technology to improve their businesses. This is partly due to inadequate capital. Lack of equipment and technology constrained SMEs from competing with large scale firms. Ofori (2009) cited low level technology as one of the major constraints of SMEs in Ghana.

5. Access to Skilled Labour

One of the major challenges of the SMEs is access to skilled labour force. According to Ghana Banking Survey (2013) SME are challenged by lack of credit. Lack of fund may lead to the operators ability attract the required skilled labour for the sector. The SMEs are unable to recruit, train and retain skilled labour force needed for their operations in Ghana mainly because of the high cost of skilled labour.

2.11 Empirical Review

Under this section we review some empirical literature on the subject.

In a study conducted by Abdul – Razak and Adafula (2013) using 390 tax payers in Tamale, Ghana the main factors affecting tax compliance were found to be; Perception of burden of Tax; Level of Understanding of the Tax laws; and Perception of Government's Accountability. These conclusions confirms the evidences given by Alabede et al., 2011; Atubuga, 2006. They cite Tax Education; clarification of the Tax laws; Taxes being put good use ie information on ongoing infrastructure projects being funded from tax revenue; Institutionalization of Award Scheme for faithful tax compliant as factors ensuring Tax compliance.

In a similar study conducted by Carroll (2011) using 1,273 women across all the ten regions of Ghana the main factors affecting tax compliance were found to be; Lack of Education; Complexity in some of the tax rules and assessment Scales; Lack of financial knowledge by women tax payers essential to maintaining business and tax payment such as record keeping .

These conclusions confirms the evidences given by Alabede et al., 2011; Atubuga, 2006. They cite Tax Education; clarification of the Tax laws; Taxes being put good use ie information on ongoing infrastructure projects being funded from tax revenue.

A study was also conducted by Annan et al. (2010).Annual time series data covering the period, 1970-2010 was employed for the study. The researchers identified lack of improvement in domestic mobilization institutions leading to lower capacity to collect taxes which eventually result to increase in the level of tax evasion. Increase in average tax rate and inflation causing Tax evasion was also identified as one of the factors leading to noncompliance. This finding is in line with Schneider et al. (2010) assertion that increases in the Tax rate reduces the taxpayer's disposal income leading to tax noncompliance. Lastly Per capital income which has an inverse relationship to Tax evasion was identified as a factor affecting noncompliance. An increase in Per Capita Income reduces Tax evasion while a reduction in Per Capita Income increases tax evasion. This is in line with Sookram and Watson (2005).

 In the study conducted among developing countries including Ghana by Itco (2010)**.** The researcher observed Complex tax laws causing confusion and uncertainty among tax officials and tax payers; weak enforcement of Tax laws; Bribery of tax officials; High compliance costs and

administrative costs as factors affecting tax compliance. These conclusions confirm the evidences given by (Alabede et al., 2011; Atubuga, 2006). They cite Tax Education; clarification of the Tax laws; Taxes being put good use ie information on ongoing infrastructure projects being funded from tax revenue.

2.12 Tax Compliance

The ratio of tax to GDP in poor nations to the developed world is wide. The tax base in developing countries is very narrow since a small portion of the population is pay personal income tax. Tax reform is needed to widen the tax net. An effective administration of tax system will lift Africa from over reliance on aid and to a path of sustainable revenue streams. African governments need to strengthen their capabilities in their attempt to mobilize domestic resources.

Moreover, many nations rely solely on taxes as a source of income. Opening up trade foster economic growth but participating countries are required to cut their tariffs as part of negotiations. This however reduces government revenue from taxation. Examples of such trade negotiations are the Economic Partnership Agreements (EPAs). 30% of all government revenue in most African countries is raised through direct and indirect tariffs.

There are several avenues for widening the tax base. For instance, revenue can be raised in the telephone sector in many African countries. In fact, a review of 15 countries established that mobile operators contribute more than 8% of government tax revenues in seven of the countries. The sources of revenue are from licensing and taxing the communication sector.

The main objective of taxation is to raise revenue to provide public goods and service and resource the governments (Edgar and Sandler, 2005).

The government of Ghana uses the tax revenue to provide certain public goods and services for its nationals. These public goods and services include the country's road networks, internal security, offer of protection to the citizens against outside aggression, sanitation (sewage), national disaster in Ghana. The government of Ghana has established institutions such as the Ghana Police service, the Armed Force and National Disaster Management Organization to ensure the internal security, protection of the state from external aggression and disasters management respectively.

Abdul-Razak and Adafula (2013) are of the view that Ghana needed tax revenue for investment in infrastructure to match up with its middle income status. Despite Ghana's middle income status, revenue mobilization was one of the main challenges the nation faces. It is interesting to note that out of 6 million taxable population in Ghana only 1.5 million represent 25% paid taxes (Ghana, 2011).

Shortfall in government tax revenue has been identified as a reason for government's inability to meet its budgets targets (Kloeden, 2011).

2.13. Taxing the Informal Sector

Joshi and Ayee (2008) proposed that failure to tax the informal sector including SME have adverse effect on the formal sector. It is perceived that tax payers in the formal sector will judge the government's failure to tax SMEs to be unfair treatment and go a long way to ensure noncompliance in the formal sector.

Ghana introduced Lump sum tax payment system in 1963. Lump Sum tax assessment was based on the size of the business, the premises, the number of employees, their skills and consumption of utilities.

Njeru et al. (2012) proposed enforcing compliance and monitoring incentives, education, public goods to provide tax revenue and tax audit as measures to ensure tax compliance in the informal sector of Ghana.

Kloeden (2011: 26) established that despite the fact that micro and small enterprises constitute about 90% of the entire tax payers revenue generated from such tax payers forms about 10% of the entire revenue generated in Africa. To address these challenges, Njeru et al. (2012), identified simplification of the tax law; gathering information on economic activities; SMEs who had no identity were taxed using the withholding taxes; provision of infrastructure and site for business; identifying SMEs, registering and provision of training and support services such as book keeping, marketing of their goods and helping SMEs of secure loans etc.; seeking tax amenities for SMEs; introduction of whistle-blowers mechanism to promote voluntary compliance through intensive monitoring and enforcement.

Edgar and Sandler (2005) identified the main purposes of tax as; stimulation of economic growth; economic stabilizer; allocation of resources; support for social development.

In line with this, huge investments need to be made on certain sectors of the economy such as education, health, water and infrastructure.

2.13.1 Factors Affecting Tax Compliance

Various stakeholders have endeavoured to look into tax compliance from different perspective including the behaviour of tax payers. Among them are the Willingness of the tax payers to comply with the country's tax law, Perception of the tax system, Lack of understanding of the tax law, Proper accounting of tax revenue, Politics of taxing the informal sector and Tax Culture

1. Willingness of the Tax Payers to Comply with the Country's Tax law

The tax yield of every nation depends on the ability of the tax payers to understand and comply with the enacted laws of the country (Eshag, 1983; Terkper, 2007). If the tax payers are willing to pay comply with the tax laws the country will earn more revenue to provide public goods and services. However if the tax payers are unwilling to comply with the tax laws less revenue will be earned. The tax payers' willingness to pay is influenced by the attitude.

2. Perception of the Tax System

The perceived fairness of a tax system and benefits of the tax system influence compliance (Alabedi et al., 2011). A tax payer who is influenced by the perceived fairness of the tax system will evaluate the tax system and he or she will be prepared to comply with the tax if the tax system is judged to be fair. However a tax payer who is influenced by the perceived benefits such as good roads, electricity, good drinking water from the tax system will evaluate comply base on the perceived benefits.

3. High Tax Rates

Various studies have confirmed that the main cause of tax evasion is high tax rates. High tax rates lead to the tax burden and thereby reducing ones disposal income which leads to tax noncompliance (Chipeta, 2002). However, if the level of the tax rate is low it may influence people's decision to comply with the taxes system.

4. Lack of Understanding of the Tax Law

Terkper (2007) identified factors affecting tax as inability to understand the enacted tax laws. If the tax payer understands the tax laws it will influence compliance and vice versa. To ensure the country's tax laws are understood, Young et al. (2013) established that the tax law or tax rules should be simplified to enable the tax payer understand the tax laws and thereby enhancing tax compliance.

5. Improper Accounting of Tax Revenue

Proper accounting of the tax revenue leads to tax compliance. The revenue accruing from taxation should be properly accounted for (Young et al., 2013). Where there is improper accounting of the tax revenue the tax payers will not honour their tax obligations.

6. Politics of Taxing the Informal Sector

Players of the informal sectors are promised they will not be taxed in exchange of their votes. Tendler (2002) reports that politicians arrange with people engaged in the informal sector to vote for a particular candidate in order to benefit from tax exemptions.

7. Tax Culture

Ghanaians have not developed the culture of paying taxes dating back to the colonial era.

Ali-Nakyea (2006), buttress this point by citing 'Kumi-Preko' demonstration as a tool used to resist the introduction of the Value Added Tax (VAT) in Ghana.

2.13.2 Effects of tax non compliance

The effects of tax noncompliance have been explained below.

1. Decrease in Tax Revenue

As postulated by Kloeden (2011: 26) revenue accrued from the micro and small enterprises account for only 10% of revenue raised in Africa. Government losses tax revenue through tax

evasion. Ghana (2011) establishing that out of a total of 6 million eligible tax player as low as 1.5 million people pay tax that there will be a significant revenue loss to the state. This means that the state may not get the needed resources to provide planned public goods.

2. Inadequate Provision of Basic Amenities

Tax non-compliance can stifle the state of basic amenities. Martina et al. (2008) listed poor education system, inadequate water, electricity supply and poor health system as a consequence of

tax noncompliance. There is inadequate revenue to fund the basic amenities because of tax noncompliance.

3. Income Inequality

Tax is used to redistribute income by the state. However tax noncompliance or tax evasion rather worsens the state effort to redistribute income in the economy. This is because tax noncompliance rather open up the gap between the rich and the poor. For example a total of US 160 billion dollars corporate taxes are lost in developing countries annually (Christian Aid Report, 2008).

4. Tax Planning

Tax planning stifles the state of the much need resources. Tax planning is a conscious effort to plan one's tax to avoid the payment of tax. Even though tax planning is legal in Ghana it stifles the state of the much need tax revenue.

2.13.3 Tax non Compliance in SMEs

Tax compliance involves honouring all tax obligations as required by law. SMEs are faced with the problem of compliance because of lack of expertise and resources. Kasipillai (2005) defines tax non-compliance as either failing to submit tax return, tax authorities within the mandatory period or not submitting the tax return at all, inflating mandatory deduction, failing to pay the

requisite tax within the stipulated time. The rate of tax accounts for one of the main reasons for non-compliance. Higher rate of tax result in a lower disposal income. This opens an avenue for the tax payers not to comply.

2.13.4 Measures to Ensure Tax Compliance

The tax payers are required to honour their tax liabilities to enable the government to provide the public goods and services needed by the citizens. Various factors have been listed as factors which will ensure compliance. Among them are reforms and education.

1. Reforms

The tax administration has undergone major reforms since 1983 to prevent tax evasion. In 1993 the company tax was reduced to 35%. In Ghana the composition of taxation include income tax, property taxes, taxes on international trade and value added tax. Income tax and property tax was 21.3% between 1980-93 and 27.5% between 1991-98. Indirect tax contributes more revenue to the state than direct taxes. World Bank (2003) established that while indirect tax accounted 73.9% direct taxes accounted for between 26.1% and 1980-2002. The percentage increase in direct tax revenue to total tax revenue were enumerated as 31.2%, 19.5%, 29.3%, 32.7% in 1988, 1991 1997 and 2002 respectively. Ghana's tax to G.D.P ratio stood at 6%, 12.6%, and 20.4% in 1983, 1986, and between 1996 to 2002 respectively.

2. Education

Ayee (2007) established that the educational background of tax payers influences compliance. SMEs are run by semi-literate individuals who do not keeping records of business transactions.

3. Lower Tax Rates

If the level of the tax rate is low it may influence people's decision to comply with the taxes system. If, for example, low tax rates lead to reduced tax burden and thereby increasing ones disposal income which leads to tax compliance (Chipeta, 2002).

4. When the tax payers know the benefit of the imposition of the tax system they honour their tax obligation. Tendler (2002) stated that such tax payers understand the benefits they will derive from the tax system.

5. Tax Education plays a major role in ensuring tax compliance. When people are educated on the need to pay their tax there is a higher probability that they would honour their tax obligations (Young et al., 2013).

6. The stiffer punishment against breach of the tax laws. Some tax payers honour the tax obligation because they do not want to breach the tax laws. For example, if a tax payer knows that if he/she under declare his income she/he will be given a 5 year jail term he/she would always honour his/her tax obligation.

7. The rules should be made simple and clear allowing taxpayers to read and understand the requirement and the rules they need to follow easily and quickly.

8. The Government support provided in certain sectors of economy induces some tax payers to honour their tax obligation. Government support may be in the form of incentives and tax holidays in certain sectors of the economy.

9. Some tax payers honour their tax obligation for political reasons. Such tax payer honour their tax obligations to enable the electorates see them as patriotic citizens. For example, the Daily Graphic (2013) reported that the president of Ghana had honoured his tax obligation to GRA.

2.13.5 Efforts Made to Tax the Informal Sector

In Ghana successive governments have made several attempts to ensure tax compliance in the SMEs. Several policies have been introduced to ensure tax compliance. Among such policies are the following.

1. Associational Taxation

As part of measures to ensure tax compliance, Associational Taxation called identifiable grouping taxation was introduced into the Ghanaian Tax system between1987 to 2003. The Internal Revenue Service the then legal authority mandated the Ghana Private Road Transport

 Union to tax their members for the state. Joshi and Ayee (2008) reported that because the policy chalked some successes, the programme was replicated in 32 activities of the informal sectors. Apart from the tremendous increase in taxation it reduced the cost involved in the collection of the taxes in the informal sector of Ghana.

2. The Tax Stamp

As part of measures to ensure tax compliance in the transport sector of the Ghanaian Economy, the internal revenue service introduced the Vehicle Income Tax (VIT) in 2003. The VIT was a quarterly income tax to be paid by the operators in the transport sector. To ensure compliance VIT stickers were issued to operators who had complied for every quarter to display on their vehicle. Because of the huge success the VIT chalked, the internal revenue service of Ghana replicable the introduction of the tax stamp in other sectors dominated by the SMEs. Legislation authorizing the tax stamp system was internal revenue (Amendment) Regulation, 2004. The tax stamp became operation in 1st February, 2005.

The tax officers identified operations in the SMEs and issued them with tax stamp. Some of the operators have been identified as traders, chop bar operator, store operators, fashion shops, hairdressing, artisans etc. The tax stamps are classification according to the type and volume of business. Joshi and Ayee (2008) stated that as a result of identifiable grouping taxation revenue generated from the informal sector which includes SMEs increased.

3. Ceding Control to Local Government

To ensure compliance, the central government is obliged to give control to sub government units. Bodin and Koukpaizan (2008) advance four main importance of delegating responsibility to the local government. They are (a) the local government needs for fund is fair greater than the central government and there is motivation to intensify tax collection in the informal sector which includes

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SMEs. (b) There is proximity of taxes from the informal sector to the local government than to the central government. (c) In terms of negotiations with the tax payers in the informal sector for compliance the local government is well positioned to do such negotiations than the central government. (d) It may enhance coherence at different levels of government.

In Ethiopia, taxes collection from the small scales enterprises have been assigned to regional government rather than central government. There is 2% presumptive tax on revenue.

Ceding control to local government brings in increased tax revenue even though it is bedeviled with some challenges such as coerciveness.

4. Emphasizing Transparency, Service and Engagement

To ensure tax payer compliance, there is the need for transparency, tax payer service and involvement in the tax administration. As part of measures to ensure compliance there should be transparency. Transparency is enhanced if the tax revenue could be directly linked to specific projects. Korsun and Meagher (2004) established that tax revenue from Guinea Market doubled after the tax payers were informed that their taxes were being used to construct a market.

Compliance can improve if tax payer service can be strengthened. Taxpayers' service was introduced in Gambia in 2004. Such services included Tax payer Identification Number (TIN), decentralization of the tax offices and refurbished with modern gadgets, establishment of tax tribunal, tax clinic, tax payer education and dissemination of information.

2.13.6Tax Avoidance and Tax Evasion

Despite the number of tax laws in place, the Ghanaian tax payers evade tax. Several reasons have been given for tax evasion. Among them are the following.

1. Inadequate Tax Incentive Offered by the Government

Tax incentive ensures tax compliance. If tax incentives are adequate they promote tax compliance but if the tax incentives are low the citizenry may feel reluctant to pay taxes.

2. Poverty

Tax compliance is influenced by the level of poverty in the country. Poor entrepreneurs are not prepared to honour their tax obligation while rich entrepreneur have strong desire to honour tax obligation.

3. Loose and Weak Tax law

In countries where they are weak or loose tax law it become difficult for SMEs to comply with the tax laws. Where the tax laws exist but are not enforced it also becomes difficult for the tax payers to comply. In Ghana there are various tax laws in the statute book which are not enforcement.

4. Inadequate Personnel in the Tax Offices

There are inadequate personnels at the various tax offices to ensure compliance. Comparing the work load to the number of personnels in the various tax offices show that the GRA is understaffed. As a result of inadequate personnels some tax payers are incorrectly assessed for tax which contributes to loss of revenue to the state.

5. Inadequate Tax Education

Inadequate tax education contributes greatly to tax noncompliance. Where there is education, the people know the benefits they may derive from compliance. The sanctions for noncompliance are also known. The tax payer should rather plan his/her tax to avoid tax rather than evading tax which is punishable by law.

2.14 Ways of Evading Tax

1. Some SMEs keep two set of books for recording business transaction of their enterprises. One of the books records inaccurate transactions for the purposes of tax evasion. Whiles the other is also used to record the actual or true transactions of the enterprise.

2. Some of SMEs engage in barter trade just to evade tax payment. For example, a car dealer may exchange a car for a piece of land. It becomes difficult to ascertain the amount involved for tax assessment or tax liability.

3. Non-disclosure of SMEs sources of income is used as an avenue to evade tax in Ghana.

4. Earning Income from Extra jobs. When the revenue is paid in cash rather than by cheque, it becomes difficult to tax the source of income.

5. Presenting false financial statement to GRA, Domestic division for tax assessment is one of the means of evading tax.

Due to inadequate tax revenue, the government finds it difficult to provide the needed infrastructure for the education sector in Ghana. For example tax revenue could be used to eliminate school under trees particularly in the Northern, Central and Volta regions of Ghana due to unavailability of classrooms. It is therefore important for the Ghana tax payer to honour their tax obligation to enable the government address the various challenges confronting the nation.

2.15 Problems of Tax Administration

The problems of the tax administration are grouped into two.

1) Problems encountered by tax officials, tax payers and the government.

2) Problems associated with the various stages of the tax administration. The stages are passage of tax laws; identification of tax payers, assessing the income of the tax payers, computation of tax liabilities for payment or collection of tax, payment of tax proceeds to government fund account called the consolidated fund, judicial and administrative review and penalty for noncompliance.

1. Inadequate Logistic

The Tax Authority lacks adequate logistics such as vehicles, computers and other resources to improve their operations. Tendler (2002) stated that owners of businesses evade the payment of Taxes, even though they are in brisk business.

2. Corruption on the Part of Tax officials

Tax official are perceived to be very corrupt in developing countries including Ghana. In Ghana Tax officials collude and connive with tax payers to evade tax (Tendler, 2002). Tax officials are also not given adequate training and education to enable them work efficiently.

3. Keeping Two Separate Books

Tendler (2002) stated that some tax payers keep two books just evade tax. One book records actual transaction whiles the other records false transaction to outwit tax officers.

4. Lack of education

Lack of education contributes to tax noncompliance. If the tax payer is educated on why he/she should pay taxes, how much should be paid, what the tax revenue is used for, etc he/she will be prepared to honour his/ her tax obligation to the state.

5. Government Interference

The government interferes in the work of the tax authority. Politicians sometimes promise certain players of the informal sectors to vote for certain candidate in order to benefit from nonpayment of taxes. This prevents the sector from tax compliance. The government also misapplies the tax revenue.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter involves the research design, the population of the study, sample and sampling technique, data collection procedure, data analysis procedures and limitations of data collection.

3.2. Research Design

The study employed exploratory design. The use of exploratory design can be explained as, it helps to satisfy the curiosity of the researcher and desire for proper understanding and it also helps to test for the possibility of embarking on a more extensive study as well as assisting in developing a method to be used in any subsequent study (Babbie and Mouton 2002). The main aim of the study is to find out the causes of tax evasion, the challenges of income tax administration in the Kumasi metropolis, possible measures to combat tax evasion and how the tax systems can be made effective and equitable in the Kumasi metropolis.

3.3 Population

The population of the study includes all the SMEs operating within the Kumasi Metropolis. According to NBSSI, SMEs in Kumasi are estimated at 11,000.

3.4 Sample and Sampling Techniques

Since the entire populations could not be used for the study, a sample had to be drawn. The study employs the Devaus (2002) technique for sample to arrive at the sample size. The formula is stated as;

$$n = \frac{N}{1 + N(a)^2}$$

where "n" refers to the sample size used for the study. "N" refers to the population of the study; "a" refers to the significant level or the confidence interval.

Based on the formular and the number of SMEs in the Kumasi Metropolis, a sample size of four hundred (400) was used for the study. The respondents comprise three hundred and eighty (380) operators of SMEs and twenty (20) tax officials within the Kumasi metropolis. Purposive sampling technique was used for the selections of respondents from the small and medium scale enterprise for the study.

A selection of respondents from the GRA domestic division was based on purposive sampling technique was used. The twenty (20) respondents were made up of ten (10) senior staff and ten (10) junior members.

3.5 Data Sources and Data Collection Procedure

Primary data collected through the issuance of questionnaires was used for the study. A questionnaire is a form designed to capture information in a form of written responses. A structured questionnaire was used in collecting data. The 5-point Likert scale with greater score indicating responses was used for the study. The use of the questionnaire gives respondents to the liberty to give responses to questions at their convenient time. Some of the respondents were given guidance

to complete their questionnaires. The questionnaire was used to collect demographic data and data on research objectives. In order to whip interest and encourage participation of respondents the questionnaire was short.

3.6 Pre-test of the study instrument

A pilot test was conducted to ascertain the validity of questionnaires. Responses of five SME operators were pretested. The researcher reviewed each question to determine accuracy and consistency. Series of questions were used to pretest questionnaire to accommodate revision.

3.7 Data Analysis

Data analysis involves transforming raw data to information for the sole purpose of making decision making (Emory and Cooper, 1991). Data analysis deals with organizing data into manageable size, giving summaries and making statistical inferences.

The study employed the use of descriptive statistics for its analysis. The results were presented in tables and charts.

3.8 Ethical Considerations

Divulging of information that can affect certain individuals and institution is unethical. The respondents were assured of confidentiality. The respondents were also made to understand that

the study was for academic exercise. The respondents were also given the option to opt out if they were not willing to participate in the study.

3.9 Data Validity and Reliability

3.9.1 Validity

Validity refers to the extent to which an instrument measures what it is required to measure (Polit & Hungler, 1993). Content validity limits itself to the extent to which an instrument represents the factors under study. Content validity refers to the representation of factors under study. Content validity also involves consistency in the questionnaire administration. The researcher personally questionnaires administered the questionnaires to the respondents.

3.9.2 Reliability

According to Polit and Hungler (1993) reliability refers to the extent to which an instrument measures consistently what it purports to measure accurately. The responses to the questions posed in the questionnaire showed some level of consistency. Minimizing measurement of error like data collector bias was a form of Reliability. Data collection biases were also brought to the barest minimum by friendliness and support exhibited by the researcher. The condition under which the data was collected paved way for privacy, confidentiality and general physical comfort. Confidentiality was more enhanced when the respondents were encouraged not to review their identity.

CHAPTER FOUR

DATA PRESENTATION, DISCUSSION AND ANALYSIS

4.1 Introduction

The chapter presents and discusses the results of the data.

4.2 Demographic Characteristics of SME Respondents

4.2.1 Respondents Distribution

Out of 380 questionnaires distributed 372 were successfully returned, representing 98% response.

The demographic characteristics of the respondents are reported in Table 4.1 below.

Table 4.1 Demographic Characteristics of SME Respondents

Variable	Frequency	Percentage
Gender		
Male	193	51.9%
Female	179	48.1%
Age Group		
16 – 30 years	209	56.2%
31- 50 years	135	36.3%
51- 60 years	24	6.5%
60+	4	1.1%
Marital Status		
Single	171	46%
Married	189	50.8%
Divorced	8	2.2%
Widow	4	1.1%

Table 4.1 Continued

Level of Education

Basic Education	23	6.7%
High School	158	45.8%
Tertiary	150	43.5%
No formal Education	14	3.8%

Type of Business Activity

Trade Enterprise	262	72.8%
Service Oriented Business	56	15.6%
Manufacturing Business	27	7.5%
Other	15	4.2%

Business Ownership

Sole Proprietorship	234	65.2%
Partnership business	98	27.3%
Limited Liability company	8	2.2%
Other	19	5.3%

Years of Experience

Less than 1 year	64	17.8%
1-5 years	202	56.1%
6 – 10 years	82	22.8%
Above 10 years	12	3.3%

Registration of Business

Registered Business	321	91.2%
Unregistered business	31	8.8%

Source: Field Survey, July 2015

4.2.2 Gender of SME Respondents

About 52% (193) of the respondents were male SME operators whiles about 48% (179) of the respondents were female SME operators. The research revealed a ratio of 1:1.078 with regard to male and female distribution. The ratio indicated enough evidence of about 52% of slight male dominance, thus, laying credence to the assertion that there is a fair gender balance in the SMEs in the Kumasi metropolis.

4.2.3 The Ages of Respondents

Out of the 372 SMEs sampled, 209 of them representing about 56% falls within the ages of 16-30 years which shows the sector is highly dominated by youth. This is in line with a study conducted by Osei et al (1993) which reviewed that about SMEs are dominated by the by youth. Given the needed support the sector can help reduce the rate of the youth unemployment. This is closely followed by 31- 50 age group which constitute about 36% (135) of the respondents. About 6% representing 24 respondents fall within 51-60 year group. As low as 1% (4) of the respondents were above 60 years.

4.2.4 Marital status SME of Respondents

46% (171) of the respondents reported being married, a little above half of the respondents representing about 51% (189) reported they were married. This demonstrated that majority of the respondents had dependents they supported. About 2% representing 8 of the respondents reported they were divorced while about 1% said they were divorced.

4.2.5 Level of Education

Out of 345 who responded to this question, about 7% (23) of the entire respondents had only Basic education, while about 46% (158) respondents had high school education. The study also reviewed that about 44% (150) of the respondents had tertiary education. About 4% (14) of the respondents had no formal education. Since about 96% of respondents had formal education, it was assumed that the respondents had a perfect appreciation of the importance of taxation and were aware of their tax obligations to the state.

4.2.6 Business Activities

Out of 360 respondents about 73% (262) of the respondents were engaged in trading activities. The tax authority should concentrate on trading activities. About 16% (56) of the respondents were engaged in service oriented Business. About 8% (27) of the respondents were engaged in Manufacturing Business. About 4% (15) of the respondents were engaged in other business activities.

4.2.7 Business Ownership

About 65% (234) of the respondents were sole proprietors. This is in line with Carrol (2011) that the SMEs in Ghana are dominated by sole proprietorship businesses. The tax authority should therefore concentrate on sole proprietorship businesses since it is the highest dominated businesses in the metropolis. About 27% (98) of the respondents were engaged in partnership Businesses. As

low as 2% (8) of the respondents were engaged in Limited liability companies whiles the remaining 5% (19) of the respondents were engaged in other forms of businesses.

4.2.8 Years of Experience

About 18% (64) of the respondents had less than 1 year experience. The modal class for this distribution was 1 – 5 year, registering about 56% (i.e. 202 in absolute terms). This was closely followed by 6- 10 year group which was represented by about 23% (82). About 3% representing 12 respondents had over 10 years' experience. From the distribution given above it could be seen that as high as 82% had between 1 to over 10 years' experience. It could be assumed that the information given by the respondents was authentic.

4.2.9 Registered Businesses

About 91% (321) of the respondents stated that they had registered their business with the registrar general of business. About 9% (31) of the respondents stated they had not registered their businesses. It was reviewed that as part of business registration process businesses are issued with Tax Identification numbers. In line with this all the registered SMEs had Tax Identification numbers.

4.3. Demographic Characteristics of GRA Respondents

Table 4.2 Demographic Characteristics of GRA Respondents

Variable	Frequency	Percentage
Status of tax officials		
ARO	2	10%
CEDM	2	10%
RO	2	10%
SRO	4	20%
TPSO	10	50%
Years of Experience of		
Tax officials		
1- 2 years	6	30%
3- 4 years	2	10%
5 years and above	12	60%

Source: Field Survey, July 2015

4.3.2 Ranks of Tax Officials

10% (2) of the respondents had risen to the rank of Assistant Revenue Officers (ARO). 10% (2) of the respondents had also risen to the rank of CEDM. 10% (2) of the respondents were also Revenue Officers (RO). 20% (4) of the respondents had risen to the rank of Senior Revenue Officers (SRO).50% (10) of the respondents had the rank of Tax Payer Service Officers (TPSO).

4.3.3 Years of Experience Tax Officials

30% (6) of the respondents had between 1 to 2 years of experience. 10% (2) of the respondents had between 3 to 4 years of experience. The modal class for this distribution was 5 years and above, registering 60% (i.e. 12 in absolute terms). It could be assumed that the information given by the respondents was authentic in view of the number of years of experiences the respondents had.

4.4 Factors Affecting Tax Compliance

4.4.1 Tax Awareness of SME Operators

In figure 4.1, the responses of SMEs regarding their awareness of taxes are presented.

Figure 4.1: Tax Awareness of SME respondents

Tax Awareness
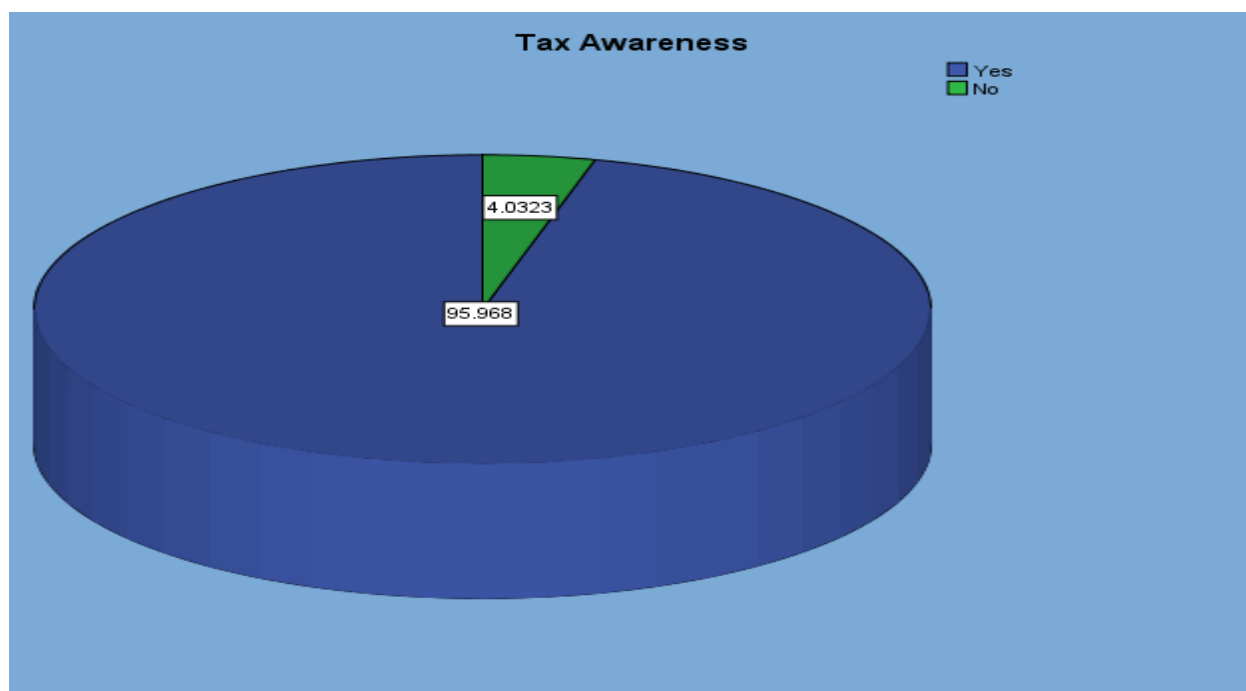
Source: Field Survey, July 2015

About 96% (357) of the respondents stated that they were aware of their tax obligation to the state.

As low as 4% (15) of the respondents stated they were not aware of their tax to the state.

4.4.2 Tax Compliance of SME Operators

The questionnaire posed a question to registered SME operators to elicit response about their tax compliance. The responses are summarized in Table 4.3 below.

Table 4.3: Responses on Income Tax compliance of SME operators

Response Frequency	Percentage
Yes 25780.3	
No 6319.7	

Source: Field Survey, July 2015

Out of the 320 respondents who had registered their businesses about 80% (257)of the respondents honoured their tax obligation. About 20% (63) of the respondents did not honour their tax obligation to the state.

4.4.3 Tax Evasion of SME Operators

In Table 4.4, the responses of SMEs regarding taxes evasion are presented.

Table 4.4: Responses on Tax Evasion of SME operators

Response	Frequency	Percentage
Yes	12842.7	
No	17257.3	

Source: Field Survey, July 2015

Out of the 300 respondents who responded to this question about 43% (128) indicated they had evaded taxes before whiles about 57% (172) stated that they had not evaded tax before.

4.4.5 Extent of Tax of Evasion

The responses on tax evasion perception are shown in figure 4.2 below.

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Figure 4.2: Tax Evasion Perception
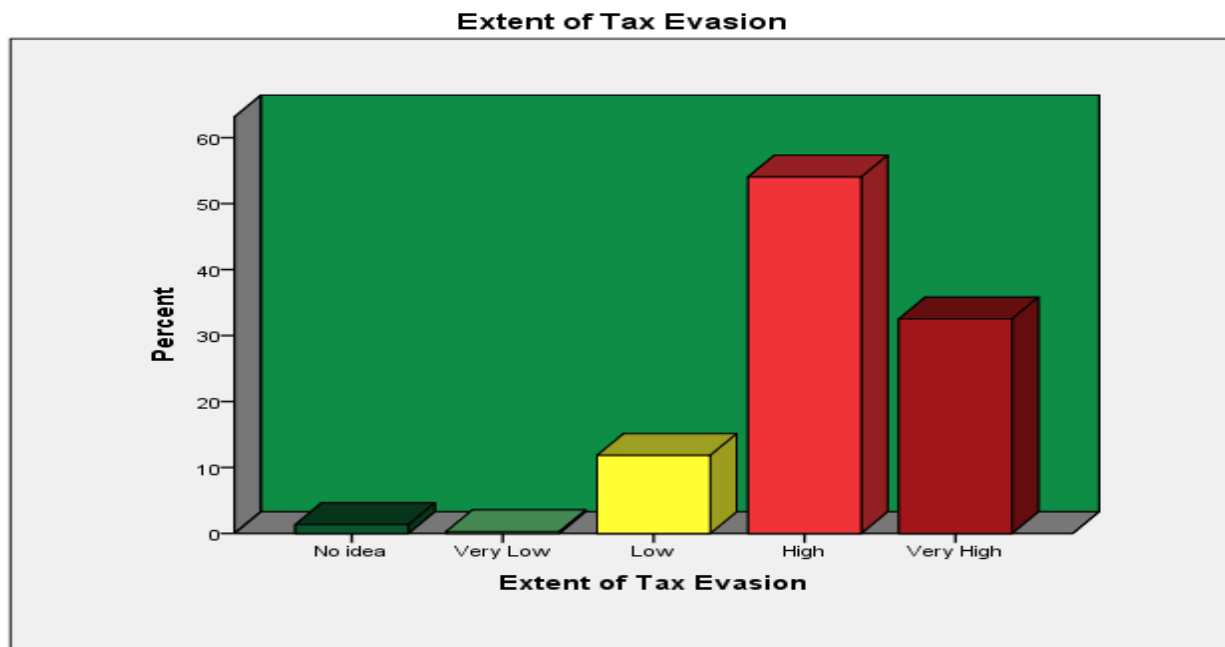
Source: Field Survey, July 2015

From figure 4.2 above, out of 372 respondents, about 33% representing 121 respondents perceived tax evasion was very high. 54% (201) of the respondents perceived tax evasion was high while about 13% (50) of the respondents perceived that tax evasion was low, very low or had no idea.

4.5 Reasons Why People Evade Tax

4.5.1 Reasons SME Operators Evade Tax

Table 4.5 presents the results on the reasons SMEs operators evade tax. out of 715 (100%) responses 23 respondents representing about 3% stated complex tax laws and procedures in paying tax. 33% representing 236 responses assigned high tax rate as the reason for tax evasion or tax noncompliance. 28% representing 200 responses assigned corruption on the part of tax official as

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one of the main reasons for tax compliance. 20% representing 144 responses assigned inadequate benefits derived from the tax system as one of the reasons for tax evasion. About 12 % representing 84responses stated that they evaded taxes because businesses are not profitable. About 4% representing 28 responses stated that they evaded tax because tax authority has not asked them for tax. About 6% representing 23 responses stated complex tax laws and procedures in paying tax as the reason for noncompliance.

Table 4.5: Responses on the Reasons for Tax noncompliance

Response	Frequency	Percentage
Complex tax laws and procedures in paying tax23		3.2%
Tax rates are too high 236	33%	
Inadequate benefits derived from the tax	144	20.1%
Businesses are not profitable84	11.7%	
Tax authority has not asked for Tax28	3.9%	
Corruption on the part of tax officials 200		28%

Source: Field Survey, July 2015

4.5.2 Likert Scale showing rating on reasons for noncompliance

Reasons why people evade taxes. The responses are shown in table 4.6 below.

Table 4.6: Ranking the Reasons for Tax noncompliance

	Scale 5 Strongly Agree		Scale 4 Agree		Scale 3 Undecided		Scale 2 Disagree		Scale 1 Strongly Disagree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Complex Tax Laws and procedures in paying Tax	222	(59.7%)	93	(25%)	49	(13.2%)	8	(2.2%)	-	
Tax rates are too high	204	(55.4%)	120	(32.6%)	44	(12.0%)	-		-	
Inadequate benefits from Tax	199	(54.5%)	114	(31.2%)	41	(11.2%)	7	(1.9%)	4	(1.1%)
Businesses are not Profitable	94	(25.5%)	163	(44.3%)	59	(16.0%)	41	(11.1%)	11	(3.0%)

Tax authority has not asked for Tax	38 (10.4%)	83 (22.7%)	118 (32.3%)	84 (23.0%)	42 (11.5%)
Corrupt tax officials	178 (47.8%)	118 (31.7%)	57 (15.3%)	7 (1.9%)	8 (2.2%)

Source: Field Survey, July 2015

From table 4.6 above a likert scale marked 1- 5: 5 being "Strongly Agree", 4 for "Agree",3 for "Undecided", 2 for "Disagree", and 1 for "Strongly Disagree".

The respondents were to indicate which of the following factors the reasons for noncompliance are:

- Complex Tax Laws and procedures in paying Tax

- Tax rates are too high

- Inadequate benefits derived from the tax system

- Businesses are not Profitable

- Tax authority has not asked for Tax

- Corruption on the part of tax officials

On the issue of complex tax laws and procedures for paying taxes, 222 respondents representing about 60% of the respondents indicated that they strongly agree that the tax laws and procedures in paying taxes were complex. 93 respondents representing 25% of the respondents agreed that the tax laws and procedures in paying taxes were complex. This shows that the majority of the respondents agreed complex tax laws and procedures was one of the main reasons for tax noncompliance.

On the issue of high tax rates, about 55% (204) respondents indicated that they strongly agree that the tax rates were too high while about 33% (120) also agreed that the tax rates too high. This shows that majority of the respondents agreed that high rate of taxes was one of the reason for noncompliance.

With regard to inadequate benefits derived from the tax system as a reason for noncompliance, about 55% (199) respondents strongly agree that the main reason for tax noncompliance was inadequate benefits derived from the tax system was one of the main reasons for tax noncompliance. This shows majority of the respondents agreed that inadequate benefits derived from taxes was one of the reasons for tax noncompliance. On the issue of businesses are not profitable as a reason about 26% (94) strongly agree they do not pay taxes because businesses are not profitable.

About 44% (163) also agreed that unprofitability of business profits accounts for one of the reasons for noncompliance. This shows that majority of the respondents agreed that the businesses are not profitable is one of the reasons for noncompliance.

Likert scale shows that about 10% (38) of the respondents strongly agreed that one of the reasons for tax noncompliance was due to fact that tax authority has not asked for tax. About 23% (83) also agreed to the excuse that tax authority has not asked for tax was one of the reasons for tax noncompliance. This shows that minority agreed to tax authority has not asked for tax as a reason for tax compliance.

On the issue of corruption on the part of tax officials, about 48% (178) strongly agreed that the corrupt nature of tax officials accounts for the reasons why there is tax noncompliance. About 32% (118) also agreed that corruption on the part tax officials is the reason for tax noncompliance. This

shows that a total of about 80% perceive the corrupt nature of tax officials is a reason for noncompliance.

4.6 Challenges for Tax compliance

4.6.1 Challenges SME Operators face which prevent Tax Compliance

Table 4.7 shows the response to a question posed the questionnaire posed to identify the challenges for tax compliance. Out of 461 representing about 128% responses, about 40% representing146 responses, indicated lack of understanding of the tax as a challenge to tax compliance. About 57% representing204 responses indicated lack of proper book keeping as a challenge to tax compliance. About 10% representing 35 responses indicated the high distance between the tax office and place of business as a challenge to tax compliance. About 21% representing 76 responses cited cumbersome procedures involved in paying tax as a challenge to tax compliance.

Table 4.7: Challenges for Tax compliance

Challenges	Frequency	Percentage
Lack of understanding of the tax laws	146	31.7%
Lack of proper book keeping	204	44.3%
Distance between the tax office and place of business is too high	35	7.6%
Cumbersome procedures involved in paying tax	76	16.5%

Source: Field Survey, July 2015

4.6.2 Likert Scale showing rating on challenges for non-compliance

Ranking of the Tax compliance challenges SMEs face are presented in table 4.8 below.

Table 4.8: Ranking the challenges for Tax non-compliance

	Scale 5 Strongly Agree		Scale 4 Agree		Scale 3 Undecided		Scale 2 Disagree		Scale 1 Strongly Disagree		Total
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Lack of understanding of the tax law	237	(64.4%)	88	(23.9%)	35	(9.5%)	8	(2.2%)	-		368
Lack of proper Book keeping	123	(34.1%)	174	(48.2%)	49	(13.6%)	15	(4.2%)	-		361
Distance between The tax office and place of business is too high	113	(30.7%)	114	(31.0%)	90	(24.5%)	47	(12.8%)	4	(1.1%)	368

Cumbersome proced-

ures involved in

paying tax   86 (23.1%)   153 (41.1%)   51 (13.7%)   74 (19.9%)   8 (2.2%) 372

Source: Field Survey, July 2015

From table 4.8 above a likert scale marked 1- 5: 5 being "Strongly Agree", 4 for "Agree", 3 for "Undecided", 2 for "Disagree", and 1 for "Strongly Disagree".

The respondents were to indicate which of the following challenges inhibit tax noncompliance the most.

Lack of understanding of the tax law

Lack of proper Book keeping

Distance between the tax office and place of business is too high

 Cumbersome procedures involved in paying tax

On the issue of Lack of understanding of the tax law, 237 respondents representing about 64% of the respondents indicated that they strongly agree that lack of understanding of the tax law was a major challenge to tax compliance. About 24% respondents representing 88 of the respondents agreed that Lack of understanding of the tax law was a challenge to tax compliance. This shows that the majority of the respondents agreed lack of understanding of the tax law was one of the main challenges for tax noncompliance.

On the issue of lack of proper book keeping, about 34% (123) respondents indicated that they strongly agree that lack of proper book keeping was a major challenge to tax compliance while

about 48% (174) also agreed that lack of proper book keeping was a major challenge to tax compliance. This shows that majority of the respondents agreed that lack of proper book keeping was a challenge for noncompliance.

With regard to the high distance between the tax office and place of business, about 31% (113) of the respondents strongly agree that the main challenge for tax noncompliance was the high Distance between the tax office and place of business. On the issue of Cumbersome procedures involved in paying tax as a challenge to tax compliance about 23% (86) strongly agree that Cumbersome procedures involved in paying tax was a major challenge to tax compliance. About 41% (153) also agreed that cumbersome procedures involved in paying tax were a major challenge to tax compliance.

4.7 Challenges the GRA face

4.7.1 Challenges the GRA face in enforcing Tax Compliance

Responses on the challenges the Tax Authority face in enforcing tax compliance are shown in table 4.9 below.

Table 4.9: Challenges the GRA face in enforcing Tax compliance

Response	Frequency	Percentage
Inadequate Logistics	2	4.5%
The procedures for tax filling are too complicated as designed by the GRA	12	27.3%
Inaccurate reporting of income and tax liability	2	4.5%
Inadequate managerial skills by GRA	16	36.4%
Government interference	12	27.3%

From table 4.9, out of the 44 respondents representing 220%, 10% (2) respondents stated inadequate logistics was a challenge to tax compliance. 60% (12) of the respondents stated the procedures for tax filing are too complicated as designed by the GRA. 10% (2) of the respondents stated inaccurate reporting of income and tax liability (keeping two separate books) as a challenge to their inability to ensure tax compliance. 80% (16) of the respondents stated inadequate managerial skills by GRA as a challenge to GRA's ability to enforce tax compliance. 60% (12) of the respondents stated Government interference as a major a challenge to their ability to enforce tax compliance.

4.7.2 Likert Scale showing rating on challenges for non-compliance

Table 4.10 presents the ranking of the challenges GRA face in enforcing Tax compliance.

Table 4.10: Ranking the challenges for Tax noncompliance

	Scale 5 Most challenging	Scale 4 Very challenging	Scale 3 Moderately challenging	Scale 2 Less challenging	Scale 1 challenging	
	Frequency %	Frequency %	Frequency %	Frequency %	Frequency %	Total
Inadequate Logistics	-	4 (20 %)	10 (50%)	4 (20%)	2(10%)	20
The procedures for tax filling	12 (60%)	-	-	6 (30%)	2 (10%)	20
Inaccurate reporting	2 (10%)	4 (20%)	4(20%)	4(20%)	6 (30%)	20

Inadequate managerial skills	16 (80%)	4 (20%)	-	-	-	20
Government Interference	12 (60 %)	2 (10%)	-	4 (20%)	2 (10%)	20

Source: Field Survey, July 2015

From table 4.10 above a likert scale marked 1- 5: 5 being "Most challenging", 4 for "Very Challenging", 3 for "Challenging", 2 for "Moderately Challenging", and 1 for "Less Challenging". The respondents were to indict which of the following challenges affect tax compliance the most.

- Inadequate Logistics

- The procedures for tax filling are too complicated as designed by the GRA

- Inaccurate reporting of income and tax liability (Keeping two separate books)

- Inadequate managerial skills by GRA

- Government Interference

On the issue of Inadequate Logistics, 4 representing 20% of the respondents indicated that it was very challenging. 50% (10) of the respondents also indicated it was challenging. This shows that the majority of the respondents agreed inadequate logistics was one of the main challenges for tax noncompliance. On the issue of the procedures for tax filling is too complicated as designed by the GRA60% (12) respondents indicated that the procedure for tax filing is too complicated was most challenging.

On the issue of inaccurate reporting of income and tax liability (keeping two separate books), 10% (2) of the respondents indicated was most challenging. 20% (4) of the respondents indicated

Inaccurate reporting of income and tax liability (keeping two separate books) was very challenging. Again, another 20% (4) of the respondents indicated inaccurate reporting of income and tax liability (keeping two separate books) was very challenging. 80% (16) of the respondents cited inadequate managerial skills by GRA as the most challenging factor bedeviling the tax authority. 20% (4) of the respondents also cited inadequate managerial skills by GRA as very challenging factor facing the GRA.

60% (12) and 10% (2) of the respondents cited Government Interference as the most challenging and very challenging factor the GRA face respectively.

4.8 Measures to ensure Tax Compliance

4.8.1 Suggested Measures to ensure Tax Compliance by SME operators

When asked to come up with suggestions to curb tax noncompliance majority of the respondents suggested the following.

Tax reforms and Education

There is the need to reform the country's tax laws to make it more understandable. The GRA in collaboration with the National Commission on Civic Education and the ministry of information should educate the public about their basic rights and obligations of the citizenry. The GRA should simplify the tax laws. This is in line with Abdul- Razak and Adafula (2013) recommendation that tax education should be given at the basic school level with the intention of making the entire population become conscious of their tax obligation to the state.

Tax revenue should be used for infrastructure

Majority of the respondents stated that Tax revenue should be used for infrastructure to ensure tax compliance. The tax revenue should be used for the provision of infrastructural facilities such as good roads, electricity, and pipe borne water for the benefit of the people. This recommendation is in line with Atuguba (2006) recommendation that taxpayers will continue to honour their tax obligation if they know that their taxes are being put to good use.

Opening of more tax offices

Majority of the respondents cited opening of more Tax offices as a measure to address tax compliance. More tax offices should be opened in almost all the sub metropolitan area to facilitate the payment of taxes in the metropolis.

Stiffer punishment against breach of tax laws

Stiffer punishment against breach of Tax law was also proposed as a measure to address tax compliance. The legislature should consider amendments to the existing laws.

Government to set up committees to audit officers

It was recommended that the government set up committees to investigate tax officers who are cited for corruption to serve as a deterrent to other who might want to follow suit.

Tax rates must be reduced

Majority of the respondents also suggested that Tax rates must be reduced to ensure tax compliance. This is in line with Chipeta, (2002) that if the level of the tax rate is low it may influence people's decision to comply with the taxes system.

Tax payer must hire experts to keep proper books of their businesses

Majority of the respondents recommended that Tax payers must hire experts to keep proper books of their businesses as a measure to put in place to ensure tax compliance

Training of tax officials

The personnel of the GRA should be given adequate training to improve the skills. Workshops, conference, seminars and short courses could be organized for personnel of the GRA to administer effective tax system.

Logistics

Majority of the respondents recommended that the logistics needed for the administration of the tax system such as vans, computers, sophiscated machine should be procured for all tax offices.

Monitoring

There should be effective monitoring GRA should visit the premises of SMEs to monitor their operations to ensure the efficient administration of tax. Monitoring will also enable them to identify and bring on board tax evaders and thereby widening the net.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the research findings, conclusion and recommendations.

5.2 Summary of Findings

Majority of the SMEs responses were male accounting for about 52% of the entire respondents.

Tax Awareness and Compliance

The results of the study found out that about 94% of the SME respondents are aware of their tax obligation to the state. However, the study brought to light that as high as 20% of the respondents did not honour their tax obligation to the tax authority.

Tax Evasion

The study reviewed that tax evasion was high. It was seen that as high as 40% of the respondents had evade tax before. It came to light that the tax evaders under declare their profit to the tax authority just to attract less tax liability.

Tax Evasion Perception

Tax evasion was noted to generally high. The results of the study found out that about 87% of the respondents perceived the tax evasion to be generally high.

Reasons for Tax noncompliance

The study identified the following as reasons were tax noncompliance. They are Tax rates are too high, Corruption on the part of tax officials, Inadequate benefits derived from the tax system, Businesses are not profitable, Tax authority has not asked for Tax and Complex tax laws and procedures in paying tax.

Tax rates are too high

The results of the study found out that about 63% (236) indicated High tax rates as the main reason for tax noncompliance. The respondents generally agreed that high Tax rate was a disincentive to work.

Corruption on the part of tax officials

The results of the study found out that about 54% (200) affirmed Corruption on the part of tax officials as the main reason for high tax noncompliance. The respondents generally agreed that some of the tax officials assisted them to under declare profits to enable them evade tax.

Inadequate benefits derived from the tax system

The study identified inadequate benefits derived from the tax system as one of the main reason for high tax noncompliance. About 39% (144) cited inadequate benefits as for tax evasion. The respondents generally want the state to use the tax revenue for the provision of electricity, building of roads, schools, hospitals etc. The respondents did not see why they should continue to pay taxes when such facilities were not provided.

Businesses are not profitable

The study found out that unprofitability of businesses was one of reasons for high tax noncompliance.

Tax authority has not asked for Tax

The study reviewed that some of the respondents expect the tax officials to demand tax before they honour their tax obligation to the state.

Challenges SME Operators face which prevent Tax Compliance

The following challenges were identified. They were lack of understanding of the tax law, lack of proper book keeping, distance between the tax office and place of business is too high and cumbersome procedures involved in paying tax.

Lack of proper Book keeping

The results of the study found out that about 57% (204) respondents indicated lack of proper book keeping as a challenge to tax compliance. It was noted that some of the respondents did know how to keep proper books of accounts of their businesses upon which they are assessed for tax.

Lack of understanding of the tax law

The results of the study found out that about 40% (146) respondents indicated lack of understanding of the tax as a challenge to tax compliance. The respondents generally agreed that they lack proper understanding of the tax law which posed a challenge to their tax compliance.

Distance between the tax office and place of business is too high

The study reviewed that the high distance between the tax office and place of business as a challenge to tax payers. The respondents generally admitted that there are few tax offices in the Kumasi metropolis and the distance between the tax office and place of business is too high which pose a challenge to tax compliance.

Cumbersome procedures involved in paying tax

The results of the study found out that about 21% of the respondents cited cumbersome procedures involved in paying tax as a challenge to tax compliance. Presentation of accounts, filling of returns, tax assessment was identified as major challenges to tax compliance.

Challenges Tax Officials face

The following challenges were identified. They were the procedures for taxes filling are too complicated as designed by the GRA, Inadequate managerial skills by GRA, government interference, Inaccurate reporting of income and tax liability (keeping two separate books) and inadequate logistics.

The procedures for tax filling are too complicated as designed by the GRA

The results of the study found out that 60% (12) of the respondents stated the procedures for tax filing designed by the GRA are too complicated. The respondents generally agreed that the procedures for tax filing designed by the GRA were too complicated and posed a challenge to tax compliance.

Inadequate managerial skills by GRA

The results of the study found out that 80% (16) of the respondents stated inadequate managerial skills by GRA officials posed a challenge to GRA's ability to enforce tax compliance. The respondents agreed that personnel of GRA lack the skills and competencies needed to administer effective tax system.

Government interference

The results of the study found out that 60% (12) of the respondents indicated government interference was a major challenge to their ability to enforce tax compliance. It was noted that government officials plead for certain SME not to be taxed.

Inaccurate reporting of income and tax liability (keeping two separate books)

The study reviewed that inaccurate reporting of income and tax liability (keeping two separate books) posed a challenge to the GRA officials' inability to ensure tax compliance. The respondents generally agreed that some of the tax payers keep two books. One keeps true accounts of business transactions while the other records cooked figures with the intention of attracting less tax liability.

Inadequate Logistics

The study reviewed that inadequate logistics was a challenge to tax compliance.

The respondents generally agreed that the lack the vehicles, officials equipment and modern sophiscated machines needed to administer effective tax system.

5.3 Conclusion

The study identified the following as reasons for noncompliance. They include high tax rates; corruption on the part of tax officials; inadequate benefits derived from the tax system; tax authority has not asked for tax and; complex tax laws and procedures in paying taxes.

The researcher also identified the challenges SMEs face which included lack of understanding of the tax laws; lack of proper book keeping; the high distance between the tax office and place of business; cumbersome procedures involved in paying tax.

The study brought to light the challenges the officials of the GRA face which included complicated procedures for filing taxes; inadequate managerial skills by GRA; government interference; inaccurate reporting of income and tax liability (keeping of two separate book); inadequate logistics. Below are recommendations proposed to address the challenges.

5.4 Recommendation

In view of the findings of the research, the following recommendations have been made.

Suggested Measures to ensure Tax Compliance by SME operators

When asked to come up with suggestions to curb tax noncompliance majority of the respondents suggested the following.

Tax reforms and Education

There is the need to reform the country's tax laws to make it more understandable. The GRA in collaboration with the National Commission on Civic Education and the ministry of information should undertake sensitization programmes designed to educate the public about their fundamental obligations as citizens to the state. The operations and client service units of the Domestic Taxes Division of the GRA should adopt mechanisms aimed at clarifying the tax laws. This is in line with Abdul- Razak and Adafula (2013) recommendation that tax education should be introduced at the basic school level with the aim of making the entire population a very conscious in honouring their tax obligation to the state.

Tax revenue should be used for infrastructure

Majority of the respondents stated that Tax revenue should be used for infrastructure to ensure tax compliance. The tax revenue should be used for the provision of infrastructural facilities such as good roads, electricity, and pipe borne water for the benefit of the people. This recommendation is in line with Atuguba (2006) recommendation that taxpayers will continue to honour their tax obligation if they know that their taxes are being put to good use.

Opening of more tax offices

Majority of the respondents cited opening of more Tax offices as a measure to address tax compliance. More tax offices should be opened in almost all the sub metropolitan area to facilitate the payment of taxes in the metropolis.

Stiffer punishment against breach of tax laws

Stiffer punishment against breach of Tax law was also proposed as a measure to address tax compliance. The legislature should consider amendments to the existing laws.

Government to set up committees to audit officers

It was recommended that the government set up committees to investigate tax officers who are cited for corruption to serve as a deterrent to other who might want to follow suit.

Tax rates must be reduced

Majority of the respondents also suggested that Tax rates must be reduced to ensure tax compliance. This is in line with Chipeta (2002) that If the level of the tax rate is low it may influence people's decision to comply with the taxes system.

Tax payer must hire experts to keep proper books of their businesses

Majority of the respondents recommended that Tax payers must hire experts to keep proper books of their businesses as a measure to put in place to ensure tax compliance

Training of tax officials

The personnel of the GRA should be given adequate training to improve the skills. Workshops, conference, seminars and short courses could be organized for personnel of the GRA to administer effective tax system.

Logistics

Majority of the respondents recommended that the logistics needed for the administration of the tax system such as vans, computers, sophiscated machine should be procured for all tax offices.

Monitoring

There should be effective monitoring GRA should visit the premises of SMEs to monitor their operations to ensure the efficient administration of tax. Monitoring will also enable them to identify and bring on board tax evaders and thereby widening the net.

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QUESTIONNAIRE FOR THE OPERATORS OF SMEs (TAXPAYERS)

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST), SCHOOL OF BUSINESS (KSB).

CHALLENGES OF PAYING TAX: A CASE STUDY OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE KUMASI METROPOLIS.

This study is being conducted in partial fulfillment of the requirements for the award of Masters of Business Administration Degree. All information received would be used solely for academic purposes and treated with strict confidentiality.

PART 1: DEMOGRAPHIC INFORMATION

Please tick **(√)** in the following questions

1. **Gender**
   a) Male$_1$ ( )

b) Female$_2$ ( )

2. Which of the following ranges of ages do you fall within?

    a) 16-30$_1$ ( )

    b) 31-50$_2$ ( )

    c) 51-60$_3$ ( )

    d) 60+$_4$ ( )

3. What is your marital status?

    a) Single$_1$ ( )

    b) Married$_2$ ( )

    c) Divorced$_3$ ( )

    d) Widowed$_4$ ( )

4. What is your level of education?

    a) Basic School$_1$ ( )

    b) Secondary School$_2$ ( )

    c) Tertiary$_3$ ( )

    d) No Formal Education$_4$ ( )

5. Which of the following Business Activities do you operate as a taxpayer?

    a) Trade Enterprises$_1$ ( )

    b) Service Oriented Business$_2$ ( )

    c) Manufacturing Business$_3$ ( )

    d) Others$_4$ ( )

      Please specify_____

6. What form of ownership do you think you operate under? (Do not answer this if you answered no for the preceding question)

    a) Sole Proprietorship$_1$ ( )

    b) Partnership Business$_2$ ( )

   c) Limited Liability Companies$_3$( )

   d) Others$_4$ ( )

7. How many years have you been in operation?

   a) ( ) less than 1 year

   b) ( ) 1-5 years

   c) ( ) 6-10 years

   d) ( ) Above 10 years

B. FACTORS AFFECTING COMPLIANCE LEVEL

8. Are you aware you are supposed to pay tax for the business, you do?

   a)   Yes$_1$ ( )

   b)   No$_2$ ( )

9. Has your business been registered and issued with a Tax Identification Number?

   a) Yes$_1$ ( )

   b) No$_2$ ( )

10. Do you pay income tax for your business?

   a) Yes$_1$ ( )

   b) No$_2$ ( )

If you answered, No for question 10, skip to question 14, otherwise answer the following

11. Have you ever evaded tax?

   a) Yes$_1$ ( )

   b) No$_2$ ( )

   c) Not sure$_3$ ( )

12. Do you under declare profit to attract less tax liability?

   a) Yes$_1$ ( )

   b) No$_2$ ( )

13. To what extent do you think people evade tax in Ghana?

a) Very High$_1$ ( )

b) High$_2$ ( )

c) Low$_3$ ( )

d) Very Low$_4$ ( )

e) No Idea$_5$ ( )

14. Which of the following do you think is or are the reasons why you or people evade tax?

a) Complex tax laws and procedures in paying tax$_1$ ( )

b) Tax rates are too high$_2$ ( )

c) Inadequate benefits derived from the tax system $_3$ ( )

d) Businesses are not profitable$_4$ ()

e) Tax authority has not asked for Tax $_5$ ( )

f) Corruption on the part of tax officials   ( )

If Other please specify ………………………………………………………………………….

15. From the table below, on a scale of 1 to 6, what is/are the reason (s) that inhibit(s) taxpayers the most?1= Strong Agree 2= Agree 3= Undecided 4= Disagree 5= strongly disagree

STATEMENTS	1	2	3	4	5
Complex tax laws and procedures in paying tax$_1$					
Tax rates are too high$_2$					
Inadequate benefits derived from the tax system $_3$					
Businesses are not profitable$_4$					

Tax authority has not asked for Tax 5					
Corruption on the part of tax officials					

16. What the challenges which prevents you from paying taxes?

    a) lack of understanding of the tax laws   ( )

    b) Lack of proper book keeping   ( )

    c) Distance between the tax office and place of business ( )

    d) Cumbersome procedures involved in paying tax   ( )

    If Other please specify ……………………………………….

17. From the table below, on a scale of 1 to 5, what is/are the challenge(s) that inhibit(s) taxpayers the most?1= Strong Agree 2= Agree   3= Undecided   4= Disagree 5= strongly disagree

STATEMENTS	1	2	3	4	5
lack of understanding of the tax laws$_1$					
Lack of proper book keeping$_2$					
Distance between the tax office and place of business$_3$					
Cumbersome procedures involved in paying tax $_4$					

        Please specify_____

18. In your view what appropriate measures can be put in place to ensure Tax compliance?

    (a) Tax reforms ( ) (b) Education ( ) (c) the taxpayers level of education   ( ) (d)

    Simplification of the tax laws ( ) (e) the stiffer punishment against breach of the tax laws ( )

    (f) Opening of more tax offices ( )

19. In your opinion, what measures should be put in place to address the challenges affecting Income Tax by GRA.

_____

_____

_____

_____

_____

_____

_____

Thank you very much for your time.

QUESTIONNAIRE FOR TAX OFFICIALS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST),

SCHOOL OF BUSINESS (KSB).

CHALLENGES OF PAYING TAX: A CASE STUDY OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE KUMASI METROPOLIS.

Kindly help me answer the following questions in the best of your knowledge;

1. Office held at GRA……………………………………………………………………….

2. Years of service (Please tick **(√)**

1 – 2 years   ( )

3 – 4 years   ( )

5 and above ( )

3. On a scale of I-V in an order of

     I.   Most challenging

    II.   Very challenging

   III.   Challenging

   IV.   Moderately challenging

    V.   Less challenging

How would you score the following challenges as affecting the GRA in collecting taxes from SMEs?

CHALLENGES	TICK (√)	RANK
Inadequate Logistics		
The procedures for Tax Filling are too complicated as designed by the GRA		
Inaccurate Reporting of Income and Tax Liability (keeping two separate books)		
Inadequate Managerial Skills/Expertise by GRA		
Government interference		

4. In your view what appropriate measures can be put in place to ensure increased tax compliance?

……….

……….

…….

……

……

……