

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,**

**KUMASI, GHANA**

**KNUST**

**Tax evasion in the informal sector in the Kumasi Metropolis**

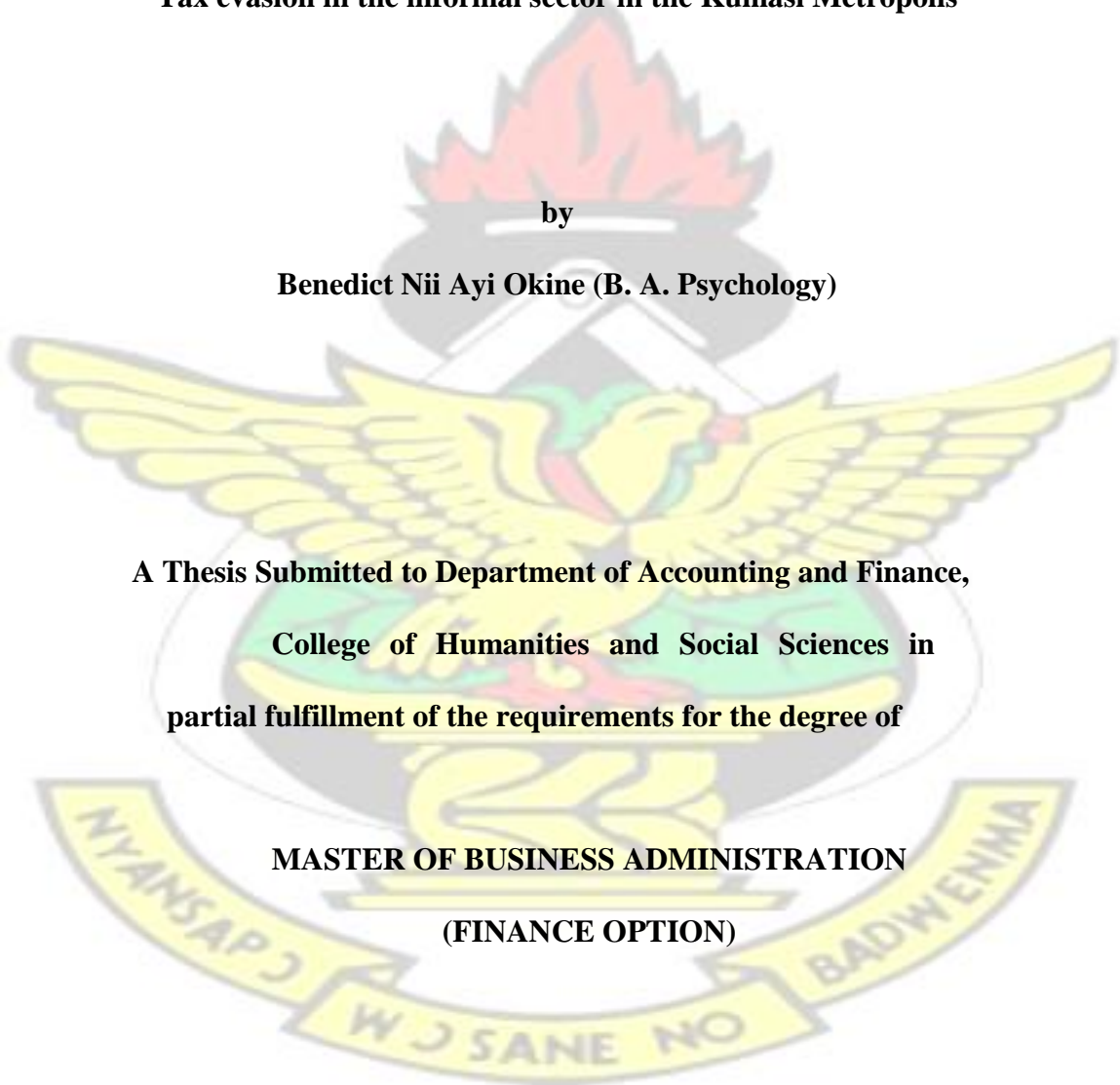
**by**

**Benedict Nii Ayi Okine (B. A. Psychology)**

**A Thesis Submitted to Department of Accounting and Finance,  
College of Humanities and Social Sciences in  
partial fulfillment of the requirements for the degree of**

**MASTER OF BUSINESS ADMINISTRATION**

**(FINANCE OPTION)**



AUGUST, 2016

# KNUST



## DECLARATION

I hereby declare that this submission is my own work towards the Masters of Business Administration (Finance) and that, to the best of my knowledge, it contains no material previously published by another person, nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text

Benedict Nii Ayi Okine (PG9623513) .....

(Student Name & ID No.)

Signature

Date

*Certified by:*

Mr. P. K. Oppong Boakye .....

Signature

Date

(Supervisor)

*Certified by:*

Dr. Daniel Domeher .....

(Head of Department)

Signature

Date

## DEDICATION

I dedicated this work to the Almighty God, my supporting family and all my friends.

## ACKNOWLEDGEMENT

To every beginning, there is an end. I wish to acknowledge with special gratitude to the people who in diverse ways helped in making this work possible, most especially Prof. J. M. Frimpong, the Dean of KNUST School of Business. A very special mention of deep appreciation also goes to my Supervisor, Mr. P. K. Opong Boakyie who in spite of his heavy schedule accepted to supervise this research work. By his advice and encouragement, I was conditioned in the right psychosomatic frame to come out with this research work. May the good Lord continue to shower his heavenly blessings on him. For all other lecturers in KSB, I doff my hat to you for your wonderful tuition. I am also grateful to all other people who in diverse ways supported and encouraged me to bring this thesis to a successful end.

I also owe a great gratitude to the authors whose work I borrowed some ideas for my thesis. Finally, I thank all the respondents to my questionnaires and interviews granted for your time. May the Good Lord not deny you of his abundant grace. To all my course mates, especially, Mr. Ebenezer Offe who assisted me with proofreading this dissertation, I say thank you. Indeed, the names of great men are not written in books, but are found in the hearts and minds of people as an old adage claims. In this regard, I thank everyone who assisted me in coming with this work. May the Alpha and the Omega, the creator of this universe bless you all.

## ABSTRACT

This study focused on tax evasion in the informal sector of Ghana. Specifically, it addresses the taxpayer's understanding of the tax system, the causes of tax evasion and factors that militate against effective tax collection. Questionnaires were therefore administered to the people engaged in informal sector activities in selected markets in the Kumasi metropolis. A total of 200 sample respondents which consists of 65 sellers from Central market, 40 sellers from Suame market, 20 sellers from Bantama market, 30 sellers from Asafo market, 10 sellers from Atonsu market and 35 sellers from the Kejetia market were selected by a two-stage cluster sampling method. In the first stage, the clusters selected were Central market, Suame market, Bantama market, Asafo market, Atonsu market and Kejetia market. In the second stage, convenience sampling was then used separately to select the needed sample from each cluster. Interview guide was also used to elicit information from one of the district heads of Ghana Revenue Authority in Kumasi. The study revealed that the majority of the populace engaged in the informal sector business has a fair knowledge of the tax system in Ghana. It came out that the majority of the respondents were unaware of any tax apart from income tax. Respondents indicated that high tax rate, mismanagement of tax revenues and inflation are some of the causes of tax evasion. The study revealed that there is no formalized system to identify, assess and collect tax from each taxpayer. It was also revealed that relocation of traders makes it difficult to trace and assess them as expected. It is therefore recommended that people who engage in the informal sector activities be educated on Ghana's tax system. It is also recommended that the Ghana Revenue Authority (GRA) should formalize the tax collection system by registering and educating them, particularly through the use of a public address system on a routine basis to enhance compliance. GRA should liaise with the Kumasi Metropolitan Assembly to provide statistics of all registered traders within the informal sector in the Kumasi Metropolis and encourage unregistered traders in the sector to do so.

## TABLE OF CONTENT

<b>DECLARATION.....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>iv</b>
<b>ABSTRACT.....</b>	<b>v</b>
<b>TABLE OF CONTENT.....</b>	<b>vi</b>
<b>LIST OF TABLES.....</b>	<b>x</b>
<b>CHAPTER ONE.....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.0 Background of the Study.....	1
1.1 Problem Statement .....	4
1.2 Objectives of the Study.....	5
1.3 Research Questions.....	5
1.4 Scope of the Study.....	5
1.5 Justification for the Study.....	6
1.6 Limitations of the Study.....	7
1.7 Organization of the Study .....	7
<b>CHAPTER TWO.....</b>	<b>9</b>
<b>LITERATURE REVIEW.....</b>	<b>9</b>
2.0 Introduction .....	9
2.1 Definitions of Taxation and Informal Sector .....	9
2.2 The Genesis of Taxation in Ghana .....	12
2.3 Types of Taxation.....	13
2.4 Purposes of taxation and how morality influences the payment of tax .....	14
2.5 An Overview of Tax Avoidance and Tax Evasion .....	15
2.6 Causes of Tax Avoidance and Tax Evasion in the Informal Sector .....	17
2.7 Effects of Tax Evasion .....	20
2.8 Solutions to Tax Evasion .....	20
2.9 Functions of Tax Auditors .....	21
2.10 Empirical Literature .....	22
<b>CHAPTER THREE.....</b>	<b>24</b>

<b>RESEARCH METHODOLOGY.....</b>	<b>24</b>
3.0 Introduction .....	24
3.1 Research Design .....	24
3.2 Population.....	24
3.3 Sampling Technique and Sample size.....	25
3.4 Data Source .....	26
3.5 Instrument of Data Collection .....	26
3.5.1 Structure of the Questionnaire .....	27
3.6 Reliability and Validity of the Questionnaire .....	27
3.7 Method of Data Analysis .....	28
3.8 Profile of Selected Markets .....	29
<b>CHAPTER FOUR.....</b>	<b>30</b>
<b>DATA ANALYSIS AND DISCUSSION OF RESULTS.....</b>	<b>30</b>
4.0 Introduction .....	30
4.1 Distribution and Return of Questionnaires .....	30
4.2 Demographic Characteristics of the Respondents .....	30
4.2.1 Gender Distribution of Respondents .....	32
4.2.2 Age distribution of Respondents .....	32
4.2.3 Marital Status of Respondents.....	32
4.2.4 Level of Education of Respondents.....	33
4.2.5 Number of years spent in Business .....	33
4.2.6 Nature of business of respondents .....	34
4.2.7 Religion of Respondents .....	34
4.3 Descriptive Statistics of Knowledge of Respondents on Taxation.....	34
4.3.1 Respondents Knowledge on Taxation.....	36
4.3.2 Categories of Taxes .....	36
4.3.3 Payment of Taxes .....	37
4.3.4 Respondents Knowledge on when to Pay Tax .....	37
4.3.5 Regularity in Payment of Taxes .....	38
4.3.6 Knowledges on Penalties for not Paying Taxes .....	38
4.3.7 Knowledge on Tax Avoidance .....	39
4.3.8 Knowledge on Tax Payment Offices.....	39
4.3.9 Knowledge on the exact Amount to pay as tax.....	40

4.3.10 Importance of Paying of Taxes.....	41
4.3.11 Receiving Education on Tax related issues .....	41
4.4 Causes of Tax Evasion .....	42
4.4.1 High tax rate .....	43
4.4.2 Unfairness in the Tax system .....	43
4.4.3 Wastage in the amount of money collected as taxes.....	44
4.4.4 Bad economic situations.....	44
4.4.5 Low Punishment for tax evaders .....	45
4.4.6 Corruption on the part of some tax officials .....	45
4.4.7 High inflation rate .....	45
4.4.8 Unconducive business environment .....	46
4.4.9 Low profit accrued from business .....	46
4.4.10 Deliberate refusal of taxpayers to honour their Tax .....	47
4.4.11 Inability of Tax officials to collect taxes .....	47
4.4.12 Inability of taxpayers to identify the benefit of the taxes they pay to government .....	47
4.5 Reason for ineffective Tax Collection.....	48
4.5.1 Reasons for ineffective tax collection attributed to tax officials .....	50
4.5.1.1 Hindrances to the tax collection of taxes in the informal sector .....	50
4.5.1.2 The nature of rapport .....	51
4.5.1.3 Enforcement of Tax Laws/Punitive measures for tax offenders .....	51
4.5.2 Reasons for ineffective tax collection attributed to taxpayers .....	52
4.5.3 Reasons for ineffective tax collection attributed to Government .....	52
<b>CHAPTER FIVE.....</b>	<b>54</b>
<b>SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION.....</b>	<b>54</b>
5.0 Introduction .....	54
5.1 Summary of Findings .....	54
5.1.1 Taxpayers Knowledge of Ghana’s Tax system .....	54
5.1.2 Causes of Tax Evasion in the Informal Sector .....	55
5.1.3 Factors that Militate Against Effective Revenue Collection GRA .....	55
5.2 Conclusion.....	56
5.3 Recommendations of the Study.....	56
5.3.1 Recommendations for Ghana Revenue Authority.....	56

5.3.2 Recommendations for Kumasi Metropolitan Assembly .....	57
5.3.3 Recommendations for Government.....	57
5.3.4 Recommendations for further research .....	57
<b>REFERENCES.....</b>	<b>58</b>
<b>APPENDIX A.....</b>	<b>64</b>
<b>APPENDIX B.....</b>	<b>67</b>

KNUST



**LIST OF TABLES.....vi**

Table 3.1: Selected market and Corresponding Sample Sizes .....27

Table 3.2: Results of Reliability Test .....29

Table 4.1: Demographic Characteristics of Respondents.....32

Table 4.2: Descriptive Statistics on Taxation in Informal Sector .....37

Table 4.3: Causes of tax evasion .....45

Table 4.4: Interview with head of Tax Collection of GRA .....51



## CHAPTER ONE

### INTRODUCTION

#### 1.0 Background of the Study

Taxation started in the Ancient times in Egypt, spanning through 3000–2800 BC in the first empire within the Old Kingdom (Silverman, 2002). With regard to taxation, corvée and tithe were the earliest and most widely used. The corvée represents force labour made available to the nation through the efforts of peasants unable to honour their tax obligations (*labour* was therefore equated to tax in that era). Revenue mobilization for any nation is raised in different ways, including payments made in the form of direct taxes, indirect taxes, royalties and other forms of taxation. Two sectors of the economy, the formal and informal sectors, contribute in mobilizing revenue for every nation's development. While the formal sector is well structured to prevent evasion of taxes, the informal sector is not well organized (Ofori, 2009). Corporate income tax, which is a tax levied on companies, is an important source of government revenue and must be considered in all respects regarding the nation's long-term fiscal instability (GAO, 2006).

Since the beginning of the 17<sup>th</sup> century, various records of government tax collection in Europe are still available. However, the levels of taxation are not easy to be compared relative to the size and flow of the economy owing to unavailability of production figures. Still, in the 17<sup>th</sup> century, the French Government had its expenditures and revenue rising from about 24.30 million livres in 1600–1610, to about 126.86 million livres in 1650–59 and also to about 117.99 million livres in 1700–10 while government indebtedness stands at 1.6 billion livres. In 1780–89, it increased to 421.50 million livres. During the 17<sup>th</sup> century, nations like the French government, the Netherlands and Scandinavia territories

had taxation "as a percentage of production of final goods" to almost 15%20%. Tax rates in Europe increased to greater heights during the 18th and the early 19th century, when war became more costly and governments became robust and more centralized to revenue mobilisation through taxes. Tax burden increased by 85% over this period in England. In 2003, taxation as a percentage of GDP was 56.1% in Denmark, 54.5% in France, 49.0% in the Euro area, 42.6% in the United Kingdom, 35.7% in the United States, 35.2% in Ireland, and among all the Organisation for Economic Cooperation and Development (OECD, 1996) members an average of 40.7%.

At present, governments all over the world have greater responsibilities in raising revenue in order to execute certain important duties. Some of these functions include the provision of security, defence, peacekeeping, expenditures on war, infrastructural activities such as road construction, provision of electricity, water, legal tender, and many others as well as the enforcement of law and public order (Guppy & Mercier, 2008). However, many developing nations including Ghana face a problem with regard to being able to generate revenues requisite to meet these expenditures. Budgeted revenues of governments usually fall short of the expected expenditures. The economic development of a government in achieving its aim may be hallucinated if measures are not made to advance its sources of revenue including tax. No country can attain a significant growth in the economy "without positive stimulus from intelligent governments" (Otioku, 1992).

Third world nations, also referred to as developing countries, need to rely significantly on internal revenue mobilization to forestall excessive foreign financing which may in turn cause debt sustainability (Gupta, 2007). To make stronger internal resource mobilization, developing nations may count on taxation and also try to find alternative ways to mobilize

more revenue by increasing the tax base and strengthen revenue management. Gberegbe (2007) claims that “taxation is the most efficient and effective means of raising revenue for the government”. Ghana’s economy consists of two divisions, formal and informal sectors.

According to Anthony (2012), 85% of Ghanaian workers are in the informal sector, while the remaining are employed in formal sector. Despite this substantial impact made by the informal sector of the economies of third world countries, they are the least taxed. The informal sector exclusively consists of micro and small-scaled enterprises. Many researchers, having defined the informal sector as a sector which involves “the economic activities or transactions which are not captured or are under-reported in the official statistics”. Moreover, in 2002, the International Labour Organization, ILO report on Kenya’s unemployment situation was the main step to making this (informal) sector popular. The report further defines informal activities to include ‘all economic activities that are neither monitored nor taxed by the government, and are not included in the government GNP statistics’ (ILO, 2002). In 2000, 42% of the informal sector contribution to economic growth was attributable to Gross Domestic Product (GDP) in Africa, and with regard to the official labour force on the continent, it chalked 48%.

Generally, there is difficulty in taxing the people at the informal sector and in Ghana, the situation is not different. Hectic registration processes and the activities of lazy organisational bodies put off entrepreneurs in registering and making their businesses official to the government for the purposes of taxation. Other entrepreneurs may outwit this lack of administrative capacity and forever remain not registered and ultimately not known to the taxing bodies in a nation. Furthermore, others avoid taxes because of misuse

or mismanagement of collections made and the remote nature of the dwelling places of taxpayers make them unable to make their tax obligations to the government.

Other reasons include the ignorance of civic responsibility on the part of taxpayers. Corporate bodies also avoid tax if the government who is supposed to enforce the tax laws relax. When this occurs, it results in substantial lapses in the taxation system. Therefore, corrupt tax leaders and under-resourced tax bodies are reasons why people avoid tax.

Tax evasion and avoidance which is predominant in the informal sector in Ghana, is a disadvantage to the Ghanaian economy because it results in low government revenue which may have helped in improving the lives of the nation's citizens; providing better infrastructure and basic utilities, reducing poverty rates among the people as well as improving the educational system and relevant programmes in developing the nation. With regard to issues pertaining to the development of a nation, tax evasion within the informal sector needs special attention in the nation and as such, requisite measures should be put forth in solving issues relating to it.

### **1.1 Problem Statement**

There have been a number of studies on tax evasion (Bird, 2003; Drine, 2009; Gupta, 2007). However, most of these studies have been centred in the developed countries. Very little has been done in the context of a developing country of which Ghana is not an exception (Adom, 2000). In recent years, there have been a large body of empirical studies aimed at understanding what determines the size of the informal sector (Schneider & Klinglmair, 2004); however, according to (La Porta & Shleifer, 2008) many people are unable to explain the connection between the informal sector and the stage of economic

development. In most developing countries, tax administration has been relegated to the background whilst tax policy has rather attracted much attention.

This research therefore seeks to examine the causes of tax evasion in the informal sector within the Kumasi Metropolis of Ghana.

## **1.2 Objectives of the Study**

The main objective of this research study was to identify and examine the extent of the challenges of tax evasion in the informal sector in the Kumasi Metropolis. The specific objectives of the study were to:

1. Investigate whether taxpayers have a fair knowledge on the tax system in Ghana.
2. Identify the causes of tax evasion in the informal sector within the Kumasi Metropolis.
3. Analyse the factors that militate against effective tax collection by the Ghana Revenue Authority (GRA) in the informal sector within the Kumasi Metropolis.

## **1.3 Research Questions**

This study attempted to find answers to the following questions:

1. What is the nature of the tax system in Ghana?
2. What are the causes of tax evasion in the informal sector within the Kumasi Metropolis?
3. What factors militate against effective revenue collection by the Ghana Revenue Authority (GRA) in the informal sector within the Kumasi Metropolis?

## **1.4 Scope of the Study**

This study covered businesses in the informal sector within the Kumasi Metropolis. These include petty trading, hawking, hairdressing, dressmaking, artisanship and auto mechanics in the Kumasi Metropolis. The researcher chose the study area based on the fact that Kumasi is full of informal sector operators who are supposed to be paying taxes to the state. Most operators within this sector are reluctant to disclose information related to their tax obligations for fear of being exposed of their actual tax liabilities. The result of the study should provide insights for other categories of tax revenue collectors in the country having similar characteristics. This way of using the results should, however, be done with greater caution and further analysis to avoid any misrepresentations in the findings of similar but related studies.

### **1.5 Justification for the Study**

Many research studies have been done in the area of tax evasion, especially, in the formal sector (Slemrod & Weber, 2012; Slemrod, 2007; Gërxhani, 2004; Slemrod & Yitzhaki, 2002; Kemal, 1961); however, there seems to be little of such studies in Ghana, particularly within the informal sector. This study will contribute to existing knowledge on tax evasion in the informal sector and provide a comfortable platform for revenue and tax analysts who will be concerned in knowing the causes of tax evasion within the informal sector. The study will also serve as a guide to future researchers who may want to research in this area. It will offer new data to test various theories and hypothesis found within the field of study. Again, this research would expose some problems related to tax collection within the informal sector and recommends different ways to solve these problems, serving as a guide to management for future policies and programmes involving tax evasion in the informal sector. Tax enforcement authorities often have difficulty in the implementation of tax laws

owing to their failure to actually detect and include the sources of tax evasion in tax enforcement policies. This research examines an enforcement strategy that will suitably include the causes of tax evasion and thereby help improve tax compliance within the informal sector of Ghana.

### **1.6 Limitations of the Study**

A number of problems that occurred which limited the study include the following:

1. Most of the people interviewed within the informal sector were reluctant to disclose information related to their business activities for fear of taxation. In respect to this, the study would be tilted towards respondents within the informal sector who were ready to supply information which contributed to the study's main findings. It also meant that a participant who did not disclose the right information as a result of his or her suspicion could affect the findings of this research.
2. The main area of study covered is Kumasi, the capital of the Ashanti region of Ghana. This implies, the study's concentration is on urban informal sector and declined to people living in the rural areas and other parts of the country. It is therefore possible that it may result in some amount of error in generalizing the findings from the study's population sampled. Indeed, the findings may change if the study's characteristics vary in terms of the location of the respondents, their demographics and the economy at the time of the study.

### **1.7 Organization of the Study**

This study is divided into five chapters which has been arranged as follows: Chapter One introduces the background to the study and the problem warranting this research. Chapter Two presents the theoretical and empirical related literature on the theme under investigation; while Chapter Three discusses the methods and procedures for data collection, Chapter Four deals with the data analysis and discussion of results of study. Finally, Chapter Five presents a summary of the main findings of the study and recommendations for future research.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The fundamental nature of this chapter is to make available the appropriate theoretical and empirical literature on tax evasion in the informal sector. The reason is to present theoretical groundwork for the study as well as empirical measure to talk about the findings of the study. There have been several studies conducted on tax evasion in the informal sector in Ghana. However, many important areas are missing in the works of previous studies. Therefore, in coming out with material worth reading many sources of literature materials such as books, journals, reports, articles and others from internet were read to find out what were missing out in other people's work and why what were missing out were essential for this study. The chapter has two sections. The first section deals with the theoretical issues which include: informal activities in Ghana. The section presents the relevant empirical literature for the study. Many studies have defined taxation and informal sector.

#### **2.1 Definitions of Taxation and Informal Sector**

According to Atkinson (1977), taxation is a form of levy charged on the citizenry in fulfillment of their tax obligations by tax authorities to help a nation's development. Therefore, taxation can be said to be a means by which government finance their expenditure by imposing charges on its citizens and corporate entities. It can also be said to be a pecuniary burden laid upon individuals or property owners to support the government of a particular nation. Assuming that tax collected from individuals and

corporate entities is not adequate in sustaining the economy of a nation, then, it might be as a result of some persons who might have defaulted in the payment of their taxes.

OECD (1996) defines the word tax as “a compulsory, unrequited payment to general government.” The study further adds that “the taxes are unrequited in the sense that the gains to be derived by taxpayers is not in direct proportion to the tax paid to the government.” This suggests that taxes are compulsory and are paid to the government. As such, tax collectors and officials may have to explain to taxpayers if they are unclear as to what their taxes are being used for, in order to clear any doubts in the taxpayer’s minds. If this clarification is properly done, then people who are supposed to pay taxes would not be either hesitant or compelled to do so.

James, Nobles and Channon (1978) are of the view that a tax is “a compulsory levy made by public authorities for which nothing is received directly in return.” This perspective of James, Nobles and Channon might seem that taxpayers usually get nothing for fulfilling their tax obligation. If this happens all the time, then some taxpayers might be reluctant in fulfilling their tax obligations, which is part of their civic responsibilities.

OECD (1996) defines “taxation as the act or process of imposing and subsequently collecting a tax”. This definition is slightly different from the previous definitions shared by James, Nobles and Channon (1978), OECD (1996) and Salman (2014). It can be said that, there is no accepted definition for the term tax or taxation. Any attempt to specifically define the term may not be cast in stone, but rather might consider the works of other experts in the field. Salman (2014) believes that “A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provision of general benefit. There is no direct quid pro quo in the case of a tax.”

Roosevelt (1936) claims that taxation may be defined as “the dues that we pay for the privileges of membership in an organized society”. Bardopolus (2015) believes that this definition of Roosevelt on taxation is apt for the term. This view of Roosevelt (1936) may not be widely accepted by a number of people because paying tax is not the same as paying dues as a member of a society, which obviously ‘society’ in this context here, refers to a nation. To sum up, many studies have been done to trace the origin of taxation in Ghana. The “informal sector”, which is also known as “informal economy” or “grey economy” is that part of an economy within a nation which is not tax-conscious, nor strictly monitored by a government. Persons operating in business which do not have a license to operate, may be found in this sector and since the government might not have full details of such businesses, it would be difficult for it to trace where they go about their business activities and tax them. As such, persons running business without formalizing it could evade tax and this evasion may affect the nation adversely.

According to Schneider (2002), the informal sector is:

the income generating enterprises that operate on small scale using simple skills and are not tied to any government regulations. The difference with the formal sector is mainly the regulation bit. The informal sector mainly operates on a small scale on a subsistence level with fewer employees, though most are really just self-employed individuals.

Schneider’s (2002) viewpoint on the informal sector and the formal sector makes the distinction between the two sectors easy to comprehend and specifically what these two sectors comprise of.

The International Labour Organization (ILO, 2002), moreover, gives the definition of the informal sector as a “sector characterized by ease of entry, reliance on indigenous

resources, family ownership of enterprises, small scale of operation, labour-intensive and adapted technology, skills acquired outside the formal school system, and unregulated and competitive markets”. Unlike the formal economy, activities of the informal economy are excluded in the gross domestic product (GDP) of a country.

The term ‘black market’ may be captured as a service considered in the informal sector as “shadow economy” or “underground economy”. The phrase “informal economy” is gradually being used in place of “informal sector”, which is a preferred word for activities within the environment of the informal sector. The term informal, with respect to housing and livelihood is associated with social ills and usually describes what a person may lack or need to put away. It is clear from the above that many researchers have identified the type of taxes from different perspectives with regard to the two main sectors. Politically, the origin of taxation in Ghana has been traced by many authors.

## **2.2 The Genesis of Taxation in Ghana**

Ghana, previously called Gold Coast, colonized by their British masters saw the introduction of taxation in the year 1943 during the uprising of World War II by the efforts of their colonial masters. Prior to the introduction of taxation, several attempts were made in that regard. This means that, taxation in Ghana, started in Gold Coast era before Ghana became an independent country. This suggests that Ghanaians at the Gold Coast era were made to pay taxes and currently taxation still continues in the country.

For instance, the Poll Tax Ordinance was introduced in April 1852 to augment collection to sustain the overspending lifestyles of our colonial masters (Ali-Nakyea, 2008). As per the rules regarding this Ordinance, every person living in any region within the country under the protection of the British was obliged to make payment of a shilling per labour in

a year. Collection of taxes with this new approach of revenue mobilization fell through due to weak structures prevailing at the time with respect to achieving the objectives for which it was intended.

Moreover, the tax that was collected served as a way of making payments to the British who earned high salaries to the detriment of overall national development. The Income Tax Ordinance (No.27), being the first of its kind to be introduced in Ghana was passed in 1943. This law mainly encompasses all the general rules underpinning the Income Tax Act, which was implemented in the United Kingdom at that time (Ali-Nakyea, 2008). Many research works have been carried out to identify the types of taxes. The subsequent section describes the types of taxation.

### **2.3 Types of Taxation**

Ali-Nakyea (2008), Meyer & Johnson (1977) and Atkinson (1977), in studying the types of taxes identified two, namely, direct and indirect. This suggests that a number of authors all agree that the two main types of taxes are direct and indirect. In the opinion of Meyer & Johnson, direct tax is a tax such as income tax that is levied on the incomes or rewards of individuals and corporate bodies, whereas with the indirect tax, the tax is transferred from one person to the other and eventually borne by the final consumer. This could mean that, all individuals and corporate bodies are expected to pay their taxes dependent on their income and profit levels. However, it is fair to say that some private workers might evade tax due to the fact that the tax regulatory body might not be aware of their existences, and also, where they operate could be a remote area where people least expect to find such income generating activities.

According to the studies, direct taxes may be adjusted to the individual characteristics of the taxpayer, whereas indirect taxes are levied on transactions irrespective of the circumstance of buyer or seller. This clarification on the two main types of taxes is clear and straightforward judging by the example used to explain the main types of taxes.

Direct taxes include income tax, corporate tax, and capital gain tax, while indirect taxes include sales tax, value added tax and goods and services tax (GST). According to AliNakyea (2008), majority of the taxpayers only meet their tax obligations without bothering themselves to find out the type of tax they pay. This distinction is from an administrative point of view, although it may not always be correct. The revenue obtained from taxes is used for certain purposes. Meanwhile, a lot of studies have been done on the purposes or uses of taxation. A lot of research studies have been done to identify the purposes of taxation.

#### **2.4 Purposes of taxation and how morality influences the payment of tax**

According to Sweeting *et al.* (2009), government uses taxation as a means of raising money for its public spending programmes. Revenue raised from taxation has been the backbone of many nations sustaining all state functions in respect of infrastructure, health conditions of the population and even in times of war. Examples include economic infrastructure, building of roads, legal tender, hospitals, schools, railway systems, protection of public properties, enforcement of law and public order. Again, welfare and public services are funded by the government's tax collection accrued over a period of time. Common public utilities involve energy, water and waste management systems. Both the colonial and modern nations have utilized taxes greatly to embark on development programmes.

However, the study declares that only a few of the taxpayers could account for reasons why they pay taxes.

In the opinion of Clayton and Brown (1983), people who benefit from government service should be the ones to pay for taxes and that people should honour their tax obligations according to the gains they receive from the government. However, in developing nations such as Ghana, taxpayers may hardly benefit from honouring their tax obligations. Tax, therefore, should be perceived as having no “quid pro quo” which is synonymous to having no advantage or benefit in return for honouring it. Paying of taxes should rather be accepted and seen as one’s civic responsibility that should be observed by all citizenry irrespective of one’s social status or class in building up a nation.

In terms of morality, Smith and Kinsey (1987), Errard and Feinstein, (1994) as well as Gordon (1989), all inclined to the opinion that certain individuals readily disclose their real financial standings to the tax authorities despite the option to cheat. In addition, Baldry (1986) affirms that there are some people who do not evade paying taxes even if it would be to their personal gains. However, the economic approach explanation offered by Brealey and Meyers (2000) presumes that people are immoral and prefer to play to the extremities of the social space in which they find themselves.

From the above studies, it is clear that the purpose of paying taxes and the literatures on the impact of moral behaviour of taxpayers on Payment of Taxes are inconsistent. It is therefore important for an independent study to dive into it in order to draw a conclusion on the purposes for paying taxes and how the moral behaviour of people affects payment of tax, especially, in the informal sector.

## 2.5 An Overview of Tax Avoidance and Tax Evasion

According to Worldwide Invests Co. Ltd, (2005), tax avoidance, in simple terms, is a means by taking advantage of the loopholes of the laid down tax regulations or law to reduce one's tax burden or tax liability and pay lower tax compared to what one should have paid. Otieku (1992), therefore, describes tax avoidance as 'the legal arrangement of taxpayers' affairs so as to reduce their tax liabilities'. Avoiding tax is therefore a way of finding leeway's or prospects in the tax law to one's benefit in reducing one's tax obligations. To some extent, it makes it legal because the law has not specified those areas clearly. Therefore, they end up taking advantage of the lapses in the tax system to the detriment of the state.

Abdallah (2008) describes tax evasion as a way of using illegal means to reduce tax obligations. Therefore, tax evasion is the act of intentionally manipulating, forging, falsifying and under declaration of transactions to reduce one's tax burdens or liability. The deliberate or willful acts of keeping key information from the revenue governing body in order to suppress one's taxes and therefore makes it illegal is an act of tax evasion. Many Ghanaians are unable to distinguish between tax avoidance and evasion of tax. However, Ali-Nakyea, (2008) posits that the Commissioner General has the expressed powers to recharacterize both tax avoidance and tax evasion transaction to demand the actual taxes deemed the state and unlike tax avoidance, tax evasion can end one in imprisonment.

According to Faseun (2001), failure to provide accurate tax returns to tax officials is the most regular form of tax evasion in developing countries such as Nigeria. A tax evader may be charged in court for criminal offences with the consequent fines, penalties and at times jailed for evading tax (Faseun,2001). The study wants to find out whether the major

cause of tax evasion in Nigeria is also similar in Ghana since the two countries have similar socio-economic conditions.

Taxpayers, especially, those in the informal sector, do not evade taxes for nothing. Some researchers have researched into reasons why taxpayers avoid or evade their tax obligations in the informal sector.

## **2.6 Causes of Tax Avoidance and Tax Evasion in the Informal Sector**

In solving the issues with tax avoidance and tax evasion in the informal sector, one needs to fully understand the reasons why people turn to avoid and evade tax regardless of state provisions relating to the payment of tax. There are dichotomy of ideas on what actually causes tax avoidance and evasion. For instance, in the opinion of Beattie (2010), people evade taxes because they want to be more affluence. The reason he gave was that, most businessmen and women engage in business activities with the intention of getting more profit after meeting the final expenses including tax obligations.

Otieku (1992) rather found that, tax evasion and avoidance are being caused by preponderance of cash transaction, low standard of record keeping, corrupt and low morale personnel of tax administration and lack of stringent punitive measures against people who do not honour their tax obligations. The study identified ignorance as a major factor of tax evasion because the taxpayers think that the money is for the tax collectors and government and do not believe they will benefit from the money they pay as taxes.

In identifying the reasons why people evade tax, Kiabel (2001) posits that, some businessmen and women evade their tax obligations despite the remarkable profits they made because of the fact that, they see no reason for doing that. Such people intentionally prepare their accounts to always confirm a loss. This is a sign of unpatriotism.

In an attempt to establish the relationship between tax rates and tax evasion, Allingham and Sadmo (1972), using statistical modeling, found that, taxpayers sometimes maneuver to either come up with the full disclosure of income or otherwise inconsiderate to the existing tax rates. The study attributed tax avoidance and tax evasion to high personal income tax rate. According to their model, people evade tax whenever the potential gains outweigh losses which will be incurred when caught.

According to the studies conducted by Trivedi & Shehata (2005), reducing tax rates is not likely to improve tax compliance. In a sharp contrast to Allingham and Sandmo, other studies such as the ones conducted by Pommerehne et al. (1994) and Adebisi and Gbegi (2013), have come up that increasing tax rates have the propensity to encourage noncompliance behaviour of taxpayers. Another research embarked by Porcano (1988) posits that there is no significant relationship between tax rates and tax evasion. Kirchler et al. (2008), claimed that the impact of tax rates on compliance is dependent on the level of trust that exists between the government and the taxpayers. According to them, if the trust in the government is low, a high tax rate could be misconstrued by taxpayers as an unjust treatment to them while on the other hand, that same tax rate could be deemed as friendly in honouring their civic responsibilities if the trust in the government is high. Other studies undertaken by Kirchler et al. (2008) has shown that national compliance decisions perceived tax rates to have a mixed impact on the overall compliance behaviour of taxpayers.

According to Ayua (1999), many of the professionals such as lawyers, architects, contractors, doctors and traders in Nigeria refuse to pay taxes by deliberately declaring losses to tax officials or underestimate their income whenever they are approached. He

observed that, it is only civil servants and salary workers who pay realistic taxes despite the punishment which are sometimes meted to tax evaders. According to the study, several attempts made by some state governments to employ the services of tax consultants with the aim of solving the problem have not produced any fruitful results.

This does not auger well for economic growth and development in any nation.

Here, what is missing out is that, although the other authorities have explained what the tax rates are, they failed to indicate its effects on tax evasion when lowered. This is important because it is only when tax officials identify the effect of lowering tax rate on tax evasion that they will see the need to do that or otherwise.

According to Hasseldine (1993) and Song and Yarbrough (1978), taxpayers are rational evaders who prefer to weigh the pros and cons of tax evasion and try as much as they can to reduce their tax liability by deliberately under reporting their income to their benefits instead of paying the appropriate taxes to the tax authorities as a civic responsibility. The studies suggest that some of these deliberate tax evaders are willing to take the risk of gambling to pay even more in fine if caught.

In the opinion of Orewa (1962), people evade their tax obligations when they are not identified and located in their work places.

The implication of the above studies suggests that the causes of tax avoidance and evasion are not empirically conclusive. It is important to draw the conclusion on the causes of tax avoidance and evasion for tax analysts to identify what actually causes the aforementioned evil. It is only when the actual causes are identified that appropriate steps could be taken to address the issue. When people evade their tax obligations, it has several adverse effects on the growth and development of the nation.

The study, therefore, aims at finding out whether similar situation occurs in the informal sector at the Kumasi Metropolis, since the two nations have similar socio-economic conditions.

### **2.7 Effects of Tax Evasion**

Many economists have raised several concerns about the creation of unfriendly business environment as a result of taxation, which leads to economic hardships for small scale and self-employed traders. According to Lyons (1996), tax avoidance and evasion is capable of affecting the degree to which the government can offer basic requirements for her people. When people refuse to pay tax, it dwindles the infrastructure development of their nation. Some of the impact of tax avoidance and tax evasion on the Ghanaian economy are that, it causes reduction in tax revenue, inadequate supply of basic amenities, income inequality and increase in international tax planning as depicted by Clayton and Brown (1983).

Studies have been conducted on how best the problem of tax evasion could be addressed.

### **2.8 Solutions to Tax Evasion**

According to studies embarked by Kiabel (2001) in Nigeria, the problem of tax evasion could be solved by educating and orienting the taxpayers on purposes of taxes. Tax revenues are used by government to undertake development projects such as buildings of schools, constructing of roads, payment of salaries for civic among others.

In reference to the study conducted by (Faseun, 2001), the most important penalties for tax evaders include prosecution in court as criminals who could be asked to pay fines, penalties and sometimes jailed in prison.

Despite the numerous efforts put up by some governments to curb the twin problem of tax avoidance and evasion by inviting experts in taxation, the cankers still pertain (Alabi, 2001

as cited by Ayodele, 2006). This canker has eaten into the very fibre of economic growth of many developing countries.

The study aims at finding out whether similar solutions will be effective in the country since the two countries have similar socio-economic conditions. When this is known, it will serve as a comfortable platform for the government to utilize it to mobilize enough taxes for its numerous development programmes in the country. Many authors have come out with functions of tax auditors and the next section addresses that.

## **2.9 Functions of Tax Auditors**

According to Dubin (2004), a tax audit in Ghana is a measuring tool used to ascertain whether all records furnished to GRA by its clients are true reflections of their business operations or not. In explaining the work of tax auditors, the study revealed that, tax auditors go out to check on the accuracy and correctness of the accounts submitted to GRA by its clients.

The work of auditors over the years have proven to have a direct positive impact on the compliance level of taxpayers – in auditing businesses by GRA officers. They also found out whether taxpayers apply the provisions of the tax laws correctly in declaring all income and claiming all allowable deductions. The allowable deductions should, necessarily, exclusively and wholly be incurred in the production of the income. Taxpayers are further educated on tax related issues to be more prudent in completing their tax returns. These frequent audits encourage taxpayers to keep proper records of transactions since they might be charged penalties in areas of default.

Evans, (2009) conducted a study with the aim of examining the link between the book keeping activities of SMEs in Australia and tax problems they could face. The study

evidenced that audit history, audit frequency as well as the type of audit done on small enterprises had a significant effect on tax compliance. In effect, by increasing audit activities, more Small and Medium Enterprises will do better in book keeping and tax compliance. There have been a lot of empirical literature on the tax related issues, and subsequent section addresses that.

## **2.10 Empirical Literature**

Abiola and Asiweh (2012) investigated Nigerian Tax management and its ability to decrease tax evasion and spawn revenue for improvement of the people of Nigeria. They used one hundred and twenty-one online survey questionnaires which contains twentyfive important questions for the study. They used descriptive statistics to analyze ninetythree (93) responses that were answered correctly and returned. They revealed that the government can generate enough income if effective strategies are put in place for tax mobilization. They were of the view that the tax administrators lack enough manpower, computers and effective postal and communication system.

Adebisi and Gbegi (2013) assessed the impact of tax avoidance and tax evasion on personal tax administration in Nigeria. They used three hundred and five (305) employees of Federal Inland Revenue Service in Abuja for the study. They employed both primary and secondary data for the study. With the help of analysis of variance (ANOVA) the primary data was analyze. They reported that adequate utilization of the collected tax revenue on infrastructural development will definitely discourage tax avoidance and tax evasion. They however revealed that tax avoidance and tax evasion in Federal Inland Revenue Service in Abuja can be attributed to high tax rates and high personal income tax rate.

Saidu and Umar (2014) in examining ethics of evasion and governance challenges in the informal sector in Nigeria. Basically, they examine the operation of the informal sector in Bauchi state of Nigeria. This area was chosen because the authors believed that tax evasion is on its ascendancy. The authors' used primary and secondary data for their study. Using Spearman's rank correlation test they were able to establish the association between the ethics of tax evasion and the performance of the government of Nigeria. They found out that individuals refuse to pay tax as a result of awful governance and high level of illiteracy to some extent.

Emerta (2010) investigated the underground economy and tax evasion in Ethiopia. The study reported that there is about 36% amount of economic activity that is not reported, however, was captured by the official statistics. The study revealed that the amount of tax evasion during the time of study was around 10%.

Otieku (1992) investigated the ethics of tax evasion. He analyzed the data gathered by using statistical test for population means and the level of significance tests in assessing the hypothesis devised for the study. He reported that the main causes of tax evasion in Ghana, were corruption on part of the government, unfair treatment of citizens, high tax rates and poor tax system.

Zhou and Madhikeni (2013) investigated systems, processes and challenges of Public Revenue Collection in Zimbabwe. They reported that revenue collection sector has over the decade gone through milestone reforms, notable ones being the establishment of a sole national revenue authority in 2001.

Asante and Baba (2011) investigated the influence of demographic characteristics specifically gender, age, marital status and educational attainment on tax compliance

among self-employed in Ghana using survey method. The study revealed that female, educated, older and married self-employed in Ghana are less tax non-compliant. They reported that given the appropriate treatment, more tax could be collected from these groups than their opposite counterpart.

# KNUST



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

The chapter presents detailed information on methodology for collecting the required data. This section presents the research design, population, sample size and sample technique, sources of data, tool of data collection, soundness and dependability of the tool and the technique of data analysis. The chapter endeavor to make available a comprehensive analysis of the blue print for the study.

#### **3.1 Research Design**

A research design is an essential plan which shows the data gathering and analysis of the research project. It provides the glue that holds the research as one. It spells out the type of information to put together. There are diverse research designs, but the one the study adopted is descriptive research design. This type of design describes the distinctiveness of fastidious persons, or a group. The use of questionnaire was considered as an appropriate method of gathering quantitative data.

#### **3.2 Population**

The people in the selected areas such as Central market, Suame market, Asafo market, Bantama market, Kejetia market, Atonsu market and one of the heads of Ghana Revenue Authority within the Kumasi Metropolis constitute the target population. In all, the Kumasi Metropolis has a total population of 2,035,064 and an area of 42.6 sq. Km (GSS, 2012). Thus the population is made up of a section of the income earning individuals in the informal sector of the selected areas for the study and an employee of Ghana Revenue

Authority. Since the selected markets were located in Kumasi Metropolis where business activity is the order of the day, all the respondents who completed the questionnaires were in informal sector who engaged in all kinds of business activities ranging from petty trading to small and medium scale enterprise activities. It was only the person interviewed who worked in the formal sector.

The study wanted to cover a wider area; however, due to financial and time constraints, the study was carried out on selected sample of the population.

### 3.3 Sampling Technique and Sample size

In view of the researchers' incapability to reach the whole population and to get the deepness of the study and effective coverage, two stage cluster sampling procedure was done. The first stage cluster includes sampling informal taxpayers from Kejetia, Bantama, Atonsu, Suame, Asafo and Central markets and one of the heads of Ghana Revenue Authority within the Kumasi Metropolis. In the second stage, convenience sampling was then used separately to select the needed sample from each cluster for the study. The cluster areas chosen have a population of about 20,935 (Mensah, 2014). For a 95% confidence level with a margin error of five percent (5%), the sample for the estimated population should have been 393 units. This result was based on a sample size formula emphasized in a report by Mohammed and Mohammed (2012).

The formula is thus:

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

Where, n is the sample size, N is the population size and e is the level of precision.

However, a sample size of 200 was chosen which approximately represents one percent of

the total population. The 200 sample size was chosen with the intention of tumbling survey cost and meeting the time scale required to complete the study.

A detailed of the selected markets and their corresponding sample selected is shown in the Table 3.1 below.

**Table 3.1: Selected market and Corresponding Sample Sizes**

<b>Name of Market</b>	<b>Population</b>	<b>Sample</b>
Kumasi Central market	10730	65
Suame market	3650	40
Bantama market	1500	20
Asafo market	1600	30
Atonsu market	850	10
Kejetia market	2605	35
<b>Total</b>	<b>20935</b>	<b>200</b>

**Source: Field study, 2015**

### 3.4 Data Source

Yin (2003) opined that for reliability of study and enriched data, it is prudent to use various data gathering tools. He is of the view that the various sources of data collection are highly complementary as compared to the use of a single source of data. As a result, Questionnaires were administered to the people who worked in the named markets, whilst one of the heads of GRA was interviewed to have his views on the subject matter.

### 3.5 Instrument of Data Collection

The following research instruments were employed to obtain first-hand information from the field:

- i. questionnaires,
- ii. interview.

A set of questions which form the questionnaire for the study were administered to the selected people of Central, Suame, Asafo, Bantama, Kejetia and Atonsu markets, whereas one of the heads of the Ghana Revenue Authority within the Kumasi Metropolis was also interviewed. Samples of these questionnaire and structured interview questions are provided in appendices A and B respectively.

### **3.5.1 Structure of the Questionnaire**

The questionnaire was divided into four parts. The first part which was section A contained questions on demographic characteristics of the respondents, while the second part, which was Section B, contained closed-ended questions were used to find out the respondents' views on the tax system in Ghana.

Section C assessed the views on the causes of tax evasion in the informal sector from the traders of the selected markets in the Kumasi Metropolis. The respondents' views were measured on the four point Likert scale where "disagree" = 1, "strongly disagree" = 2, "agree" = 3 and "strongly agree" = 4.

Section D elicited the view of one of the heads of tax collection of GRA in Kumasi through an interview.

### **3.6 Reliability and Validity of the Questionnaire**

Reliability refers to the extent to which a tool measures the same way each time it is used under the same circumstance with the same object. The measurement of reliability of the questionnaires was done by finding the Cronbach's coefficient alpha for the questionnaire

with the help of IBM SPSS. Cronbach's Alpha is an index of reliability that deals with the discrepancy accounted for by true score of the supposed variable that is being measured. The table below shows the results of test of reliability for the study.

The Cronbach's Alpha value of 0.753 is considered reliable and acceptable.

**Table 3.2: Results of Reliability Test**

Cases	Number	Cronbach's Alpha	Number of items
Valid	200	0.753	28

**Source: Field study, 2015**

According to Andrews and Halcomb (2009) validity refers to "the degree to which a research tool measures what it is supposed to measure." There are different types of validity that may be deemed. The study espoused the use of content validity to test the data obtained from the questionnaires administered to the selected sample in the Kumasi Metropolis. This was attained due to the high value of the Cronbach's Alpha (0.753). Therefore, the questionnaires were to a large extent able to cover the data required for the study.

### **3.7 Method of Data Analysis**

Various kinds of statistical tools including SPSS software programme and tables were employed to analyse the data obtained from field. Data analysis was designed to provide sound basis for the discussion of the result of the study by presenting data in a systematic, logical and summarized manner.

Qualitative technique was employed to analyse the view of taxpayers in the informal sector of Kumasi Metropolis.

### **3.8 Profile of Selected Markets**

Asafo market is a trading centre in Asafo, a suburb of Kumasi, in Ashanti region. Asafo market is located to the western side of the Asafo interchange. This market was previously called Nkrumah market (named after the first President, Dr. Kwame Nkrumah). The name was, however, changed to Asafo market when he was overthrown in a coup d'état in 1966. Both Kejetia and Kumasi Central markets are closer to Adum, which is the business centre of Kumasi. The two markets, which seem to be fused, are considered the biggest in West Africa with more than 10,000 stores and stalls. Kejetia market is to north of Kumasi Cultural Centre and to the North-West of it is Komfo Anokye Teaching Hospital. The southern part of the market forms a boundary with Adum, the commercial centre of the city. Vehicular traffic around these two markets comes with much difficulty for pedestrians and other users of the area.

Suame Magazine market is a popular industrialized area of Kumasi Metropolis in the Ashanti region. Numerous workshops for metal engineering and vehicle repairs are found in this area. The market offers employment to an estimated workforce of about 100,000. This market is located 10 kilometers away from Adum, the hub of the city. It is the most industrialized zone in Kumasi Metropolis.

Bantama market is a commodity market which trades in different kinds of commodities ranging from food stuffs, locally made foot wares, dresses, hair dressers, among others. This market is closer to the Komfo Anokye Teaching Hospital.

Atonsu market is next to Chirapatre in the Kumasi Metropolis. It is relatively a small market compare to the markets mentioned above. The activities that go on there are no different from the Bantama market. It is about 14 kilometres away from Adum.

# KNUST



## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSION OF RESULTS

#### 4.0 Introduction

This section deals with the presentation and analysis of data collected from the questionnaires administered and the interview granted on the selected samples. In this chapter, the data obtained from the field study have been analysed and both theoretical and practical implications of the results of the study have been connected where necessary. Tables in the form of frequencies, percentages and mean were used to present the data and the results analysed and discussed in relation to the research questions devised to guide the study.

#### 4.1 Distribution and Return of Questionnaires

Questionnaires and interview guide were used to elicit information on tax evasion from those employed in the informal sector and the head of GRA respectively in the Kumasi metropolis. Two hundred questionnaires (200) were administered on the selected sample. All the 200 questionnaires were answered and returned representing a response rate of 100%.

#### 4.2 Demographic Characteristics of the Respondents

The socio-demographic background of people could influence their behaviour and perception to a large extent. In this regard, where people originate from could influence their socio-demographic features. Therefore, this study gives credibility to the sociodemographic features of respondents which include gender, age, marital status, level of education, number of years in business, nature of their business and religion.

#### **Table 4.1: Demographic Characteristics of Respondents**

---

Variable	Frequency	Percentage (%)
<i>1. Gender of respondents</i>		
Male	97	48.5
Female	103	51.5
<b>Total</b>	<b>200</b>	<b>100</b>
<i>2. Age of respondents</i>		
21-30	76	38
31-40	47	23.5
41-50	42	21
51-60	23	11.5
61 and above	12	6
<b>Total</b>	<b>200</b>	<b>100</b>
<i>3. Marital status of respondents</i>		
Single	74	37
Married	101	50.5
Separated	16	8
Divorced	9	4.5
Widowed	0	0
<b>Total</b>	<b>200</b>	<b>100</b>
<i>4. Level of Education</i>		
No formal education	30	15
Primary	16	8
Junior high school	2	1
Secondary	90	45
Tertiary	62	31
<b>Total</b>	<b>200</b>	<b>100</b>
<i>5. Number of years in business</i>		
1-3 years	40	20
4-6 years	94	47
7-9 years	26	13
10-12 years	30	15
13 years and above	10	5
<b>Total</b>	<b>200</b>	<b>100</b>
<i>6. Nature of Business</i>		
Trading	86	43
Food Vending	100	50
Artisanship	14	7
<b>Total</b>	<b>200</b>	<b>100</b>
<i>7. Religion</i>		
Christianity	146	73
Islamic	54	27
Traditional	0	0
<b>Total</b>	<b>200</b>	<b>100</b>

Source: Field study, 2015

#### **4.2.1 Gender Distribution of Respondents**

Out of the 200 respondents selected for the study, it was revealed that, in terms of gender, 103 (51.5%) were females, while 97 (48%) were males. This finding shows that majority of the respondents were slightly dominated by females. This study conforms with the popular perception that majority of the workers in the informal sector are females due to the fact that females mostly engage in petty trading and small and medium scale enterprise activities.

#### **4.2.2 Age distribution of Respondents**

With respect to age of the respondents, the study revealed that 76 (38%) of the respondents were between 21-30 years, exactly 47 (23.5%) of the respondents were between 31-40 years. Also, 42 (21%) of them were between 41-50 years. Again, 23 (11.5%) were between 51-60 years while 12(6%) were 61 years and above. The result indicates that most of the respondents were between 21-30 years. The age distribution of the respondents helped the researcher to differentiate between the different categories of respondents.

The result showed that the respondents were mature enough to express their opinions on the questionnaires and interviews appropriately.

#### **4.2.3 Marital Status of Respondents**

In terms of marital status, the study revealed that 74 (37%) of the participants were single, while 101 (50.5%) were married. However, 16 (8%) were separated, and 9 (4.5%) of the participants were divorced.

It could be deduced from the findings that majority of the participants were married. One or both couples are employed in the informal sector to assist each other to cater for the home.

Since they were engaged in one activity or the other, they had been confronted with tax issues and so had knowledge on it and could therefore say something about tax in the informal sector.

#### **4.2.4 Level of Education of Respondents**

Concerning the educational level of the respondents, the study revealed that 30 (15%) of them had no formal education, 16 (8%) had primary education, two (1%) held Junior High School Certificate, 62 (31%) had tertiary education, while 90 (45%) had secondary education.

It could be inferred from the table that, most of the respondents were literates with majority of them having had their secondary education. This means that they could comprehend the questions posed in the questionnaire and answered them accordingly. The few who had no formal education were assisted in completing the questionnaires by translating the questions in Asante Twi for them to respond accordingly. This prolonged the time for completing the questionnaires.

#### **4.2.5 Number of years spent in Business**

When the respondents were asked the number of years that they have been in business, the study revealed that, 40 (20%) of them had worked for “1-3 years”, 94 (47%) had also worked for “4-6 years”. Again, 26 (13%) of the respondents indicated that they had worked for “7-9 years”, exactly 30 (15%) said they had been in business in the informal sector for “10-12 years” while 10 (5%) of the respondents showed that they had been in business over “13 years”.

The results show that all the respondents have been in business for one year or more with majority of them between 4–6years. This means that they had been confronted with a tax issue and so could give some explanation on taxation in Ghana.

#### **4.2.6 Nature of business of respondents**

When the respondents were asked the nature of business they engage in, it was reported that 86 (43%) of them said they were traders, 100 (50%) said they were food vendors, while 14 (7%) were artisans.

The findings show that all the respondents engaged in informal activities with majority of them being food vendors. Since they were employed in the informal sector, it means, they have been confronted on issues concerning payment of tax and so could say something about the tax system in Ghana.

#### **4.2.7 Religion of Respondents**

When the respondents were asked to state their religions, the study revealed that 146 (73%) were Christians, while 54 (27%) were Muslims. None of them was a traditionalist. It could be induced from the results that all the respondents were religious people with majority of them being Christians. As religious people, it was expected that they would be truthful in responding to the questionnaire.

#### **4.3 Descriptive Statistics of Knowledge of Respondents on Taxation**

In order to identify the knowledge of the respondents on taxation, questionnaires and interview guide were sent out for people in the informal sector to respond to. The summary of results obtained from field has been tabulated below:

**Table 4.2: Descriptive Statistics on Taxation in Informal Sector**

<b>Detail</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>1. Knowledge of respondents on taxation</b>		
Yes	121	60.5
No	79	39.5
<b>Total</b>	<b>200</b>	<b>100</b>
<b>2. Categories of Taxes</b>		
Yes	96	48
No	104	52
<b>Total</b>	<b>200</b>	<b>100</b>
<b>3. Payment of tax</b>		
Ever paid tax	93	46.5
Refusal to pay tax	107	53.5
<b>Total</b>	<b>200</b>	<b>100</b>
<b>4. Respondents knowledge on when to pay tax</b>		
Yes	54	27
No	146	73
<b>Total</b>	<b>200</b>	<b>100</b>
<b>5. Regularity in payment of taxes</b>		
Regular payment of taxes	60	30
Irregular payment of taxes	140	70
<b>Total</b>	<b>200</b>	<b>100</b>
<b>6. Knowledge on Penalties for not paying tax</b>		
Yes	39	20
No	161	80
<b>Total</b>	<b>200</b>	<b>100</b>
<b>7. Knowledge on tax avoidance</b>		
Yes	26	13
No	174	87
<b>Total</b>	<b>200</b>	<b>100</b>
<b>8. Knowledge on tax payment offices</b>		
Ash town office	15	7.5
Asokwa GRA office	40	40
Suame office	38	19
Adum office	13	6.5
No idea	94	47
<b>Total</b>	<b>200</b>	<b>100</b>
<b>9. Knowledge on the exact Amount to pay a tax</b>		
Yes	26	13
No	174	87
<b>Total</b>	<b>200</b>	<b>100</b>
<b>10. Importance of paying taxes</b>		
Having fair knowledge	52	26
No knowledge	148	74

<b><u>Total</u></b>	<b><u>200</u></b>	<b><u>100</u></b>
<b>11. Receiving education on tax related issues</b>		
Yes	46	23
No	154	77
<b><u>Total</u></b>	<b><u>200</u></b>	<b><u>100</u></b>

**Source: Field data, 2015**

#### **4.3.1 Respondents Knowledge on Taxation**

This section presents the views of taxpayers' understanding of the tax system. When the respondents were asked whether they have fair idea about tax, it was revealed that 121 (60.5%) indicated "yes" while 79 (39.5%) indicated "no". These responses are shown in table 4.3.1 above. The findings show that, majority of the respondents said that they have heard about taxation but could not explain its purposes in Ghana.

This finding is similar to what Sweeting *et al.* (2009) found in their studies that only a few of the taxpayers could account for reasons why they pay tax. The inability of the respondents to account for the purposes of taxation can be likened to the assertion made by Orewa (1962) and Kiabel (2001) in Nigeria about inability of the government to educate the citizens about the significance of taxation in an economy. Therefore, it is only when Ghanaians become aware of the importance of taxation that they would welcome it and pay willingly.

#### **4.3.2 Categories of Taxes**

When the respondents were further asked whether they could tell of any tax type, 96 (48%) indicated "yes", while 104 (52%) indicated "no". These responses are indicated in the Table 4.2 above. The result shows that most of the respondents did not know any tax type.

This finding vindicates the assertion made by Ali-Nakyea (2008), Meyer & Johnson (1977) and Atkinson (1977) who indicated that majority of the taxpayers only meet their tax obligations without bothering to find out the type of tax they pay.

In addition, the Internal Revenue Act 592 (Act 2000) stipulates different forms of taxes such as corporate tax, personal income tax, pay as you earn (PAYE), vehicle income tax, tax stamp, stamp duty and gift tax just to mention but a few which the citizens of Ghana are obligated to honour at all times. Failure of paying these taxes is punishable by law.

#### **4.3.3 Payment of Taxes**

From Table 4.2 above, according to 93 (46.5%) of the respondents, they have ever paid taxes, while 107 (53.5%) indicated that they failed to pay tax to the government. The result shows that majority of the respondents although were working did not pay tax to the government because there could be a possibility of mistrust for their leaders. According to some of them, they did not know the significance of paying taxes to the government. This finding is similar to the one found by Kirchler et al. (2008), who claimed that the impact of tax rates and compliance is positively related to the level of trust that exists between the government and the taxpayers. Other respondents also attributed their reason for not paying taxes to the high rate of the taxation in the country.

This finding vindicates the one identified by Pommerehne et al. (1994) and Adebisi and Gbegi (2013), who claimed that, increasing tax rates have the propensity to encourage noncompliance behaviour of taxpayers.

#### **4.3.4 Respondents Knowledge on when to Pay Tax**

According to Table 4.2 above, when the respondents were asked whether they know when to pay their tax liabilities, it was revealed that 54 (27%) indicated “yes” while 146 (73%) indicated “no”.

The findings show that most of the respondents do not know when to pay their tax obligations. The reasons from the side of those who were supposed to pay tax was that, they had not been educated on when to pay their tax obligations. The other important reasons from the tax administrator who was interviewed attributed causes of tax evasion to difficulty in locating the permanent places and addresses of taxpayers. These findings clearly epitomised those found by Orewa (1962). When people evade their tax obligations, it has several adverse effects economic growth and development of a nation.

#### **4.3.5 Regularity in Payment of Taxes**

When the respondents were asked whether they paid their taxes regularly, it was revealed that 60 (30%) indicated “yes”, while 140 (70%) indicated “no”. These are shown in the Table 4.2 above.

The results show that majority of the respondents did not pay their taxes regularly. One major reason that most of the respondents gave was that, they had not been punished for irregular payment of taxes. This finding is similar to the one found by Otieku (1992) who attributed irregular tax payment in the informal sector to lack of stringent punitive measures against those who do not obey their tax obligations.

#### **4.3.6 Knowledges on Penalties for not Paying Taxes**

When the respondents were asked whether they knew of any penalties for not paying their tax, the study revealed that, 39 (20%) indicated “yes”, while 161(80%) indicated “no”.

These responses are shown in the table 4.3.6 above. The finding is similar to the one identified by Faseun (2001), which clearly shows that majority of the respondents evade tax because they are unaware of penalties associated with non-payment of tax which include prosecution and eventually imprisoned when found guilty by a competent court of jurisdiction.

Lack of knowledge on the penalty associated with tax evasion and avoidance accounted for the high rate of tax evasion particularly among the informal sector workers in Kumasi Metropolis.



#### **4.3.7 Knowledge on Tax Avoidance**

When the respondents were asked they have heard about tax avoidance, it was found out that 26 (13%) indicated “yes” while 174 (87%) indicated “no”. This is shown in the Table 4.2 above. The results show that most of the respondents have not heard about tax avoidance. This finding is similar to the study conducted by Sweeting *et al.* (2009) who found that only a few of the taxpayers could account for reasons why they pay tax.

According to the respondents, some of the tax collectors sometimes demand some ‘gift’ from them and make them pay less than what they ought to pay. This is a corrupt practice. This finding is similar to the one identified by Otieku (1988) who also attributed tax avoidance to the corrupt behaviour among some personnel of tax administrators and lack of stringent punitive measures against perpetrators of tax avoidance as indicated by Hasseldine (1993) and Song & Yarbrough (1978), who attributed tax evasion and avoidance to less punitive punishments which are sometimes meted to perpetrators of such act. Others also explained that they avoid and evade taxes because of the high tax rates imposed on them. This finding also vindicates the one identified by Adebisi and Gbegi (2013), as were as Pommerehne *et al.* (1994) who claimed that, increasing tax rates have the propensity to encourage noncompliance behaviour of taxpayers.

Tax evasion does not auger well for development of the nation since it is the revenue from tax which is used to support the nation’s infrastructural development.

#### **4.3.8 Knowledge on Tax Payment Offices**

When the respondents were asked where they pay their taxes, 15 (7.5%) of the respondents indicated “Ashtown Office”, 40 (20%) indicated ‘Asokwa Office’, 38 (19%) indicated “Suame Office”, 13 (6.5%) indicated “Adum Office”, while 94 (47%) could not show where they pay their taxes. These responses are shown on the bar chart on Table 4.2 above.

whether

This finding shows that most of the respondents could not show where they pay their taxes. When people do not know where they should pay their taxes, they might try to evade their tax obligations. Therefore, there should be enough tax education to the public, especially, those in the informal sector to make them identify where they should pay their taxes. This will go a long way to mobilize enough revenue for the development of the nation.

#### **4.3.9 Knowledge on the exact Amount to pay as tax**

When the respondents were asked whether they know with certainty the amount of levy to pay as tax, it was revealed that 26 (13%) knew it, while 174 (87%) were unaware. These responses are shown in Table 4.2 above. The results showed that majority of the respondents did not know the exact amount of money that they were expected to pay as tax.

This finding is related to the one identified by Orewa (1962) and Kiabel (2001) who placed lack of tax education to the doorposts of the government. Therefore, there should be enough public education on tax, especially, those in the informal sector to make them identify the exact amount of tax levy that they should pay. This will provide an avenue to the government for mobilizing enough revenue for the development of the nation.

#### **4.3.10 Importance of Paying of Taxes**

When the respondents were asked they know the importance of paying taxes, 52 (26%) answered in affirmative, while 148 (74%) indicated “no”. These responses are shown in Table 4.2 above.

The findings show that most of the respondents did not know the importance of paying tax although they have been outlined by Sweeting *et al.* (2009). According to the study, government uses taxation as a means of raising money for its public spending programmes. Revenue raised from taxation has been the backbone of many nations sustaining all state

functions in respect of infrastructure, health conditions of the population and even in times of war. Revenue obtained from tax is used by the government to embark on economic infrastructure such as building of roads, legal tender, hospitals, schools, railway systems and many others.

However, when individuals obtain higher profits and companies retain higher dividends without paying taxes, it might increase the amount of money in circulation especially, when it is unaccompanied by increase in production. This situation is capable of causing increases in the price of goods and services which could eventually lead to increase in inflation.

The public, especially, those in the informal sector should be educated on the significance of tax revenue. It is only when the public is educated on purposes of taxation that they will recognize it as their civic responsibility and pay accordingly.

#### **4.3.11 Receiving Education on Tax related issues**

When the respondents were asked whether they have received enough education on matters relating to tax, it came up that 46 (23%) of them avowed it while 154 (77%) replied otherwise. These responses are shown in Table 4.2 above. The findings show that majority of the respondents had not received enough education on tax related issues.

#### **4.4 Causes of Tax Evasion**

This section tried to identify the causes of tax evasion in the informal sector. As a result, the views of some of the people who engage in the informal sector activities were sought. Their responses were measured on the four-point likert scale: in the scale, Disagree = 1, Strongly disagree = 2, Agree = 3, Strongly agree = 4. The responses received are as shown in the Table 4.3 below:

whether

**Table 4.3: Causes of tax evasion**

Variable	Disagree	Strongly disagree	Agree	Strongly agree	Mean
High Tax rates	3(1.5%)	3(1.5%)	108(54%)	86(43%)	3.39
Unfairness in the Tax system	0(0%)	3(1.5%)	121(60.5%)	76(38%)	3.37
Wastage in the amount of money collected as taxes	41(20.5%)	12(6%)	71(35.5%)	76(38%)	2.91
Inability to pay tax	94(47%)	38(19%)	39(19.5%)	29(14.5%)	2.02
Low Punishment for tax evaders	70(35%)	46(23%)	43(21.5%)	41(20.5%)	2.28
Corruption on the part of some tax official	60(30%)	27(13.5%)	42(21%)	71(35.5%)	2.62
High inflation rate	0(0%)	0(0%)	117(58.5%)	83(41.5%)	3.42
Non-conducive business environment	9(4.5%)	9(4.5%)	105(52.5%)	77(38.5%)	3.25
Low profit accrued from business	6(3%)	7(3.5%)	101(50.5%)	86(43%)	3.34
Deliberate refusal to honour as obligations	76(38%)	76(38%)	39(19.5%)	9(4.5%)	1.91
Inability of Tax officials to collect taxes	43(21.5%)	19(9.5%)	72(36%)	66(33%)	2.81
Inability of taxpayers to identify the benefit of the taxes they pay to government	0(0%)	12(6%)	69(34.5%)	119(59.5%)	3.48

**Source: Field Study, 2015**

#### **4.4.1 High tax rate**

When the respondents were asked they could attribute tax evasion in the in the informal sector to the high tax rates, 6 (3%) said they disagreed to the statement while 194 (97%) rather agreed to the assertion. The findings show that majority of the respondents believed that high tax rate is a cause of tax evasion. A computed mean value of 3.39 confirms this observation. Some studies suggest that high tax rates increase the tax burden and hence, lower the disposable income of the taxpayer. This finding is in agreement with Allingham and Sadmo (1972) who also ascribed tax evasion to high tax rate charged on income.

#### **4.4.2 Unfairness in the Tax system**

In the opinion of 197 (98.5%) of the respondents, tax evasion could be ascribed to unfairness in the tax system while 3 (1.5%) of them disagreed to this statement. A computed mean value of 3.37 confirms this observation. The breakdown analysis shows that majority of the respondents believed that the tax system is unfair. According to them, their income levels are very low for the government to tax them. According to the respondents, their low income levels make them unable to meet their tax obligations, and besides, they do not benefit from the tax they pay. They therefore purported that, government should only tax those who benefit from her projects. This finding is also similar to the one identified by Clayton and Brown (1983) who said that people who benefit from government services should be the ones to pay for taxes and that people should honour their tax obligations according to the gains they receive from the government. It is different from what Salman (2014) posited that taxes should be compulsory irrespective of the benefits that one receives. In this regard, the respondents expect the government to exempt them from paying taxes.

#### **4.4.3 Wastage in the amount of money collected as taxes**

Again, when the respondents were asked whether they could associate tax evasion to large proportions of tax revenue wasted by governments, 53 (26.5%) said they disagreed while 147 (73.5%) rather agreed to the statement. According to those who agreed to the assertion, government revenues are not being used for the intended purposes but are rather used for other things to the detriment of the citizenry in the country. A computed mean value of 2.91 confirms this observation. The findings portray that, most of the respondents were of the view that large proportion of revenue from tax is wasted. According to them they are either embezzled by the tax officials or the government and her cohorts. This finding is different from the one identified by Sweeting et al. (2009), who identified the purpose of

whether

taxation as a means of sponsoring governments development programmes and not misused by the governments.

#### **4.4.4 Bad economic situations**

When the respondents were asked whether they could link tax evasion in the informal sector to bad economic situation in the country, it was revealed that 132 (66%) disagreed while 68 (34%) of them agreed. A computed mean value of 2.02 confirms the observation made. The result shows that majority of the respondents were of the view that they are incapable of paying taxes because of the bad economic situations in the country. According to them, when the bell of poverty rings in a country, people find it difficult to patronize their goods and services which eventually makes it difficult to meet their tax obligations.



#### **4.4.5 Low Punishment for tax evaders**

In replying to the issue of whether low punishment meted out to tax evaders is a major cause of tax evasion in the informal sector in the Kumasi Metropolis, 116 (58%) of the respondents disagreed while 84 (42%) rather affirmed it. The findings show that majority of the respondents were of the view that the punishment for tax evaders is not low. A calculated mean value of 2.28 confirms the observation made. This finding is in support to the one identified by Faseun (2001) that, the most important penalties for tax evaders include prosecution in court as criminals who could be asked to pay fines, penalties and sometimes jailed in prison. The strict implementation of this law in Ghana has been relaxed and this accounted for the high tax evasion among the informal sector in the Kumasi Metropolis.

#### **4.4.6 Corruption on the part of some tax officials**

When the respondents were asked whether corruption on the part of some tax officials is a cause of tax evasion, it was revealed that 87 (43.5%) disagreed with this statement while 113 (56.5%) agreed. A computed mean value of 2.62 supports the observation made. The result shows that majority of the respondents believed that one of the causes of tax evasion is corruption on the part of tax officials. This finding epitomises Otioku (1992) who also identified corrupt practices on the part of government official including the tax official as one of the causes of tax evasion. in the informal sector investigated the ethics of tax evasion.

#### **4.4.7 High inflation rate**

When the participants were asked whether inflation rate in Ghana is one of the cause s of tax evasion, it was revealed that 200 respondents representing 100% believe strongly that inflation is a major cause tax evasion in Ghana. This observation is supported with a

computed mean value of 3.42. High inflation renders the value of money low which makes cost of goods and services high. When this happens, profit margins are reduced and traders in the informal sector find it difficult to meet their tax obligations.

#### **4.4.8 Non-conducive business environment**

When the respondents were asked whether they could attribute the cause of tax evasion to unfriendly environment in which they trade, it was revealed that 18 (9%) disagreed to this statement while 182 (91%) agreed. A calculated mean value of 3.25 supports the observation made. The findings show that majority of the respondents were of the view that one of the possible causes of tax evasion is that the unconducive business environment. According to the respondents, poor and unhygienic environments do not auger well for business activities. People refuse to patronize goods and services traded at such environments. When an environment is not blissful for effective business activities, profit margins are reduced and payment of taxes become problem.

#### **4.4.9 Low profit accrued from business**

In another development, when the respondents were asked whether low profit from their business is a cause of tax evasion, the study revealed that 13 of the respondents representing 6.5% and 187 respondents representing 93.5% disagreed and agreed respectively to this statement. A calculated mean value of 3.34 supports this observation. The findings show that majority of the respondents were of the view that one of the causes of tax evasion is low profit from the business. The finding vindicates the one identified by Beattie (2010) who opined that taxpayers refuse to honour their tax obligations when their profit margins are lower than expected.

#### **4.4.10 Deliberate refusal of taxpayers to honour their Tax**

When the respondents were asked whether they deliberately do not want to pay their tax obligation can be a reason for tax evasion, it was revealed that 152 respondents representing 76% disagreed to this statement while 48 of the respondents representing 26% agreed. This observation is confirmed by the computed mean value of 1.91. The findings show that most of the respondents were of the view that people in the informal sector do not deliberately ignore payment of tax, their inability to pay the taxes could be attributed to other factors such high tax rate, inflation, unfair tax system among others.

#### **4.4.11 Inability of Tax officials to collect taxes**

When the respondents were asked whether they could associate the inability of tax collectors to come for the tax is one of the reasons why people in the informal sector evade tax, it was revealed that 61 (30.5%) disagreed while 138 (69%) agreed to this statement. A calculated mean value of 2.81 substantiates this observation. The findings show that majority of the respondents were of the view that the tax officials do not come for their taxes regularly.

#### **4.4.12 Inability of taxpayers to identify the benefit of the taxes they pay to government**

When the respondents were asked whether their inability to identify the benefits of taxes they pay to the government could cause them to evade tax, it was revealed that 12 (6%) of the respondents disagreed to this statement while 188 (94%) agreed. A computed mean value of 3.48 supported the observation made. The findings show that majority of the respondents were of the view that one of the causes of tax evasion is the inability of taxpayers to identify the benefits of the taxes they pay to the government. The inability of the taxpayers to identify the money value of their taxes could be due to inability of the government to educate the taxpayers on the purposes of their taxes. This finding is also

analogous to the one identified by Orewa (1962) and Kiabel (2001) who attributed tax evasion to lack of education on the uses of tax revenue by the government.

In summary, the causes of tax evasion when rank from the most cause to the least are: most people do not see the benefit of taxes paid to the government. High inflation, tax rate are too high, the tax system is unfair, low profit from business, the business environment is not conducive, large proportion of money collected is wasted, tax officials do not come for the tax, corruption on part of the officials, punishment for tax evasion offenders is low, cannot afford to pay and deliberate do not want to pay.

#### 4.5 Reason for ineffective Tax Collection

In order to investigate the factors that militate against effective tax collection in the informal sector the view of one of the heads of Ghana Revenue Authority in the Kumasi Metropolis was sought through an interview.

In the opinion of the respondent, the causes that militate against effective tax collection are put in Table 4.4 below and discussed using the Miles and Huberman (1994) thematic analysis framework, where labels are grouped into minor themes and then further grouped into major themes and discussed.

**Table 4.4: Interview with head of Tax Collection of GRA**

Major Themes	Minor Themes	Labels
Reasons for ineffective tax collection attributed to tax officials	Hindrances to the collection of taxes in the informal sector	Inability to track taxpayers, lack of education on the part of the taxpayers in understanding the tax laws make many people evade tax
	The nature of rapport	Poor rapport between tax officials and taxpayers; corrupt practices on the part of some tax officials.

	Enforcement of Tax Laws/Punitive measures for tax offenders	<p>Lapses in the enforcement of tax laws in the Kumasi Metropolis.</p> <p>Clamp down on taxpayers who default in order to serve as a deterrent to others who do not want to honour their civic responsibilities.</p> <p>There are no punitive measures for tax offenders in Ghana.</p>
Reasons for ineffective tax collection attributed to taxpayers	Declaration of income by tax payers	Non-declaration and under-declaration of income by taxpayers;
Reasons for ineffective tax collection attributed to Government	Inadequate logistics and training of personnel to carry out tax collection	<p>Lack of motivation for tax officials.</p> <p>Insufficient logistics or tools for the staff to carry out their tax operations effectively.</p> <p>Inadequate technology,</p>
	Effect of size of informal sector on tax evasion	High tax collector to payer ratio.

**Source: Field data, 2015**

#### **4.5.1 Reasons for ineffective tax collection attributed to tax officials**

This major theme emerged from minor themes such as “hindrances to the collection of taxes in the informal sector”, “the nature of rapport between tax officials and taxpayers” and “enforcement of tax laws/punitive measures for tax offenders”. The first of the minor themes to discuss in detail is the hindrances to the collection of taxes in the informal sector.

#### **4.5.1.1 Hindrances to the tax collection of taxes in the informal sector**

In finding out the reasons for ineffective tax collection in the informal sector, the respondent attributed it to the “inability of tax officials to track taxpayers” due to the fact that “there is no formalized system to identify, assess and collect tax from each taxpayer”. This could be attributed to the nature of the informal sector which is made up of hawkers, artisans, food vendors, tailors, seamstress and others who by the nature of their businesses make some of them migrate to market and other places as and when they are needed. It therefore makes it difficult to trace and assess their income and taxes accordingly. In addition, since most of them do not have permanent addresses, effective monitoring becomes a problem which leads to tax evasion. This finding is similar to the one identified by Orewa (1962) who also shared the same views with the respondent. According to Orewa, since most of the taxpayers in the informal sector do not have permanent addresses, effective monitoring becomes a problem, which may lead to tax evasion.

The respondent also maintains that if tax officials are well equipped, trained and motivated, then it would invariably lead to high revenue mobilization. He suggested that if an individual effort leads to the discovery and retrieval of a huge sum of money, the officer in question should be promoted or be given incentive to boost his performance and set a good example for others to emulate in order to increase national tax revenue.

#### **4.5.1.2 The nature of rapport**

The respondent claimed that there is “poor rapport between tax officials and taxpayers.” Some taxpayers see the tax officials as their enemies and distance themselves from them. This could be attributed to the perception they have regarding the tax officials as people who take away their money without using it for the purposes it was intended to be used

for.

Presently, however, there has been steady improvement in the relationship which clearly demonstrates the motto of GRA, which is fairness, integrity and services. This epitomizes the GRA vision to become a world class revenue administration recognized for its 'professionalism, integrity and excellence'. The above can ultimately be achieved through friendly client services, promotion of voluntary compliance, application of modern technology, effective border protection and a well-trained, disciplined and highly motivated staff.

#### **4.5.1.3 Enforcement of Tax Laws/Punitive measures for tax offenders**

According to the respondent, there are "lapses in the enforcement of tax laws in the Kumasi Metropolis." The respondent shared the same view with taxpayers who attributed massive tax evasion among taxpayers to lack of implementation of the tax laws to non-tax law abiders. The tax laws are not strictly applied or implemented even though GRA is still sensitizing the public on their tax obligations aimed at achieving voluntarily tax compliance by taxpayers. He, however, declared the intention of GRA to: "clamp down on taxpayers who default in order to serve as a deterrent to others who do not want to honour their civic responsibilities." On contrary, the respondent disagreed to the assertion made by some taxpayers that "there is no punitive measures for tax offenders in Ghana". However, according to Hasseldine (1993) and Song & Yarbrough (1978), Otiaku (1992), there are a number of punitive measures that could be meted out to tax evaders with the most serious of them being imprisonment.

#### **4.5.2 Reasons for ineffective tax collection attributed to taxpayers**

The respondent attributed low tax collection in the informal sector in Kumasi Metropolis to “non-declaration and under-declaration of income by taxpayers”. Tax evaders believe that the tax officials will levy them according to the income they declare. In view of that they deliberately under declare or falsify and manipulate their income in order to reduce their tax burden. This confirms the findings of Smith and Kinsey (1987), who found that non-declaration of income and under-declaration of income are some methods employed by some people in the informal sector to evade tax. This behaviour reduces tax revenue and eventually reduces development of a country

#### **4.5.3 Reasons for ineffective tax collection attributed to Government**

Two minor themes that emerged were “inadequate logistics and training of personnel to carry out tax collection” and “effect of size of informal sector on tax evasion”. Some of the comments made by the respondent for ineffective tax collection was: “lack of motivation for tax officials”, “insufficient logistics or tools for the staff to carry out their tax operations effectively” and “inadequate technology”. The logistics or tools available for tax officials to collect taxes are inadequate. This undermines the effort required by the tax officials in collecting taxes. The knowledge and skills of tax officials need to be continually upgraded in terms of training, seminars, workshops just to mention but a few, to meet the current trend of tax laws in the fast growing corporate business environment. This is in consonance with the finding of Ayua (1999) and Abiola and Asiwah (2012), who identified inadequate training of personnel and supply of logistics as factors which lead to error making in the assessment or complete exclusion of some taxpayer’s names from the tax list book which eventually reduce the tax revenue.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION**

#### **5.0 Introduction**

This final chapter presents the summary of the main findings, conclusions, recommendations and areas for further research. In this chapter, the brief summary of findings based on the objectives set have been presented. Also, the conclusions based on the findings and the subsequent recommendations obtained in the study have been outlined.

#### **5.1 Summary of Findings**

Below is a summary of the various findings, which are in line with the objectives set for the study.

##### **5.1.1 Taxpayers Knowledge of Ghana's Tax system**

The study has revealed that the majority of the respondents in the informal sector has some form of idea about the existence of taxation in Ghana but could not identify any tax type apart from the personal income tax. Most of the respondents were unaware that paying tax is compulsory. Again, the majority of the respondents did not pay their taxes regularly and were unaware of any penalties for not paying taxes. Also, most of the respondents could not differentiate between tax avoidance and tax evasion. The study has also revealed that, the majority of the respondents could not indicate where to pay their taxes, the amount of money to pay as tax and the penalties associated with tax evasion with one of them being imprisoned. The study also indicated that, many of the respondents had not received any education on tax related issues. Lack of understanding of tax laws has led to non-

compliance resulting in a loss of revenue to the Ghana Revenue Authority and the nation at large.

### **5.1.2 Causes of Tax Evasion in the Informal Sector**

According to the study, the majority of the respondents attributed tax evasion in the informal sector to the high tax rate, a greater percentage of the respondents indicated unfairness and more wastages of tax collection on the tax system. The study also revealed that: high tax rate, corrupt practices on the part of some tax officials, low profits from business and the fact that people do not see the benefit they derive from government for paying their taxes were the main reasons why people evade taxes in the informal sector.

### **5.1.3 Factors that Militate Against Effective Revenue Collection GRA**

It was revealed in the study that due to the large size of the informal sector, effective monitoring of every taxpayer becomes a challenge. It was revealed that there is no formalized system to identify, assess and collect tax from each taxpayer. Again, the study found that because the traders migrate from one place to another as to when the need arise, it makes it difficult to trace and assess them to collect their taxes as expected. Also, since the traders did not have workplace addresses, and the staff of GRA did not have logistics and are unmotivated to carry out their operations, effective monitoring of taxpayers in the Kumasi Metropolis was a problem and this eventually leads to tax evasion.

### **5.2 Conclusion**

The study focused on tax evasion in the informal sector. Specifically, it addresses the taxpayers' understanding of the tax system in Ghana, the causes of tax evasion and factors that militate against effective tax collection. The study concludes that: most of the taxpayers

have heard about taxation, but do not understand tax evasion. It can also be concluded that the taxpayers in the informal sector do not fully understand and are not aware of their tax obligations as required by the tax laws. The study concludes that those engaged in the informal sector do not pay taxes because they do not see the benefit of taxes they pay to the government.

KNUST

### **5.3 Recommendations of the Study**

Based on the findings of the study, the following recommendations are put forward:

#### **5.3.1 Recommendations for Ghana Revenue Authority**

Most of the workers engaged in the informal sector were of the view that they do not know of any tax type and also are aware that paying of tax is compulsory. It is therefore recommended that people who engaged in the informal sector activities be educated on the various tax types and also make them aware and be responsible in paying their taxes regularly. The people working in the informal sector are not aware of the penalties for not paying taxes. It is therefore recommended that the taxpayers should be educated on the penalties for not paying taxes. There is no formalized system to identify, assess and collect tax from taxpayers within the informal sector. It is therefore recommended that the Ghana Revenue Authority should formalize the system by registering all the traders within the informal sector so that they will be in the position to make out, evaluate and collect the needed taxes from the taxpayers.

#### **5.3.2 Recommendations for Kumasi Metropolitan Assembly**

It is recommended that, KMA, periodically, should liaise with GRA to educate the informal sector of the difference between metropolitan tax and income tax and the role both play to our national development. To this end, KMA should provide statistics of all traders with a

unique number within the informal sector in the metropolis to GRA for easy monitoring in respect of tax collection. KMA should add to the voice of GRA by advising traders in the sector to also register with GRA after their initial registration at KMA.

### **5.3.3 Recommendations for Government**

High tax rate was identified as a major cause of tax evasion in the informal sector. It is therefore recommended that the government should endeavour to pursue policies that will reduce the tax rate in the economy. When employees are motivated and well equipped with the appropriate logistics; there is a high tendency that performance will increase. It is therefore recommended that government should supply the needed equipment vital to the work of the tax officials.

### **5.3.4 Recommendations for further research**

Due to time and financial constraints, this study is limited to the informal sector in the Kumasi metropolis in the Ashanti region. In order to make a broad view of the findings, it is suggested that an analogous study should be conducted in other regions in Ghana.

## REFERENCES

- Abdallah, N. (2008). *Taxation in Ghana, principles, practices and planning (2<sup>nd</sup> edn.)*, Accra; Black mask publications.
- Adebisi, J. F. & Gbegi, D.O. (2013). Effect of Tax Avoidance and Tax Evasion on Personal Income Tax Administration in Nigeria. *American Journal of Humanities and Social Sciences*, Vol. 1, No. 3. Pp 42
- Adom, D. (2000). *Resource Mobilisation for Economic Development: The Role of Tax Administration*. Paper presented to Ad Hoc Expert Group Meeting on Strategies for Improving Resource Mobilization in Developing Countries and Countries with Economies in Transition. Montreal October, 2 – 6.
- Ali-Nakyea, A. (2008). *Taxation in Ghana, Principles, Practices and Planning (2nd ed)*, Accra: Blackmask Ltd. Pp 98
- Allingham, M. G. & Sandmo, A. (1972). Income Tax Evasion: A Theoretical Analysis. *Journal Of Public Economics*, 1: 323 – 338  
[www.taxlawsb.com/resources/estates/wash.htm](http://www.taxlawsb.com/resources/estates/wash.htm).
- Andrew, S. and Halcomb, E. (2009). *Mixed Methods Research for Nursing and Health Sciences*, Wiley-Blackwell, London.
- Anthony, K. A. (2012). Access to Credit and Growth of Small and Medium Scale Enterprises. *British Journal of Economics, Finance and Management Sciences*, 6(2).
- Atkinson, P. (1977). Articles on the concept of Taxation. Retrieved November 20<sup>th</sup> 2011 from <http://www.paperspast.natlib.govt.nz/cgi-bin/paperpast>
- Ayodele, O. (2006). “Tax Policy Reform in Nigeria”, World Institute for Developmental Economic Research (WIDER) Research Paper, Vol. 2006/03. Finland: UNItWIDER. Retrieved from:

<http://www.wider.unu.edu/publications/workingpapers/researchpaperg/2006/enGB/200003/>.

Ayua, L.A. (1999). *The Nigerian Tax Law*, Ibadan: Spectrum Law Publishing.

Baldry, J.C. (1986). *Tax evasion is not a gamble: a report on two experiments*. Economics Letters, Vol. 22

Bardopoulos, A. M. (2015). *eCommerce and the Effects of Technology on Taxation: Could VAT be the eTax Solution?* (Vol. 22). Springer.

Beattie, A. (2010). Element of income and capital gain Taxation. Retrieved December 2, 2011 from [http://www.nmlites.org/standards/social\\_studies](http://www.nmlites.org/standards/social_studies).

Bird, Richard M. (2003). "Administrative Dimensions of Tax Reform." International Tax Program Paper 0302, online: University of Toronto. <http://www.rotman.utoronto.ca/iib/>

Brealey, R.A., & Myers, S.C. (2000). *Principles of Corporate Finance* (6th ed). Boston, Irwin, McGraw-Hill. p. 72.

Clayton, E.G and Brown E.J (1983). *Economics, principles and practices*. Columbus; Merrill Publications.

Drine, I.(2009). *Informal Sector and Domestic Resource Mobilization*. Paper presented to Development Finance Network (DEFiNE) Meeting on Domestic Resource Mobilisation for Development Policy Solutions in Times of Crisis, Paris, France, September, 24.

Dubin, J. A. (2004). Can Brute Deterrence Backfire? Perceptions and Attitudes in Taxpayer Compliance: Commentary', in Slemrod, Joel (ed.), *Why People Pay Taxes: Tax Compliance and Enforcement*, Ann Arbor, University of Michigan Press, 219-222.

- Errard, B. & Feinstein, J.S. (1994). Honesty and Evasion in the Tax Compliance Game. *Rand Journal of Economics*, Vol. 25, No. 1, pp. 1-20.
- Evans, M. R (2009). "Aba Women's Riot (November — December 1929)". Blackpast.org Retrieved from:  
<http://www.blackpast.org/?q=gab/abawomensriots>.
- Faseun L.A. (2001). "Tax Planning" *Lagos Tax the Newsletter of CITN*, Lagos: District Society 1 (1).
- Franklin D. Roosevelt: "Address at Worcester, Mass.," October 21, 1936. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*.  
<http://www.presidency.ucsb.edu/ws/?pid=15201>.
- Gordon, J.P.F. (1989). Individual Morality and Reputation Costs as Deterrents to Tax Evasion. *European Economic Review*, Vol. 33, pp. 797-805.
- GAO, (2006). *Tax compliance: Challenges to corporate tax enforcement and options to improve securities basis reporting*. United States Government Accountability Office.
- Gberegbe, F. B. (2007). *Tax Administration in Nigeria: Concepts and Practice*. Nigeria: Fredsbary Printers and Publishers.
- Gërkhani, K. (2004). Tax evasion in transition: Outcome of an institutional clash? Testing Feige's conjecture in Albania. *European Economic Review*, 48(4), 729745.
- Ghana Statistical Service. (2012): 2010 Population and Housing Census Final Results, Ghana Statistical Service, Accra, Ghana.
- Guppy P, Mercier J (2008): Washington policy Principles of taxation for elected officials, <http://www.washingtonpolicy.org/Centers/government/policynotes>. Accessed on 15th February, 2016.

- Gupta, A.S. (2007). Determinants of Tax Revenue Efforts in Developing Countries, IMF Working Paper WP/07/184 July.
- Hasseldine, D. (1993). *The Effect of Different Sanction Communications on Hypothetical Taxpayer Compliance: Policy Implications from New Zealand*. Public Finance, 45-60.
- ILO (2002). "Women and Men in the Informal Economy: A Statistical Picture".
- James, S. Nobes, C., & Channon, G. (1978). *The economics of taxation* (p. 102). P. Allan.
- Kemal, M. A. (1961). A Fresh Assessment of the Underground Economy and Tax Evasion in Pakistan: Causes, Consequences, and Linkages with the Formal Economy. Working Papers & Research Reports, 2007, 2007-13.
- Kiabel, B. D. (2001). *Personal income Tax in Nigeria*, Owerri: Springfield Publishers.
- Kirchler, E., Hoelzl, E., and Wahl, I. (2008). Enforced versus voluntary compliance: The "slippery slope" framework. *Journal of Economic Psychology*, 29.
- La Porta, R., & Shleifer, A. (2008). The Unofficial Economy and Economic Development, SSRN e-Library.
- Lyons, S.M. (1996). *International Tax Glossary*. Amsterdam; IBFD Publications.
- Mensah, C. A. (2014). Is Kumasi Still a Garden City? Land Use Analysis between 1980-2010. *Journal of Environment and Ecology*, 5(2), 89-107.
- Meyer, R.F., & Johnson, W.T. (1977). *Deterrence as Social Control: The Legal and Extralegal Production of Conformity*. *American Sociological Review*, 42 Pp. 292-304.
- Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook*. Sage.

- Muhammed, M.M., Muhanimed, A. (2012). 'Reasons of Tax Avoidance and Tax Evasion': Reflection from Parkistan.
- OECD, (2012). Forum on tax administration: SME compliance sub-group, reducing opportunities for tax non-compliance in the underground economy.
- Ofori, E. G. (2009). Taxation of the informal sector in Ghana: A critical examination. Institute of Distance Learning, KNUST, Kumasi.
- Orewa, G. O. (1962). *Tax avoidance and tax evasion*. Great Clarendon; Oxford University Press.
- Otieku, J. K. (1992). A look at factors affecting efficient income tax administration in Ghana. *Journal of management studies*, 8, 347-379.
- Pommerehne, W., Hart, A. & Frey, B. (1994). 'Tax Morale, Tax Evasion and the Choice of Policy Instruments in Different Political Systems': *Public Finance*, 49, 52-69.
- Porcano, T. M. (1988), 'Correlates of Tax Evasion', *Journal of Economic Psychology*, 47-67.
- Salman, A. (2014). value added tax and economic growth of Nigeria: an empirical investigation (doctoral dissertation, department of accounting, faculty of business administration, imo state university, owerri).
- Schneider, F. (2002). *Size and measurement of the informal economy in 110 countries around the world*. Department of Economics, Johannes Kepler University of Linz, Austria.
- Schneider, F. and Klinglmair, R. (2004). *Shadow economies around the world: what do we know?* Working Paper Series 2004-03, CREMA, Basel, available at [www.crema-research](http://www.crema-research).
- Silverman, D. (2002). Taxes in Ancient Egypt. Retrieved August 2, 2015 from

<http://www.upenn.edu/almanac/v48/n28/AncientTaxes.html>

- Slemrod, J., & Yitzhaki, S. (2002). Tax avoidance, evasion, and administration. *Handbook of public economics*, 3, 1423-1470.
- Slemrod, J. (2007). Cheating ourselves: The economics of tax evasion. *The journal of economic perspectives*, 21(1), 25-48.
- Slemrod, J., & Weber, C. (2012). Evidence of the invisible: toward a credibility revolution in the empirical analysis of tax evasion and the informal economy. *International Tax and Public Finance*, 19(1), 25-53.
- Smith, K. W. & Kinsey, K.A. (1987). Understanding Taxpayer Behaviour: A Conceptual Framework with Implications for Research. *Law and Society Review*, Vol. 21
- Song, Y. D. & Yarbrough, T.E. (1978), "Tax ethics and taxpayer attitudes: a survey", *Public Administration Review*, Vol. 38 No. 5, pp. 442-52.
- Sweeting, J., Johnson, T., & Schwartz, R. (2009). *Anti-contraband policy measures: evidence for better practice - summary report*. Special report series. Toronto, The Ontario Tobacco Research Unit.
- Trivedi, U. & Shehata, B. (2005). Attitudes, Incentives and Tax Compliance.
- Yin, R. K. (2003). *Case Study Research: Design and Methods (Applied Social Research Methods)* Sage Publications.

## **APPENDIX A**

### **QUESTIONNAIRE FOR PEOPLE ENGAGED IN THE INFORMAL SECTOR**

This questionnaire is for academic purpose only, which is part of a final year project on the research topic "Tax evasion in the informal sector in the Kumasi Metropolis". This is to elicit views on the above topic and responses to this survey are confidential. Please do not include your name on this survey.

Please tick where appropriate.

## Questionnaire for the Informal Sector

### Section A: Demographic Characteristics

1. Gender (a) Male  (b) Female
  
2. Age Group (a) 21-30  (b) 31-40  (c) 41-50   
(d) 51-60  (e) 61 and above
  
3. Marital Status  
(a) Single  (b) Married  (c) Separated  (d) Divorced  (e) Widowed
  
4. Level of Education  
(a) No formal Education  (b) Primary  (c) Secondary   
(d) Tertiary  (e) Others Specify [.....]
  
5. How long have you been in business?  
(a) 1-3 years  (b) 4-6 years  (c) 7-9 years  (d) 10 -12 years   
(e) 13 years and above
  
6. What is the nature of your business?  
(a) Trader  (b) Food Vendor  (c) Artisan   
(d) Others Specify [.....]
  
7. Religion  
(a) Christian  (b) Moslem  (c) Traditionalist   
(d) Others Specify [.....]

### Section B: Informal Taxpayers understanding of the Tax system

8. Have you heard about Tax?  
Yes  No
  
9. If yes, do you know of any tax type?  
Yes  No

10. Indicate the tax type

Income tax [ ] b. Withholding tax [ ] c. Gift tax [ ] 4. Rent tax [ ]

11. Are you aware that paying of tax is compulsory?

Yes [ ] No [ ]

12. Do you know when to pay your tax? Yes [ ] No [ ]

13. If yes, do you pay your tax regularly?

Yes [ ] No [ ]

14. Do you know of any penalties for not paying your Tax?

Yes [ ] No [ ]

15. Have you ever heard about tax avoidance?

Yes [ ] No [ ]

16. Do you know where to pay your tax?

Yes [ ] No [ ]

17. If yes, state the place.....

18. Do you know with certainty, the amount you are expected to pay as tax?

Yes [ ] No [ ]

19. Are you aware of the importance of paying tax?

Yes [ ] No [ ]

20. If yes, state the importance of tax to the government.

.....  
.....

21. Do you know that failure to declare the correct returns or income can amount to tax evasion?

Yes [ ] No [ ]

22. Do you know you could be imprisoned for tax evasion?

Yes [ ] No [ ]

23. Do you receive enough education on tax matters?

Yes [ ] No [ ]

### Section C: Causes of Tax Evasion

To what extent do you agree or disagree to the causes of tax evasion in Ghana.

Modified questionnaire of (Adeniran, 2011).

	Variable	Strongly disagree	Disagree	Agree	Strongly agree
24	Tax rate are too high				
25	Tax system is unfair				
26	Large proportion of money collected is wasted				
27	Cannot afford to pay				
28	Punishment for tax evasion is not severe				
29	Corruption on part of tax official				
30	Expenses of running a business are too high				
31	The business environment is not conducive				
32	There is low profit from business				
33	Deliberately do not want to pay				
34	Tax officials do not come for the tax				
35	People do not see the benefit of the taxes they pay to government.				

### APPENDIX B

### INTERVIEW GUIDE FOR GHANA REVENUE AUTHORITY STAFF

#### (HEAD OF COLLECTION)

### Section D: Factors that militate against effective tax collection in Ghana

1. How does the size of the informal sector affect tax collection by your

- outfit? .....
2. What are some of the hindrances to the collection of taxes in the informal sector?.....
  3. Do you have adequate personnel and logistics in place to carry out tax collection?.....
  4. To what extent are the tax laws in Ghana enforced by your outfit? .....
  - ....
  5. Are there stringent punitive measures for tax offenders in Ghana? .....
  - ....
  6. What is the nature of rapport between tax officials and taxpayers? .....
  - .....
  7. Identify the factors that militate against effective tax collection in the informal sector.....
  8. What behaviour on the part of tax officers hinders tax collection in the informal sector?.....

***Thank you for your time spent in responding to the questions.***