

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND
TECHNOLOGY (KNUST), INSTITUTE OF DISTANCE LEARNING
(IDL).**

**ENCOURAGING GROWTH AND FORMALIZATION OF SMALL
BUSINESSES THROUGH TAX REFORMS: A STUDY OF THE
TAMALE METROPOLIS IN THE NORTHERN REGION.**

By
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DECLARATION

I hereby declare that this submission is my own work towards CEMBA and to the best of my knowledge, it contains no material which has been accepted for the award of any other degree of the university or elsewhere, except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to my parents, Mr. Dominic Savio Akolgo and Mrs. Helen Asoemah Akolgo , and most especially to my mother who, though not formally educated, understood that the only legacy to bequeath to me is formal education. May this work also inspire my children, Evelyn Apuuripeeya Ayugane, Frank Adolwine Ayugane, and Gloria Apegwine Ayugane, to strive to achieve higher academic and professional laurels.



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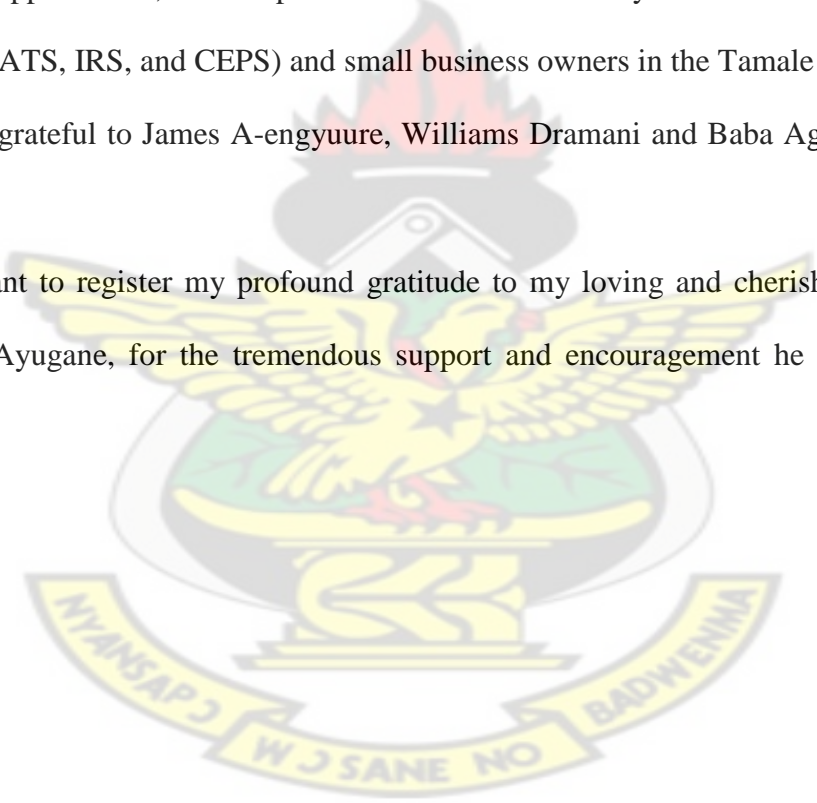
Whilst thanking God for seeing me through the graduate studies program. I acknowledge in a very special way, the support given me by my family especially my husband.

I appreciate the guidance of my supervisor, Mr. Baba Hanan, who offered very critical direction for the completion of this work.

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ABSTRACT

The Many countries depend on taxation to generate the required financial resources for developmental purposes. In the light of this, Governments have, over the last five years, come up with various tax reform policies aimed primarily at improving revenue mobilization and economic growth most of which have not aided in meeting revenue targets set by governments. Though governments have made attempts to encourage small businesses to formalize and grow, many of these firms continue to remain informal or though are formal, do not file tax returns. It is in this light that the study attempted to find out what might be hindering both governments and small businesses towards formalization and growth. The study specifically sought to examine small business tax reforms, the percentage that file tax returns, the challenges faced by small businesses and the revenue agencies in reforms. 92 small businesses, 9 key staff of the three GRA, and 20 other officers of GRA in the Tamale Metropolis were surveyed. It was revealed that, small businesses lacked information on reforms, 22 percent of small businesses file tax returns and some of them do not maintain proper records thus, hindering the efficient and effective operations of the GRA. It is thus recommended that Small business tax reforms should be well designed, clear enough to facilitate compliance in a way that will improve regular interactions between these businesses and the revenue agencies.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Many countries, including Ghana, depend on taxation as a means of generating the required resources to meet their expenditure requirements. These countries will likely find themselves in growing fiscal imbalance when their revenue productivity falls below their expenditure. The need for fiscal adjustment then becomes particularly necessary to restore balance in government budget. (The African Economic Research Consortium, 1998)

A strong and efficient tax system provides the basis for enhanced economic growth and development. The governance of fiscal policy, which controls the amount and structure of taxes, expenditure and the debt management, is a powerful instrument for stabilizing the economy. It ensures the efficient allocation of public resources and serves as a precondition for economic growth (Compos and Pradhan, 1996).

The only way to ensure that taxpayers receive real value for their money is when the government establishes a long term goal through investment and tax reforms. Investment and tax reforms will encourage the foundation for a stronger and more productive economy. An important element in any successful administrative reform is simplicity and enforceable laws to administer. It is equally important to simplify procedures for taxpayers, for example, by eliminating demands for unnecessary information in tax returns and payment invoices. The job is particularly difficult in developing countries with large informal sector, low levels of literacy and public morality, poor salary structure for public servants, poor communication, malfunctioning judicial systems and entrenched interests against radical reform (Auriol 1 and Warlters, 2002).

Despite such handicaps, the experience of several countries in recent years shows that substantial improvement can be achieved with determined effort and an appropriately designed strategy. What a tax administration can do, however, and how it can best be reformed depends largely upon the environment in which it operates.

Ghana's fiscal structure prior to 1983 had generally been characterized by low tax revenues compared with other developing countries in sub-Saharan Africa (ISSER, 2004). At the same time, the need to lay the foundation to propel higher economic growth resulted in persistent high fiscal deficits. The burden on the financial system, as a result of government resorting to the domestic economy to finance high deficits as well as the general deterioration of macroeconomic fundamentals during the period, precipitated the need to seek appropriate policy measures to set things right. In this direction the prescription offered by the International Monetary Fund (IMF) and the World Bank under the Economic Recovery Programme (ERP) and the Structural Adjustment Programme (SAP) became attractive.

Tax reforms constituted one of the essential ingredients of SAP and have assumed diverse dimensions over the past two and half decades. The overall reforms throughout the period have significantly impacted on domestic revenue outcomes in recent times. (WP/BOG-2009/01).

Since attaining independence, Ghana has introduced a number of tax reforms aimed primarily at improving revenue mobilization between 1984-2007 and quite recently in 2008 and 2009. The pre-tax reforms period covers the period 1970-1983 while the period 1984-2009 represents the post-tax reforms era. The evidence demonstrates that the tax

reforms have had considerable impact on the overall tax system and revenue performance in Ghana, especially in recent times. (Bank of Ghana Working Paper, August, 2009).

1.1.1 Reforming a Tax System for Small Businesses

Reforming a tax system for small businesses is not without complications. No single best practice can solve all the issues that arise in trying to implement a tax system that is simple, administrable and equitable. When small business taxation is considered solely from a revenue perspective, its potential for developing countries is often overlooked. The benefits of a wider tax base in the medium to long term may not seem to offset the comparatively high cost of administering small contributors. (ITD, 2007)

However, small business taxation should be seen as an entry point to formality. A good tax regime for small firms is a key policy tool to pave their way out of the “informality trap” of low growth, limited access to markets, and exclusion from formal financial services (Kenyon, Thomas, and Kapaz Emerson, 2005). A formal small business sector advances reciprocal relationships between the state and the majority of its citizens – those involved in small scale economic activities.

Innovative and successful taxation strategies to encourage formalization are in short supply, even though the parameters for a good regime seem relatively straightforward. Small business taxation should be designed with minimal compliance costs requirements commensurate with taxpayer capacity and skills (in accounting, for instance), and very few interaction with government officials to limit opportunity for corruption (FIAS, 2006). Compliance should be linked to the benefits of being formal. The administrative cost of dealing with small taxpayers must be kept to a minimum for resource and capacity constrained tax authorities. Combining and reconciling these objectives into detailed and

actionable strategy is difficult; tax policy makers always face trade-offs between simplicity, fairness, efficiency, and administrative feasibility

Informality comes at a price to both firms and governments. For many reasons, informal firms are less apt to grow and invest. Governments suffer both from lack of formal entrepreneurship that can drive economic growth and the loss of tax revenues to pay for public goods and services. Informal firms suffer one or more of the following:

- Firms in the informal sector need to operate under the radar of the tax administration. Therefore, they often prefer to restrict firm size and growth to avoid attracting attention.
- The lack of access to formal financial services limits firm investments.
- Informal firms are usually excluded from public procurement contracts, which often constitute a considerable part of economic activities in developing countries.
- Operating informally is not free of charge, informal firms may need to frequently change location or activities, pay bribes, or split their business into several smaller units at various locations.
- Informal firms tend to have lower productivity because they operate in an uncertain state and do not invest in their business and employees (In Practice, Business Taxation Feb,2009).

It is gratifying to note that the cost and process of formalization are among the reasons why businesses remain informal. A cross-country study of 75 nations by Djankov et al. (2000) indicates that the official cost of setting up a firm entails fees worth at best 1.4% of GDP per capita in Canada and at worst 260% per capita in Bolivia. On top of these official monetary expenses, the authors show that registering business can be very

complicated and time consuming. In the best case, establishing a new firm requires 2 days and 2 steps in Canada and in the worst case requires 82 days and 20 procedures in Bolivia. The study by Djankov et al (2000) concludes that firm entry barriers are higher in countries with lower GDP per capita. Thus, the main reason why many micro enterprises stay informal in developing countries is because becoming formal involves large fixed costs, most of them sunk. Official registration is simply beyond the reach of (informal) entrepreneurs.

The findings by Djankov et al (2000) is supported by a survey among MSEs in Ghana which revealed that, the costs and duration of business registration differ substantially, depending on the channel an entrepreneur chooses to register a business. However, even facilitating institutions mentioned (Registrar General's Department, Business Advisory Commission, and Post Office) reported registration costs varying from Ghc25.50 at the post office to Ghc60.00 at the Business Advisory Centers (BACs) with an average duration of 3 months. Entrepreneurs even paid up to Gh300.00 when a middleman was involved.

<http://www.businessenvironment.org/dyn/be/docs/147/DarkwaAmanor.pdf>.

1.2 STATEMENT OF THE PROBLEM

Many countries depend on taxation as a means of generating the required resources to meet their expenditure requirements. These countries will likely find themselves in growing fiscal imbalance when their revenue productivity falls below their expenditure. The need for fiscal adjustment then becomes particularly necessary to restore balance in the government budget. (The African Economic Research Consortium, 1998).

Governments have over the years, come up with various tax reforms policies aimed primarily at improving revenue mobilization. Most of these policy instruments have either not aided at all or done little to help in meeting the revenue targets set by the revenue agencies. As a result, governments have to finance deficits by borrowing internally and/or externally which often creates more problems especially for developing countries which have a relatively high ratio of Small and Medium size Enterprises (SMEs).

A broadened tax base through tax policy reforms and mobilizing of domestic resources is absolutely essential for sustaining poverty reduction over the long run. With the informal sector being effectively immune from taxation, governments of developing countries have fewer tax instruments than their counterparts in rich countries. Imposing taxes on some branches of the economy and not others creates high economic distortions. The average taxation ratio of developed countries as a proportion of GDP is estimated between 29 and 32%, whereas the corresponding range for developing countries in the medium income category was from 17 to 22%. The average taxation ratio in the poorest countries lies between 13 and 16 %.(Djankov et al, 2000).

The problem is a vast gap exists between tax payments required by law and those actually collected and surrendered to the state. The reason, among others, can be attributed to a large informal sector that is not completely captured on to the tax net. Though governments have made attempts to encourage small businesses to be formalized and thus enter the tax nets, many of these firms continue to remain informal. Something obviously is not right. The tax regime for small businesses is possibly not appropriate enough to motivate businesses to get formal and be captured under the tax net. It is in this

light that this research attempts to find out what might be hindering the efforts of both governments and small businesses alike towards formality and growth of the informal sector.

1.3 OBJECTIVES OF THE STUDY

Small firms constitute more than half of business establishments in most developing countries and in Ghana for that matter (WP/BOG-August 2009). For the various revenue agencies to raise the needed revenue for developmental purposes, small firms have to be given serious consideration in terms of revenue mobilization and compliance. Though it is generally believed that it is not economically feasible raising revenue from small firms, the saying by Internal Revenue Service (IRS) Ghana, “little drops of taxes build a nation” debunks this belief.

The general objective of the study is to assess tax reforms on small business to encourage growth and formalization. The specific objectives of the study are, therefore, to;

1. Examine the reforms in taxation on small businesses over the last five years.
2. Determine the percentage of small businesses in Tamale Metropolis that file tax returns.
3. Determine the challenges faced by small businesses in complying with tax reforms.

1.3.1 Research Questions

- What are the existing tax reforms?
- Have these reforms led to an increase in revenue generation/mobilization?
- What are the challenges encountered by the GRA in administering these reforms?

- What percentages of small businesses file tax returns?
- Has there been a growth in small businesses as a result of tax reforms?

1.4 SIGNIFICANCE OF THE STUDY

The state has over the years carried out policy reforms geared towards improving revenue mobilization in order to perform her duties effectively and efficiently. Ghana's fiscal structure prior to 1983 had generally been characterized by low tax revenue compared with other developing countries in sub-Saharan Africa (IMF ,African Department database,March,2007) Ghana's major changes in tax administration and fiscal policies played a key role in improving the country's revenue mobilization and overall fiscal health (Osei, 2006).

Since most workers in sub-Saharan Africa are employed in agriculture and in small enterprises (Gordon and Li, 2005) tax policy reforms geared towards this group would go a long way to improve revenue needed by governments in these economies to sustain these economies. The recognition of the fact that most of Ghana's labour force is employed in small enterprises and that their contribution to tax revenue is crucial in raising the essential revenue needed by government to spend on public goods and services for the benefit of the populace would encourage both government and small business to attach some seriousness to tax administration and compliance.

Also, challenges faced by the revenue agencies on one hand and small businesses on the other hand, in policy administration, collection, and compliance would be identified and possible remedies sought.

Moreover, given the similarities in the problems facing other developing countries especially those in Africa, it is the hope of the researcher that the findings in this study could prove useful to interested parties in these countries.

Lastly, this study will serve as a source of reference to students and other academicians as well as professionals in the field of social sciences and, in particular, business.

1.5 METHODOLOGY

The survey method was used because the research demanded information from the relevant divisions, sections, and targets within the units to be selected.

Furthermore, this method addressed the relationship among variables as well as the need to generalize this study to some extent.

1.6 SCOPE OF THE STUDY

Scoping was an important aspect in the design of the study. Determining the scope was key because common agreement and understanding was needed on what and who would be included or excluded in the study. In this context, scoping refers especially to the geographical, respondent and organization scope.

The scope was the Tamale Metropolis of the Northern Region. This Metropolis, it is generally believed, is the fastest growing city in West Africa and Ghana for that matter.

This will, therefore, make the study fairly representative

1.7 LIMITATIONS OF THE STUDY

One limitation of the research is the use of sampling. Ideally the whole target population should have been covered.

Another limitation has to do with sampling error. Sampling by its nature has some degree of error. There was skepticism on the part of small business owners to give information since the study was on taxes.

Notwithstanding the above, the researcher carried out the sampling in such a way that it will be fairly representative and the result of which could be applied to the whole of the target population.

1.8 ORGANIZATION OF THE STUDY

The study, organized under five distinct chapters, comprises the following:

Chapter One which will introduce the study by discussing issues such as the background of the study, the statement of problems, objectives and significance of the study, scope, limitations as well as the outline of the study.

The second chapter will be devoted to a thorough discussion and review of existing literature and research relevant to the research issues raised in the study. This section will discuss an overview of policy reforms aimed at improving revenue mobilization before focusing on tax policy reforms on small businesses.

Chapter Three outlines the methodology used for the study. This chapter will also describe and give details of the research methods and techniques used for the study.

Chapter Four presents and discusses findings of the study. Summary tables of statistical data and figures of results will be presented so that patterns in the mass of data presented can easily be seen and appreciated.

The final chapter presents the summary of findings, conclusions drawn and recommendations made.

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CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter will review related literature on tax reform by governments over the last two decades, those that are designed for small businesses and their effect on formality and growth on these businesses.

2.1 THEORIES OF TAX REFORM

Most developing countries appear to face severe budgeting pressures with rising demands for expenditures and limited scope for raising extra government revenue. In addition, the revenue systems which are in place may themselves generate strong impediments to efficiency, the expansion of the economy, the growth of the tax base, equity and the achievement of development objectives.

The taxation authorities-often inadequately staffed, institutionally weak and lacking in political support- are not in position to collect the amount outstanding (Menck, 1992). In a very real sense, “tax administration is tax policy” (Casanegra de Jantscher, 1990). As Tanzi (1991) has pointed out, tax administration has a crucial role in determining the real or (effective) tax system, as opposed to statutory tax system. Tax reform should therefore, be central to public policy and development planning and is seen as such by governments. It has also moved to the forefront of discussions in the international agencies (World Bank, 1998).

The Ghanaian experience with fiscal performance in the 1970-1982 periods was very disappointing. During this period, macroeconomic analyses and projections were not

exhaustively undertaken to provide a base for effective and consistent fiscal policy formulation.

Instead, fiscal measures were taken on an adhoc basis and haphazardly implemented. This led to the deterioration of the country's public finances and even worsened as a result of a rapid growth in government expenditure with a relatively low growth in revenues. Thus, budget deficits were the order of the day which was mainly financed by the banking system. Attempts to suppress the inflationary spiral through official control of domestic prices added a further setback to the government's economic policy (World Bank, 1984).

2.2 ADMINISTERING SMALL BUSINESS TAXATION

In many developing countries, the administration of small firms' tax is an afterthought for tax administrations and in technical assistance programs. This is due to the perceived low benefit-cost ratio of administering small contributions from a revenue perspective (In Practice Business Taxation-August 2009).

Whether or not a special tax is introduced, a special administrative approach for small firms is indispensable. Low compliance costs are essential to encourage formalization, because the time and financial burden of complying with tax reporting is relatively higher for small firms, (FIAS 2007). There is a growing conviction among tax policy specialists in developing countries that "policy change without administrative change is nothing" (World Bank, 1991).

The informal sector constitutes the largest sector in the economies of most developing and/or third world countries, therefore, for governments and their respective taxation

authorities to mobilize the needed domestic revenue for sustaining poverty reduction and to meet the Millennium Development Goal (MDG), the informal sector has to be weaved into the revenue web. This view is supported by US congressman Tiberi's submission on ' **Tax Reforms to Pitch Small Business**' when he said that "small business account for nearly 50 percent of both US Gross Domestic Product (GDP) and employment and are responsible for 64 percent of the net new jobs created over the last 15 years".(www.ktvz.com news)

Local government often plays a critical role in the tax administration of small operators. Metropolitan, Municipal, and District Authorities may inhibit the creation of formal enterprises. For example, small operators in Sierra Leone indicated in a FIAS survey that licensing costs and requirements are a key driver of continued informality. Coordination between government agencies is usually poor, with inconsistent local and central government policies and multiple non-transparent taxes, fees, and non-regulatory "licenses" at the local level. These dynamics provide ample opportunities for corruption and increases both compliance costs and administrative costs of local authorities (IMF Working Paper No.92/70).

In 2008, there were 46,842 traders registered in Ghana (up from 30,377 in 2006) of whom 36,000 filed tax returns, which represents only a fraction of the total number of businesses in the country. This is partly a function of tax evasion, and partly the result of the fact that many firms fall below the VAT threshold of Ghc10, 000.00 then, which is meant to protect small firms from excessively burdensome and unrealistic bookkeeping requirements, while maximizing the use of administrative resources (Ghana Report, 2009).

Governments have over the years come up with various tax reform policies aimed primarily at improving revenue mobilization. Most of these policy instruments have either not aided at all or done little to help in meeting the revenue targets set by the revenue agencies.

As a result, governments have to finance deficits by borrowing internally and or externally which creates more problems especially for developing countries which have a relatively high ratio of Small and Medium size Enterprises (SMEs).

At the beginning of the 1980s, the Ghanaian tax system was deeply in crisis. Central government taxation amounted to less than 5% of GDP, while the government relied on heavy exactions from the agricultural sector, and cocoa producers in particular, through pricing policy in order to raise enough revenue to maintain the most basic functions of government. The years since then have witnessed a dramatic reversal, as Ghana has become one of most effective tax collectors measured by tax per GDP ratios in sub-Saharan Africa, trailing only South Africa and Kenya (World Bank, 1984).

In an effort to bring small traders into the tax net, the government introduced the VAT Flat Rate Scheme (VFRS) in September, 2007 at a flat rate of 3 percent turnover. In principle, every trader is meant to be registered, irrespective of the VAT threshold, though the VAT Service estimates that only about 26.4 percent of potential informal sector traders are currently registered. (Ghana Report, 2009)

2.3 WHAT IS TAX?

Tax is a fee charged ("levied") by a government on a product, income, or activity. The purpose of taxation is to finance government expenditure.

Taxation has been defined by Kaldor N (1995), as “the impositions on the people by the sovereign powers are nothing else but the wages due to them that hold the sword to defend private men in the exercise of their several trades and callings”. This view is supported by (Oteiku James, 1992), who also defines taxation as “the subject, when properly taxed, contributes only some of his property in order to enjoy the rest”. Perhaps, the modern view of taxation stems from the common premise that no one can be an island for him/herself. Thus, the most appropriate definition of taxation is that by Goldsmith Selma F. (1951), who defined taxation as “the process whereby a state or government exacts contributions from its citizens or from the residents of its territory for the maintenance of the state machinery.

Taxes are also seen as compulsory extractions that involve personal obligations for common public purposes. Harley Lutz highlighted on this point when he noted that: “the modern viewpoint in taxation is a product of the growing social solidarity and sense of common social obligation that have characterized human progress during the last hundred years. The contributory factor in the modern concept emphasizes the greater social unity and the stronger sense of common burden and responsibility, which are features of modern life. All should therefore, contribute to its effective support”.

In Ali –Nakyea Abdallah (2008), taxation has been defined as the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities in which no specific reward is gained by the taxpayer. From the foregoing, taxes can be seen as compulsory payments made by tax payers to the government for the provision of public goods and services.

2.4 FORMS OF TAXES

Two broad classes of taxes can be identified. These are **direct taxes** and **indirect taxes**.

The basis of this differentiation is the extent to which a particular tax burden could be passed on to a third party (or the final consumer) by the initial taxpayer.

2.4.1 Direct Taxes

All taxes which cannot be passed onto third parties or the final consumer by the initial payer are considered as direct taxes. These include personal and corporate income taxes, capital gains and gift taxes (Victor Akakpo, 2007). Within the formal sector, the main direct taxes are income tax, capital gains tax, gift tax, rent tax and stamp duty. In the informal sector, the major ones are vehicle income tax (VIT) and tax stamp. Employee income tax is applied under the 'PAY AS YOU EARN' (PAYE) system. 'PAYE' is the routine deduction of tax at source from your income whenever you are paid. (WP/BOG 2009/01)

2.4.2 Indirect Taxes

Indirect taxes on the other hand, are those taxes, the burden of which can be transferred with relative ease by the initial taxpayer to third parties. This tax is levied on one person in the expectation that the tax will be shifted or passed on to another person. Here, the incidence and impact are on different persons.

Indirect taxes comprise Sales tax/VAT on both domestic and imported goods and services, petroleum taxes and excise duties. Prior to the introduction of VAT in Ghana, the excise tax system was perceived as better structured and therefore more efficient than the general consumption taxes.

Sales tax was imposed on goods and services at the manufacturing and import stages, whilst Value Added Tax (VAT) currently 12.5 percent (2.5 percent for GETFUND) is a tax applied on the value added to goods and services at each stage in the production and distribution chain and on imports. It forms part of the final price the consumer pays for goods or services. In some countries it is called 'Goods and Services Tax' or GST.

2.5 WHAT IS TAX REFORM?

Tax reform is the process of changing the way taxes are collected or managed by government. Tax reforms have different goals. Some seek to reduce the level of taxation of the people by government. Some seek to make the tax system more /less progressive. Some seek to simplify the tax system. Some may be trying to make the tax system more understandable and or more accountable. (http://en.wikipedia.org/wiki/Tax_reform).

Stein (1988) defines tax reforms as a movement away from some given status quo. According to the general theory of tax reform, it would be beneficial to switch taxation at the margin from i to j , if the marginal cost of tax i exceeds that of tax j . More generally, a tax reform is beneficial if it increases both revenue and social welfare.

Ghana's tax reform was part of the Economic Recovery Programme (ERP)/Structural Adjustment Programme (SAP) of the International Monetary Fund (IMF) and the World Bank (WB).

2.6 ELEMENTS OF TAX REFORM

- Imposing a small number of taxes with the broadest possible base and moderate rates

- Introducing VAT to replace sales tax in order to minimize disincentives for investment and exports
- Avoiding raising taxes on the poor and reducing their tax burden
- Avoiding tax incentives and shifting to broader, simpler tax bases on which lower rates are applied
- Minimising corporate tax evasion
- Lowering distortions that reduce economic welfare and growth (WP/BOG-August,2009)

2.7 POLICIES OF TAX REFORM

Governments must seek to improve the efficiency, quality and transparency of delivery of public services through fundamental reforms of the public financial management system. The real tax system facing people and businesses in most developing countries is not how the tax law is designed but rather the outcome from how the system is actually put into practice and very importantly how the tax administration and its role impacts the tax reform. As Tanzi (1991) has pointed out, tax administration has a crucial role in determining the real (or effective) tax system as opposed to the statutory tax system. There is a growing conviction among tax policy specialists in developing countries that changes in tax policy are compatible with administrative capacity (World Bank, 1991).

Very few developing countries have managed to establish their tax systems in such a way as to achieve appropriate level of revenue and to keep misallocations of tax revenue within tight bounds. In most other countries, neither has it been possible to ensure the

efficiency of public expenditure nor have the tax systems operated in conformity with economic policy objectives.

2.8 TAX REFORM IN SMALL BUSINESSES IN GHANA

2.8.1 Tax Stamp

The TAX STAMP was introduced by the Internal Revenue Service (IRS) Amendment Regulations, 2004. The system came into effect on Tuesday the 1st of February, 2005. It allows for easy identification of small scale self employed persons in the informal sector e.g. persons operating in kiosks, on table tops, identifiable groups such as hairdressers, dressmakers and tailors, butchers, market traders, chop bar and cooked food sellers, artisans such as masons, carpenters, welders, mechanics etc.

Under the tax stamp system, business operators in the informal sector are grouped according to business type and volume. The tax is paid quarterly in advance i.e. 15th January, 15th April, 15th July, and 15th October.

The classification of traders is done as follows:

Table 2.1

Class of Person	Sub-class of person		Rate
Type 2	Dressmaker/Tailor		
	Category A	Large kiosk	15
	Category B	Medium Kiosk	10
	Category C	Small Kiosk	5
Type 3	SUSU COLLECTOR		

	Category A	Cities	15
	Category B	Urban	10
	Category C	Rural	5
Type 4	CHOP BAR OWNER/COOKED FOOD SELLER		
	Category A	Large Kiosk	15
	Category B	Medium Kiosk	10
	Category C	Small Kiosk	5
	Category D	Table Top	3
Type 5	BUTCHER		
	Category A	Large Kiosk	15
	Category B	Medium Kiosk	10
	Category C	Small Kiosk	5
	Category D	Table Top	3
Type 6	Hairdressers/Beauticians & Barbers		
	Category A	Large Kiosk	15
	Category B	Medium Kiosk	10
	Category C	Small Kiosk	5
Type 7	GARAGE OWNERS		
	Category A	Cities	15

	Category B	Urban	10
	Category C	Rural	5
Type 8	DIAMOND/GOLD WINNERS & BUYERS		
A	Category A	Licensee	15
B	Category B	Sub-agent	10
C		40 footer container/large kiosk	15
D		20 footer container/medium kiosk	10
		Small kiosk/container	5
		Table top operation/Hawkers	3

<http://www.irs.gov.gh/downloads/16/16839.pdf>

2.8.2 Vat Flat Rate

VAT Flat Rate Scheme which was introduced in September, 2007 applies a marginal tax rate of 3%, representing the net VAT payable, on the value of taxable goods supplied. It is an alternative to the invoice credit method (or standard VAT system). The VAT Flat Rate Scheme which charges a given percentage on sales (in this case 3%) for each

transaction without recourse to input tax deduction. The scheme is restricted to all retailers of taxable goods, except those authorised by the Commissioner of the VAT Service to operate the invoice credit scheme (an authorisation which will be given in the interest of safeguarding national revenue) and will operate concurrently with the current invoice credit method. In addition, there is a National Health Insurance levy (NHIL) of 2.5 percent which applies on expenditures and transactions which is a contribution to the National Health Insurance Scheme. The threshold then was Ghc10, 000.00.

However, with effect from April 1, 2011, the threshold of the 3 percent flat rate was increased to Ghc90, 000.00 with the Amendments of the VAT Act 810. In this regard, retailers, wholesalers, service providers and manufacturers that fall within this category would be required to pay the monthly flat rate of 3 percent to the VAT Service. This was delivered in a speech read by Mrs. Rebecca Howard, a senior Revenue Officer of the VAT service at a workshop organized by the Ghana Revenue Authority (GRA) for traders in the Sekondi-Takoradi Metropolis on the 24th March, 2011.

[http://www.ghanaweb.com/ghanahomepage/News Archives](http://www.ghanaweb.com/ghanahomepage/News_Archives)

2.9 DEFINITION OF SMALL BUSINESS

There are no universally accepted small business definitions. What is regarded in the US as a small business by definition would often be regarded as a medium sized business elsewhere in the world. Small business definitions differ vastly in smaller countries like New Zealand, South Africa and Ghana to their bigger counterparts in the US and the EU.

The SME market may also be defined in terms of vertical markets (retail, distribution, manufacturing, etc) and horizontal markets (by size, hardware and software installed, services used, IT staff size, etc).

There are an estimated 15 million SMEs worldwide, of which only perhaps 2% have implemented CRM software. That makes this market the "Holy Grail to go after," stated Bruce Cleveland, senior vice president of SMB and On Demand at Siebel, at a news conference.

Siebel, however, seems to simply pigeonhole SME's as all companies with less than \$500 million in revenue. Not \$50 million or even \$5 million! They have also identified that SME's often prefer to do business at a local level, with a vendor in their geographical region. They have set up a dedicated SME division accordingly.

2.9.1 US Small Business Definitions according to SBA.gov

Interestingly, The Small Business Act of the US states that a small business concern is "one that is independently owned and operated and which is not dominant in its field of operation."

According to the SBA, a Small Business is defined as one that:

- is organized for profit;
- has a place of business in the United States;
- makes a significant contribution to the U.S. economy by paying taxes or using American products, materials or labor; and,
- does not exceed the numerical size standard for its industry. The business may be a sole proprietorship, partnership, corporation, or any other legal form.

There is an SBA small business size standard for every private sector industry in the U.S. Economy. The SBA uses the North American Industry Classification System (NAICS) to identify the industries.

Size Standards (usually stated in number of employees or average annual receipts) represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA's programs and for Federal contracting programs.

2.9.2 UK Small Business Definitions.

Small business definition in the UK is based on the one use by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share.

The **Bolton Report** also adopts a number of different statistical definitions. It recognised that size is relevant to sector - i.e. a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it. In broad terms, the SME (Small, Medium Enterprises) market can be defined as businesses employing between 20 and 499 employees. However, in South Africa, SMEs are also associated with Small office, Home office (SoHo) organisations.

Similarly, the Bolton Committee recognised that it may be more appropriate to define size by the number of employees in some sectors but more appropriate to use turnover in others. Across Government, it is most usual to measure size according to numbers of full-time employees or their equivalent.

A small business may be defined as a business with a small number of employees. The legal definition of "small" often varies by country and industry, but is generally under 100 employees. These businesses are normally privately owned corporations, partnerships, or sole proprietorships.

Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: small shops, hairdressers, lawyers, solicitors, accountants, restaurants, guest houses, photographers and so on. (www.Smallbizcrm.com).

2.9.3 Ghana Small Business Definition

Small Scale Enterprises have been variously defined, but the most commonly used criterion is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. As contained in its industrial statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as medium and large sized Enterprises. Ironically, the GSS in its national accounts considers companies with up to 9 employees as small and medium enterprises.

An alternate criteria used in defining Small Scale Enterprises is the value of fixed assets in the organization. However, The National Board for Small Scale Enterprises (NBSSI) in Ghana applies both the 'fixed assets and number of employees' criteria. It defines Small Scale Enterprises as one with not more than 9 workers, has plant and machinery (excluding land, building and vehicles) not exceeding 10 million cedis.

The Ghana Enterprise Development Commission (GEDC) on the other hand uses 10 million cedis upper limit definition for plant and machinery. Steel and Webster (1990), Osei et al (1993) in defining Small Scale Enterprises in Ghana used an employment cut-off point of 30 employees to indicate SSE. The latter however, disaggregated SSE into 3 categories;

- (i) micro-employing less than 6 people;
- (ii) very small, those employing 6-9 people and;
- (iii) small,-between 10 and 29 employees.

(<http://www.sed.manchester.ac.uk/idpm/research/publication/archive/fd/fdwp15/pdf>)

2.10 INFORMAL SECTOR TAXES

2.10.1 Taxation of the Informal Sector

In many respects, the greatest challenge to tax administrations around the world has been, and remains, the difficulty of taxing the informal sector. While it is difficult to estimate the precise size of these sectors owing to the fact that they are, by definition, hidden from official scrutiny, most estimates put the size of the informal sector at 30-60 percent of Gross Domestic Product (GDP) and at substantially higher shares of employment.

A recent study by Schneider and Klingmair (2009) estimates the size of the informal sector in Ghana at 38.4 percent of official GDP, while a recent report in Ghana estimates that over 80 percent of employed individuals are in the informal sector. While the revenue potential of this sector is relatively smaller than in the formal sector, and the undisputed presence of some very large operators, implies that significant revenue collection is possible (Ghana Report, 2009). This is consistent to the belief by the

researcher that tax reforms in this sector, the majority of who are in small businesses, is likely to encourage formalization and growth in business and the economy as a whole.

The government has shown an increasing desire to tax the informal sector, and has introduced several taxes to specifically target informal sector operators. These include the Vehicle Income Tax on public transport operators, the Tax Stamp for collecting income tax from small traders, and the 3 percent Flat Rate Scheme for expanding the reach of the VAT. These taxes all collect relatively very little income, but the government is determined to continue to expand their collection.

2.10.2 Total Tax Collection in the Informal Sector
Table 2.2

Year	Vehicle Income Tax GH¢	Tax Stamp GH¢	VAT Flat Rate Scheme GH¢
2005	6,299,584.61	926,643.03	N/A
2006	7,340,191.76	1,108,967.28	N/A
2007	7,796,509.05	1,879,872.44	2,691,356.37
2008	9,352,838.81	1,812,316.30	25,932,757.62

Source: Ghana Report (April, 2009)

Table 2.3 Total tax collected on Tax Stamp in the Tamale Metropolis

<u>Year</u>	<u>GHC</u>
2008	39,022.00
2009	27,000.00
2010	31,000.00

Source: GRA (IRS) Tamale Metropolitan Office

2.11 TAX REFORMS AND REVENUE MOBILISATION IN GHANA

An analysis of tax reform shows that reform in Ghana as studied by the (African Economic Research consortium, 1998) shows that tax reforms has had significant impact on the mobilisation of both the individual taxes and the overall tax system. All the individual taxes, except for cocoa export tax and excise duties, showed buoyancies and elasticity of more than unity during the reform period, thereby causing the overall tax system to have buoyancy and elasticity of more than unity. The sharp improvement in the revenue mobilisation during the reform period was due principally to the successive devaluations of the exchange rate. It was also supported by the large inflow of foreign loans, the abolition of the price control and import licensing system, the simplification of the import tariff rates, and the complete overhaul of the tax administration. The tax reform succeeded in improving revenue generation, enhancing the efficiency of the tax administration and improving equity in the tax system. It also removed market distortions and strengthened economic incentives. Despite this, the share of government revenue in GDP remains low compared with the average obtained in developing countries, which calls for ways to mobilize additional revenue.

Various revenue enhancement options were found to be available for use by the tax authorities. These options include the introduction of VAT to replace the existing sales tax, revaluation of properties to broaden the base of property tax, a review of the definition of income for the purposes of income tax, and further improvement in the tax administration to increase tax collection and to combat evasion and fraud. (African Economic Research Consortium. Nairobi, Kenya, 1998).

In the light of the above, it should be recognized that leakages in the system is a major contributor to the low revenue realized after all these efforts made towards enhancing revenue mobilization by various governments.

In a speech delivered by the Commissioner of Internal Revenue Service at the launch of the tax stamp on January 18th, 2005, Mrs. Janet Opoku Akyeampong Indicated that about three million people liable to pay taxes are in the informal sector. Regrettably, only 191,000 of them had registered with IRS as tax payers

An interesting feature of the government finances during the 1970–1982 period was that the current revenue was insufficient to cover the current expenditure, part of which had to be financed from capital receipts. In the 1972–1978 and 1979–1982 periods, for example, current revenue could only cover some 54.9% and 56.9% of total expenditure, respectively, leaving large deficits to be financed from capital receipts (Kusi, 1991).

The extremely poor fiscal performance in the period lies at the heart of the economic crisis the country faced. As the expenditure-revenue gap widened amid limited non-inflationary sources of finance, deficit financing became the principal source of the budgetary support, causing the share of government borrowing from the domestic banking system, mainly from the central bank, to increase from 49% in 1970 to 86% in 1982 (Kusi, 1991). The general monetization of the fiscal deficits and the resulting excess demand pressure accelerated the inflation rate, which caused a high over-valuation of the cedi and eroded real producer prices.

2.12 FORMALISATION

2.12.1 The Term “Formalization”

The issue of formalisation is quite complex, and we cannot generally state that the formal economy is good and the informal bad for society: *“The experiences indicate that no simple rule exists that increasing or decreasing ‘formalisation’ necessarily improves or worsens the well-being of the poor or welfare of society at large”* (Guha-Khasnobis / Kanbur / Ostrom 2006, 9).

The term “formalisation” is closely related to the term “informal sector”. Therefore, we discuss the phenomenon of the informal sector in the first place. There are many different concepts and definitions of the “informal sector”. According to Chen (2004, 5), the term was coined at the beginning of the 1970s by Hart (1973). However, until today the research community has not come up with a clear definition of what exactly the term means. Generally speaking, the view of the informal sector has changed.

According to Chen (2004), it is possible to distinguish between an old view of the informal sector and a new view of the “informal economy”.

2.12.2 Old view of the Informal economy

The informal sector is the traditional economy, which will wither away and die with modern, industrial growth.

- It is only marginally productive.
- It exists separately from the formal economy.
- It represents a reserve pool of surplus labour.
- It is comprised mostly of street traders and small-scale producers.

- Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation.
- Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.

2.12.3 New view of the Informal economy

- The informal economy is ‘here to stay’ and expanding with modern, industrial growth.
- It is a major provider of employment, goods and services for lower-income groups. It contributes a significant share of GDP.
- It is linked to the formal economy – it produces for, trades with, distributes for and provides services to the formal economy.
- Much of the recent rise in informal employment is due to the decline in formal employment or to the informalisation of previously formal employment relationships.
- It is made up of a wide range of informal occupations – both ‘resilient old forms’ such as casual day labour in construction and agriculture and ‘emerging new ones’ such as temporary and part-time jobs plus homework for high tech industries.
- It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and

- most non-standard wage workers would welcome more stable jobs and workers' rights.

Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses, and informal employment includes not only self-employment but also wage

employment. All forms of informal employment are affected by most (if not all) economic policies, Chen (2004, 15–16)

Accordingly, there are many definitions of the term “formality”. Commonly, one or more of the following three criteria are used to define a formal business: size (more than a certain number of employees), legal status (formal registration, permit, license etc.) and (human) capital intensity

of the technology used (more than a certain threshold amount of physical and/or human capital per worker) (Bigsten / Kimuyu / Lundvall 2004, 704).

2.12.4 Formalization and Business Growth

The most visible and well-received literature in this field is the Doing Business report series (World Bank / IFC 2004; 2005; 2006a; 2006b; 2007a; 2008; 2009). The report series assesses laws and regulations affecting private enterprises for a huge number of countries (183 in the most recent issue) and has a special focus on small and medium enterprises (SMEs).

Its main postulates are that the nature of the regulations for business enterprises is a key determinant of enterprise development and that lessening regulation and strengthening private property rights and contract enforcement will lead to a dynamic private sector and growth of the economy. With regards to SMEs – that in many cases operate on an

informal basis in Sub-Saharan African countries – one key assumption is that it is the cost associated with regulations that pushes firms into informality. Hence it is argued that lessening regulations will foster the formalisation and subsequently the growth of these firms (Djankov et al. 2002b).

Considering the statement that deregulation will translate into formalisation and development

of SMEs, it can be objected that many small informal firms in developing countries are driven more by necessity than by opportunity (Mead 1994; Altenburg / Eckhardt 2006, 19–22). These businesses are typically trapped in a vicious circle in which low skills, low capital formation, low productivity and low returns on investment reinforce one another.

Like most literature on enterprise development in developing countries, the present study targets relatively small businesses. Even though some authors question the potential of small firms to contribute to economic development (e.g. Naudé / Krugell 2002), most researchers broadly agree upon the important role of the MSME sector. This is mainly due to its contribution to employment creation (Esselaar et al. 2007, 87).

Since a large share of employees work in MSMEs, a dynamic MSME sector is, thanks to its contribution to income generation, of major importance for the economy. Moreover, from a policy perspective, focusing on smaller rather than larger firms “may contribute to rendering the industrial structure more balanced and reduce[ing] income inequality” (Altenburg / Eckhardt 2006, 7). Besides, it is generally believed that MSMEs in

developing countries can contribute substantially to increasing productivity and, as a consequence, to overall economic growth (Altenburg / Eckhardt 2006, 3).

2.12.5 Costs and Benefits of Formalization

The cost and benefits of formalization are plausible determinants of the formality status of an enterprise. Among the typical costs are the time and money spent to comply with regulations concerning the start-up (e.g. registration, licensing) and the operation of the business (e.g. taxes, social security contributions).

Typical benefits include:

- More certainty regarding the prospects of the enterprise,
- Less harassment by inspectors and fewer fines to pay
- Access to police and court services to enforce contractual rights
- No restrictions on growth and
- Acquiring visibility for the public and the authorities.

Two recent studies of a business simplification program in Mexico (Kaplan et al, 2006 and Bruhn, 2006) did not find much impact of reforms on registration amongst existing firms.

Thus, formality status would appear to be the result of a cost –benefit calculus of the entrepreneur with respect to these costs and benefits. This is consistent with the view that firms weigh the costs and benefits of becoming formal, with small firms seeing few benefits. However, particularly in the case of “necessity entrepreneurs”, the status of informality may also be a reflection of low capacity (e.g. illiteracy of the owner) and the poor economic performance of the business (low and irregular cash flow), which makes it virtually impossible to comply with (even simple and cheap) legal requirements.

(Formalization and Business Development in Mozambique, German Development Institute, Studies 53, Bonn 2010).

The evidence in the empirical literature for an impact of the regulatory business environment on formality of enterprises is mixed. Several studies using cross-country regressions report significant positive correlation between the cost or rigidity of regulations and the size of the informal economy.

From the foregoing, the researcher is of the view that formality in business deal with the appropriate procedure that is required by businesses to be recognized by the regulatory bodies.

2.13 REFORMS IN TAX ADMINISTRATION IN GHANA

Ghana has a relatively long history of tax administration. The first Customs Law was passed under colonial rule in 1855 and later replaced in 1876 by the Customs Law based on the U K Customs Consolidated Act, 1876. Income Tax was introduced in Ghana under the Income Tax Ordinance of 1943.

In the area of tax administration, significant reforms have been undertaken since 1986. The National Revenue Secretariat (NRS) was established in 1986 with the responsibility for supervising and coordinating the activities of Internal Revenue Service (IRS) and Customs Excise and Preventive Service (CEPS). The two services were transformed into an autonomous public sector institution under the Internal Revenue Law, 1986 (PNDC Law, 143) and Customs excise and Preventive Service Law 1986 (PNDC Law 143). In 1998, the VAT Service was established with similar characteristics to the other services including a Revenue Governing Board (RGB). However, overtime,

the NRS was not able to integrate, to any significant extent, to the operations of the revenue services and also lost much of their independence and rather became subservient under the Ministry of Finance.

Therefore, under the Public Finance Management Reform Programme (PUFMARP), a proposal was made for the establishment of the Revenue Agencies Governing Board (RAGB) to coordinate Revenue Administration activities. This law was passed in 1998 and replaced the NRS and was tasked with strengthening, integrating, coordinating, and supervising all levels of revenue administration.

In the 2006 budget statement, government proposed further measures to enhance the efficiency of tax administration. These measures were mainly in the area of retooling the revenue agencies and updating their technical skills as well as speeding up the computerisation of their processes. In this light, the IRS was to initiate its computerisation process to place more taxpayers on the list of self-assessed taxpayers and thereby reduce the burden of manual assessment so that more labour and time could be available for widening the tax net. Efforts were made to computerize all the Tax Districts in the Accra – Tema Metropolitan Areas, who together contribute more than 80% of IRS annual collection. It was also proposed that new District Office buildings be acquired to reduce the inconveniences to taxpayers.

The VAT Service was to initiate Customer Care Programmes to ensure that the right approach is adopted by VAT personnel in all their undertakings, with regard to both their internal and external stakeholders. The VAT Service sought to increase contact with the Trade and Business Associations through frequent meetings to identify and address policy, operational and other related issues for improvement of their understanding of tax

procedures. Reforms to establish an integrated revenue authority from the erstwhile revenue agencies were implemented in the first quarter of 2010. The implementation of the Ghana Revenue Authority (GRA) Act (2009), Act 791 took effect with the appointment of a Commissioner General in March, 2010. Since then, the process of establishing an integrated Revenue Authority has gained momentum and a number of milestones have been met.

In appreciation of the difficulties faced by the informal sector operators in complying with the record keeping requirements of the standard VAT, a Flat Rate VAT scheme, easier to operate and more simplified in its record keeping requirements was to be introduced for the distributive trade sector. The scheme was developed in partnership with Ghana Union Traders Association (GUTA) for implementation during the year 2006. This 3 percent VAT flat rate was introduced in September, 2007 and is currently being used by those in the distributive sector. In the budget statement of 2010, the threshold of VAT was further increased to Ghc90, 000 applicable with the 3 percent flat rate for businesses whose annual revenue fall within this threshold and the standard rate of 15 percent for businesses whose annual revenue exceed GHC 90,000 and this took effect from 1st April, 2011.

2.14 CONCLUSION

The issue of tax reforms in small businesses to boost growth and formalization in Ghana remains key and certainly requires concerted effort of all stakeholders concerned. Whilst this is being done with the introduction of VAT Flat Rate Scheme (VFRS), Vehicle Income Tax (VIT), and Tax Stamp (TS) among others, one wonders the extent to which it

can be achieved if actors, both government and SMEs continue pursuing policies that do not allow for coordinated and concerted effort towards SME growth and formalization.

It is the view of the researcher that if government and SMEs work together and begin to see SME growth and formalization as the focus of SME tax reforms, their benefits will be realized and even lead to the growth of the economy as a whole. As governments continue to introduce tax reforms for SMEs, tailoring these reforms towards growth and formalization will invariably lead to an improvement in revenue mobilization by government, an improvement in macroeconomic indicators and an overall growth of the economy.



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The methodology of every research is very important if the validity and reliability of the results of the study are to be attained. It is also very important to ensure the replicability and generalization of research results.

There are various research methods and techniques available but the choice for this study involved a systematic and orderly approach in the collection and analysis of data. Thus, the survey method was used. Furthermore, this method addressed the relationship among variables as well as the need to generalize this study to some extent.

Data was collected from all relevant sources, secondary (journals, periodicals, textbooks, websites, etc) and primary (questionnaires and interviews).

In this chapter, the methodology used for the study is presented. It gives a description of the research design, the study area, choice of sample (sampling procedure) and methods of data collection and analysis. Also, the constraints of the study are discussed.

3.1 STUDY AREA

Tamale, with a population of 360,579 (2007), is the capital of the Northern Region of Ghana and the district capital of the Tamale Metropolitan District. The city is located 600km north of Accra, the national capital of Ghana. Tamale shares boundaries with the Brong/Ahafo Region and Northern Volta to the south, Upper East and West Regions to the north, Togo to the East and Cote d'Ivoire to the west.

Tamale is mostly populated by Dagomba people who speak dagbani and are predominantly followers of Islam. Located in the northern part of the country, the city is like a conglomerate of villages where one can find an architectural blend of traditional mud houses and modern buildings.

Due to its central location, Tamale serves as a hub for all administrative and commercial activities in the region, doubling as a political, economic and financial capital of the region.

The center of Tamale hosts regional branches of Ghana's financial institutions and a considerable number of international Non- Governmental Organisations (NGOs). Tamale has developed and transformed very fast within the last few years and is reputed to be the fastest growing city in West Africa and Ghana for that matter.

The new dimension of Tamale's development is the rush by various companies to open branches in the city. Indeed, many improvements to Tamale's infrastructure occurred in the period leading up to the 2008 African Cup of Nations tournament (<http://www.ghana-net/tamale.aspxc>).

The Tamale metropolis was chosen because of proximity and familiarity to the researcher. Also, the metropolis is relatively large, fairly populated and has a good number of small businesses which the researcher believes will give a fair representation of small business in Ghana.

It is therefore, hoped that the sample taken from the population could provide the data necessary for drawing valid conclusion about tax reforms to encourage formality and firm growth in Ghana.

3.2 RESEARCH DESIGN

The research design used in this study is the descriptive sample survey. The descriptive sample survey design, as pointed out by Gay (1987), “involves collecting data in order to test hypothesis or to answer questions concerning the current status of the subject of the study” (P.189). In a sample survey, the researcher draws a sample from the population of interest and based on their responses, generalizations are made about the population.

The descriptive sample survey was chosen because in considering the purpose of the study, the research questions and the magnitude of the target population, it was the most appropriate design which could lead the researcher to achieve the purpose of the research and draw meaningful conclusions from the study.

The research design is purely qualitative, and thus uses the survey approach to examine the activities of small businesses in the Tamale Metropolis, their views with regard to tax reforms by government geared towards encouraging formality and growth of small business or approaches used by the government, represented by the revenue agencies, in tax reforms and administration.

3.3 TARGET POPULATION

The population of the study was all small business owners in the Tamale Metropolis who are over 400 in number. All the revenue agencies (IRS, VATS and CEPS) in the Metropolis were also studied. Respondents for this research were stratified initially and randomly selected from some stores, shops, kiosks etc in the Tamale Metropolitan area. The respondents (small business owners) were approached personally at their various shops where questionnaires were administered. The key personnel of the Revenue

Agencies who were involved were given questionnaires to complete at their own time and convenience. The choice of the survey method for small business owners is because of its convenience and also the added advantage of clarifying issues to respondents who may have difficulties completing the questionnaires since it is anticipated that some of the respondents may be illiterate.

3.4 SAMPLE

92 small businesses, three key staff of each GRA (IRS, VATS, and CEPS) bringing the total to 9 and some other officers (20) of GRA in the Tamale Metropolis were studied.

3.4.1 Sampling Technique

The purposive, stratified and simple random sampling were used. All GRA and small business owners were considered. Three key staff each of the three GRA were given questionnaire to fill at their own convenience and these questionnaires retrieved by the researcher later. All small business owners had an equal chance of being chosen in that they were grouped into categories initially and then randomly selected.

3.4.2 Selection of the Revenue Agencies

The purposive sampling technique was used to select the three Revenue Agencies in the metropolis. The selection of these was based on the fact that one, two or all three of them may be responsible for implementing tax reforms irrespective of what, where or who tax reforms are directed at. Three key staff of each agency were targeted as respondents. They included the Regional Director, the Deputy Regional Director and the Operations Officer of the Revenue Agency. These were chosen because of the roles they play in their respective establishments.

All three staff were identified and given the instruments to complete and return to the researcher.

3.4.3 Selection of Small Business Owners

Ninety-Two (92) shops, kiosks, stores operating in the Tamale Metropolis were selected. The selection was first based on purposive sampling to ensure that only small business owners are selected. These small business owners were first of all grouped into clusters after which samples were taken from these clusters. It should be recognized here that small business owners deal in a variety of goods and services such as stationery, groceries, hardware, etc. In order to have a fair representation of all these categories involved, it is only appropriate to use this method to get the number and caliber of respondents desired - number of years as small business owner, category of items dealt in by business owner, etc.

The respondents were first of all stratified to give a fair representation of all the various types of small businesses in the metropolis and then randomly selected so that each small business had an equal chance of being selected.

3.5 SOURCES OF DATA

The study relied on both secondary and primary data sources. Primary data was obtained using the following techniques:

- Semi-structured questionnaires with three key staff of each of the three Revenue Agencies in the Tamale metropolis.
- Semi-structured interviews with small business owners in the metropolis.
- Informal interviews with some other personnel of the three Revenue Agencies.

Secondary data was obtained from the library of Tamale Polytechnic, Journals, publications and the internet. This entailed desk review of studies conducted by academicians, researchers and other institutions in the area of tax reforms and small business growth.

3.5.1 Data Collection Instrument

The interview method and questionnaires were the major research instruments employed for the study. The interview method was designed for small business owners some of whom are illiterate and questionnaires were also used for staff of GRA. The questionnaires were a combination of closed and open ended questions. The interview schedule for the small business owners was divided into three (3) sections (A to C).

Section A was structured to collect data about the background of the respondents. It sought information on the gender of respondents, age, type/category of goods sold (examples of which are provisions, electrical gadgets, stationery, building materials etc).

Section B, on the other hand, sought information on small business owners' awareness of tax reforms, its relevance to their businesses, and evidence of any growth linked to these reforms. Lastly, Section C elicited information on small business owners' views on the implementation of these reforms by the Revenue Agencies, the ease or otherwise with which they understood and complied with these policy instruments.

Informal interviews were also held with officers of Internal Revenue Service (IRS), Customs Excise and Preventive Services (CEPS), and Value Added Tax Service (VATS) to determine their opinion and understanding of reforms, the challenges they faced in implementing these reforms and suggestions for any improvement. This is in line with Ndagi's (1984) assertion that the informal type of interview gives room for freedom of

speech and the extent to which the interviewee can express his/her conviction of an opinion.

Questionnaires were also administered to three key personnel of each of the Revenue Agencies to gain a better understanding of tax reforms, successes and challenges.

3.5.2 Procedure for Data Collection

The researcher personally conducted the interviews and administered the questionnaires to the Revenue Agencies and some of the small business owners. The researcher recruited two (2) graduate students who helped in the administration of the questionnaire to the rest of the small business owners sampled. Questionnaires for officials of the Revenue Agencies were delivered to them earlier for completion and were retrieved later after they had been completed. Interview guide for small business owners were read one after the other to them and explanations offered, where necessary, before they responded to them. Best (1970) and Gay (1987) have observed that, the use of self-administered questionnaires has the advantage of enabling the person administering the instruments to establish a rapport to explain the purpose of the study to the respondents and to explain the items that may not be clear. Since the answered questionnaires were collected on the spot and responses to the interviews got and entered immediately, there was 100 per cent retrieval. The instruments that were delivered to the Revenue Agencies were equally all retrieved since the number was not much and their offices are situated almost close to each other in the metropolis.

3.6 DATA ANALYSIS AND PRESENTATION

Data collected was verified, cleaned and edited to ensure consistency with the research objectives underpinning the study. Responses were then coded and entered into an Epic data software for analysis.

Verbal or descriptive account from interviews was also used to enrich the discussion.

Data was presented in tables, pie charts, and graphs depicting the results or outcome of the survey conducted.

3.7 LIMITATIONS

The whole of small businesses in the Tamale Metropolis should have been studied but this was not possible because of time and financial constraints. This therefore, necessitated the use of sampling with its attendant errors. There was skepticism on the part of small business owners to provide information since the subject matter of the study borders on taxes. Generally, businesses, irrespective of their sizes try, as much as possible, to avoid or pay as little taxes as possible.

Whilst the above limitations are worth highlighting, they did not affect the quality and outcome of the study because the researcher found a way to overcome them. Hence, the findings remain credible to allow for recommendations in the study

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESULTS

4.0 INTRODUCTION

This chapter deals with the presentation, analysis and discussion of findings from the field. Data analyzed is summarized in narrative form and also presented in tabular form.

Overall, the analysis and discussion of the findings will cover two (2) broad categories of respondents involved in the study. These are the representatives of the three (3) revenue agencies in the Tamale Metropolis and small business owners as well.

While the findings reflected the responses of these broad categories, the analysis and discussion had been done to reflect each of the objectives of the study, summarized as follows:

- Reforms in taxation by the various governments, especially those related to small businesses.
- The percentage of small businesses that file annual tax returns.
- Challenges faced by small businesses in complying with reforms likewise challenges faced by GRA in implementing these reforms.
- Growth in small businesses as a result of tax reforms.

4.1 DETAILS OF RESPONDENTS COVERED

In all, 92 small business owners were studied. Also, three (3) key personnel each from the three (3) revenue agencies, now Ghana Revenue Authority (GRA), were also studied. Additionally, unstructured interviews were held with some staff of the GRA. The distribution is shown in Tables 1, 2, and 3 below.

Table 4. 1: Cross Tabulation of Category of Small Business Owners and Gender

Category	Male	Female	Total
Groceries:			
Frequency	6	19	25
Percentage	24%	76%	100%
Electrical gadgets:			
Frequency	13	0	13
Percentage	14%	0%	100%
Stationery:			
Frequency	9	2	11
Percentage	82%	18%	100%
Building materials:			
Frequency	9	1	10
Percentage	90%	10%	100%
Plastic ware:			
Frequency	1	9	10
Percentage	10%	90%	100%
General goods:			
Frequency	5	18	23
Percentage	22%	78%	100%
Total	43	49	92
	47%	53%	100%

Source: Survey Data, 2011.

Table 4. 2: Key Personnel of Revenue Agencies covered

Revenue Agency	Male	Female	Number (Frequency)	Percentage
Internal Revenue Service Value Added Tax Service	3	0	3	33.33
Customs, Excise & Preventive Service	3	0	3	33.33
Total	9	0	9	100

Source: Survey Data, 2011.

Table 4. 3: Unstructured Interviews with GRA staff

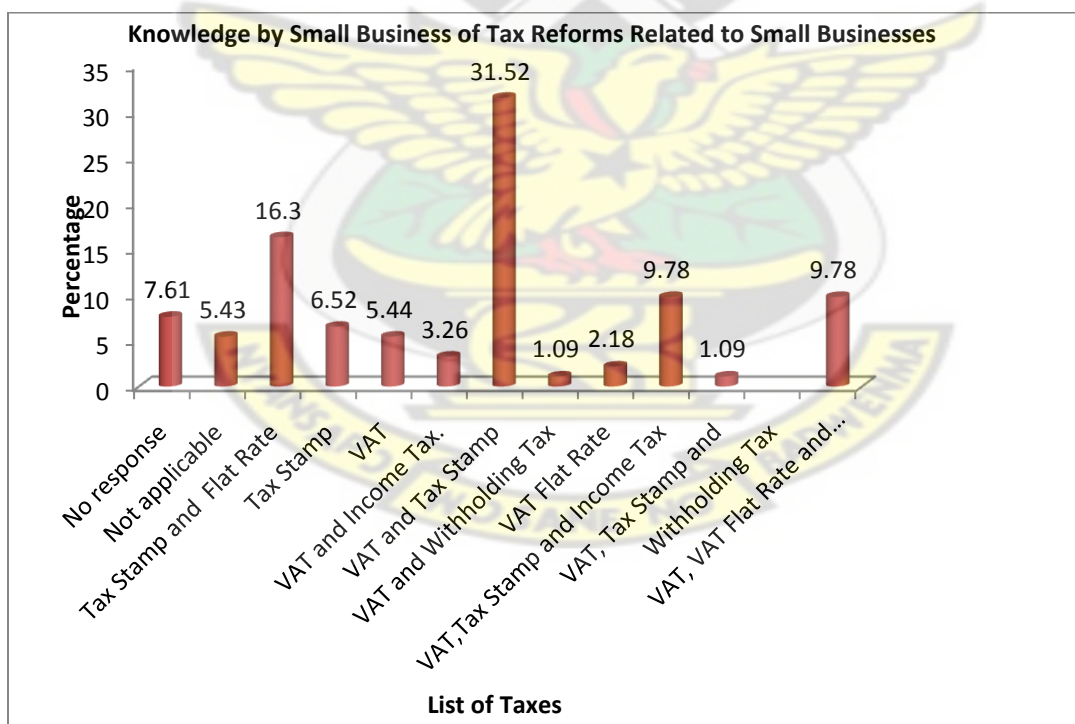
GRA	Male	Female	Number (Frequency)	Percentage
VAT	6	0	6	30
IRS	6	2	8	40
CEPS	5	1	6	30
Total	17	3	20	100

Source: Survey Data, 2011.

From Tables 4.1-4.3 above, it is evident that most of the small businesses were predominantly into the sale of groceries followed by general goods with the least among them being in the sale of building materials and plastic ware. Of those who dealt in groceries, 76 percent were female and 24 percent male. Overall, 53 percent of the small business respondents were female while 47 percent were male.

With respect to the Revenue Agencies surveyed, all the respondents were male, thus the key personnel of the GRA in the Tamale Metropolis is dominated by males. However, in the unstructured interviews held with other staff of GRA 3 females and 17 males were involved.

Figure 4.4: Knowledge by Small Business of Tax Reforms

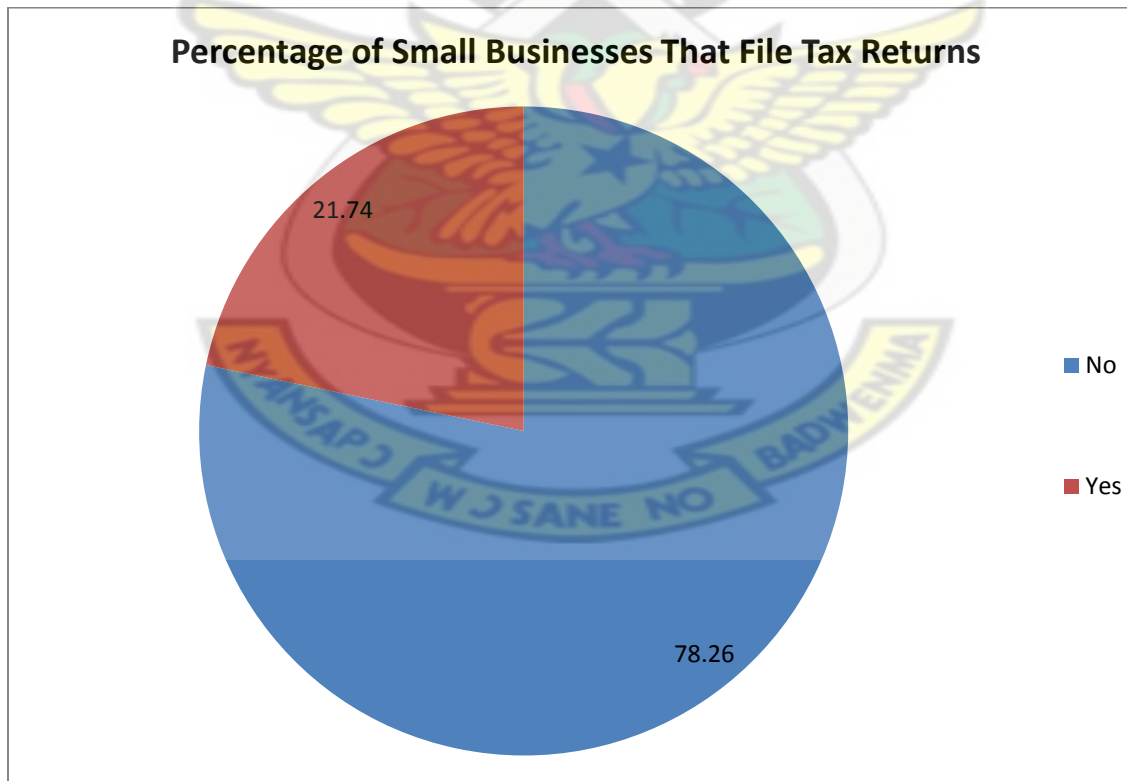


Source: Survey Data, 2011.

An analysis of respondents of small businesses in figure 4.4 above indicates that 94.7 percent of small businesses were aware of forms/types of tax reforms. Information gathered indicates that though some of these small businesses were involved in one way or another in these reforms, some of them had no idea they were reforms targeted at small businesses. Additionally, 72.82 percent of small business respondents had an idea of at least two forms/types of reforms related to small businesses, 14.14 percent of them had an idea of at least one form/type of tax reform related to small business, 7.61 percent had an idea about tax reforms but could not specify/state what it is and 5.43 percent had no idea at all about tax reforms in small businesses.

4.2 Percentage of Small Businesses that File Tax Returns

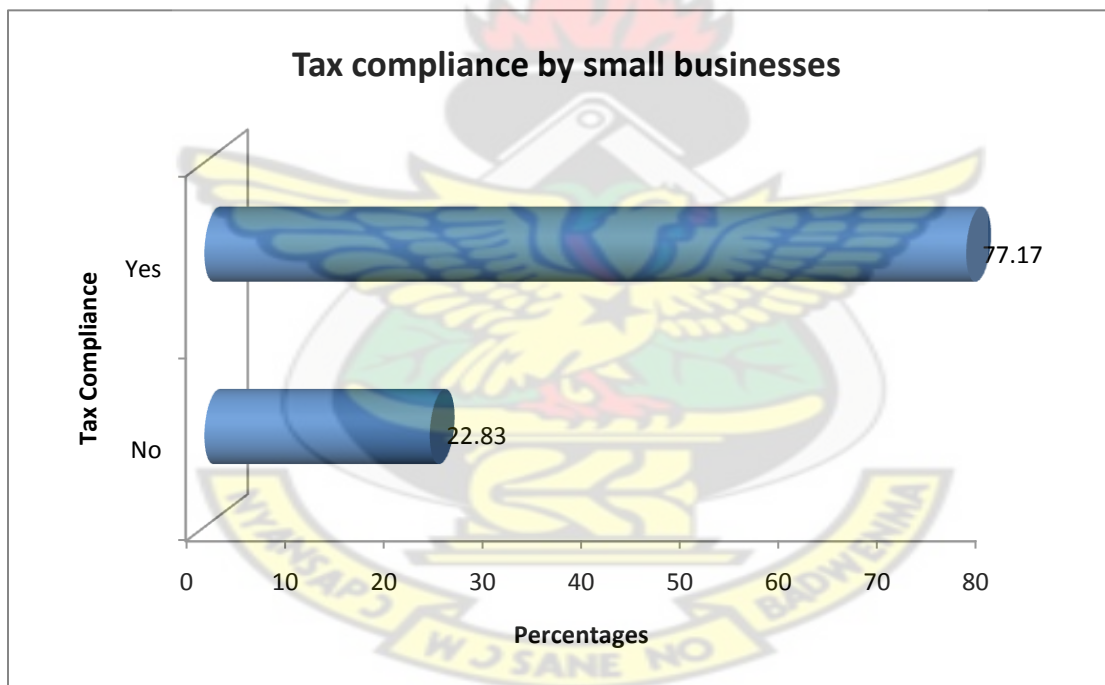
Figure 4. 5: Filing of annual tax returns



Source: Survey Data, 2011.

As indicated in figure 4. 5, the survey of small businesses indicates that 78.26 percent do not file annual tax returns while 21.74 percent of these file annual tax returns. A survey of personnel of GRA also indicates that 15 percent of small businesses file annual tax returns. This goes to buttress the low number of small businesses that file annual tax returns as confirmed in the survey of small businesses themselves. This could possibly be the result of the large number of small businesses in the informal sector or tax evasion on the part of small businesses some of which could be registered (formal) yet do not file annual tax returns as alleged by GRA.

Figure 4. 6: Tax compliance by small businesses



Source: Survey Data, 2011.

As shown in figure 4.6 above, 77.17 percent of small businesses surveyed comply with tax obligations whilst 22.83 percent do not. The seemingly large number of the small businesses that remain compliant with tax obligations may be attributable to the introduction of the tax stamp designed for small businesses in 2007 since most of those

studied complied with the tax stamp introduced by the GRA. This state of affairs seems to support the view that tax reforms could lead to formalization and hence growth of small businesses.

Table 4.7: Cross tabulation of number of years in operation and tax compliance

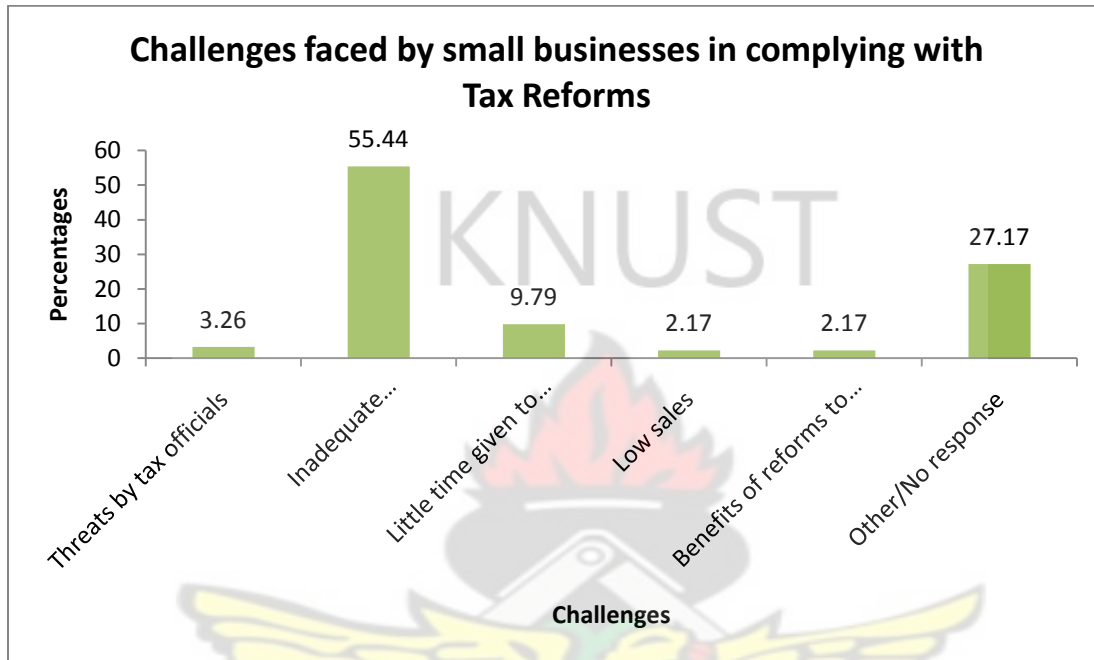
Years of Business Operations	Tax Compliance		Total
	No	Yes	
1-5	10	29	39
6-10	9	25	34
11-15	1	13	14
16-20	0	2	2
20+	1	2	3
Total	21	71	92

Source: Survey Data, 2011.

As shown in table 4.7, it's clear that small businesses operating within their first five years are more compliant than those that have been in operation for over ten years. As indicated from the survey, 29 out of 39 small businesses within their first five years of operations comply with taxes and this number decreases to 25 out of 34 for those that have operated for six to ten years and so on. This could be a suggestion that, the longer they stay in business, the better they find loopholes in the system and ways to evade taxes. It could also be as a result of small business failure since studies have revealed that few small businesses make it in business after the first five years. The other option could be that they have grown in operations and thereby no longer fall within the small business bracket.

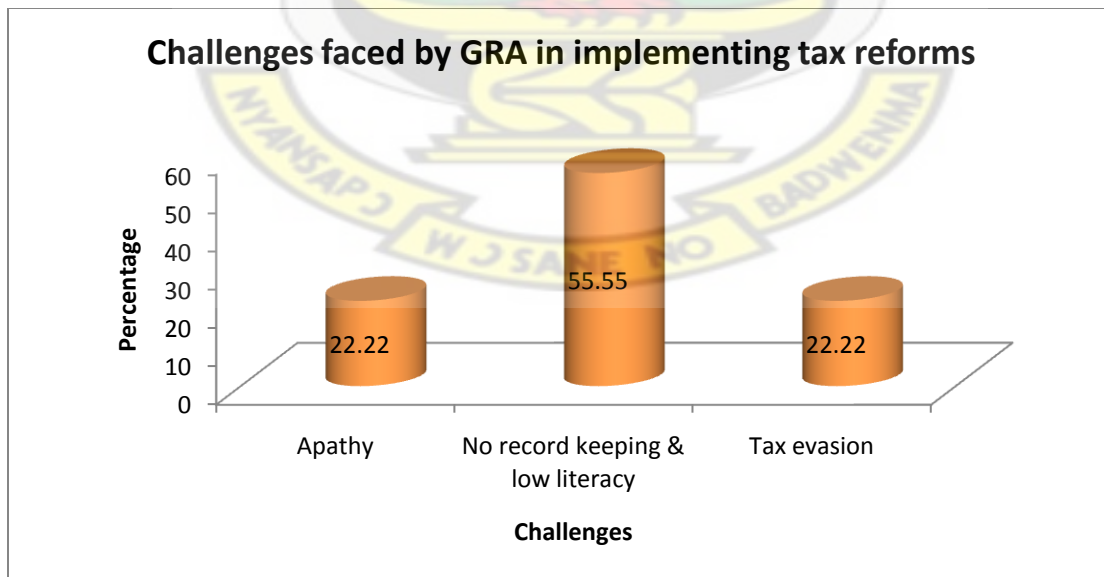
4.3 Challenges Faced By Small Businesses in Complying with Tax Reforms and GRA in implementing tax reforms

Figure 4. 8: Challenges faced by small businesses



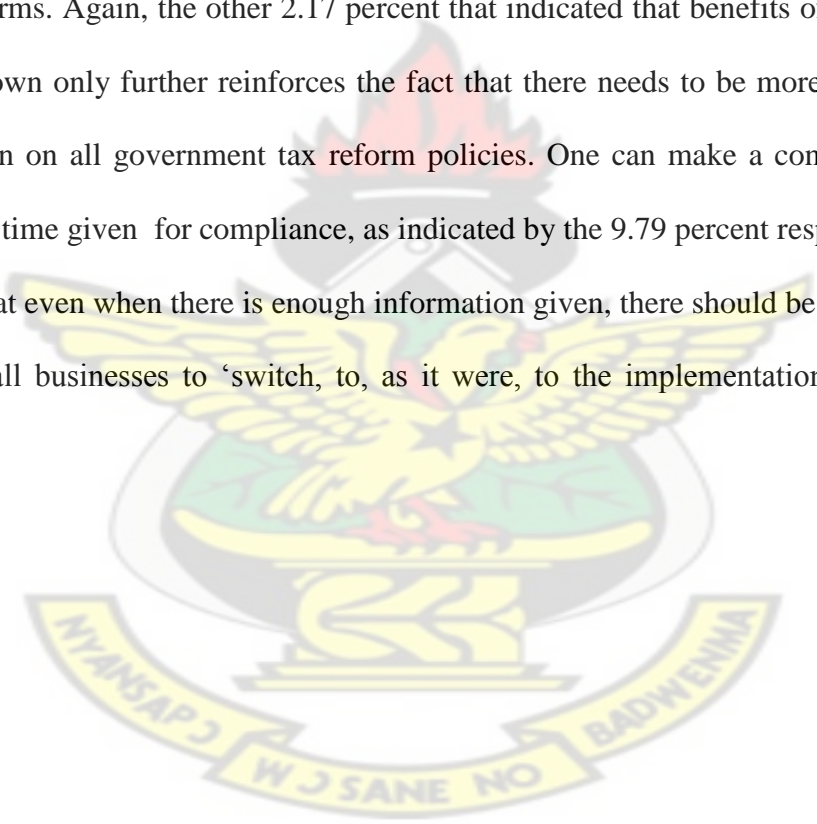
Source: Survey Data, 2011.

Figure 4. 9: Challenges faced by GRA



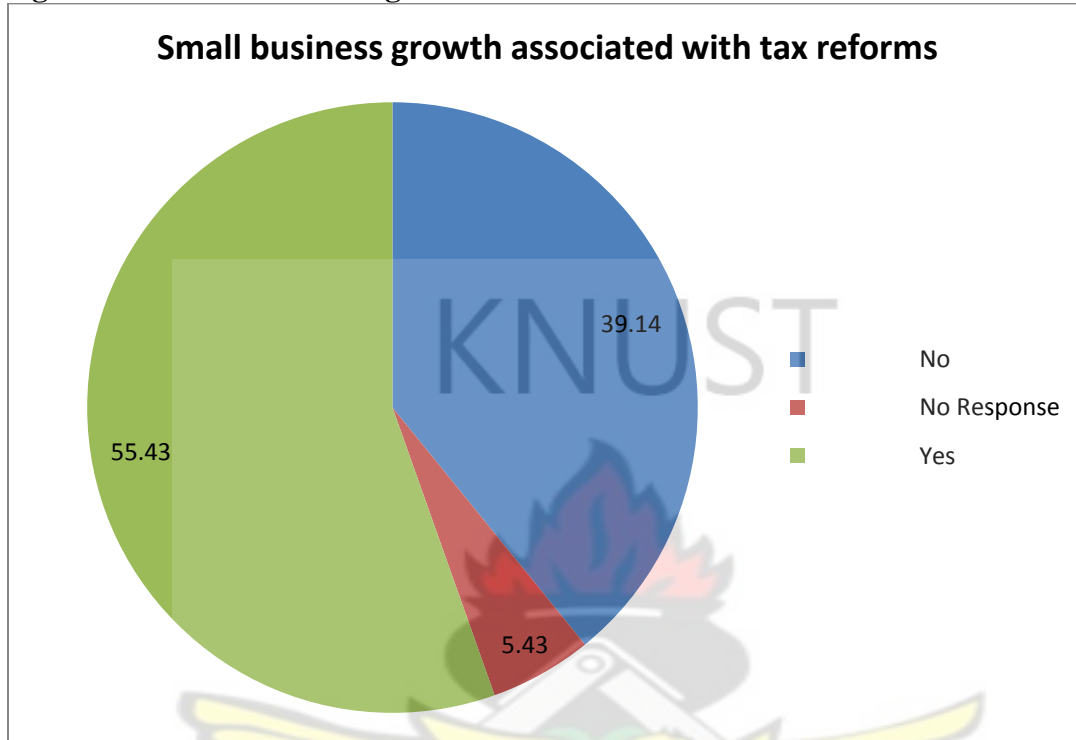
Source: Survey Data, 2011

From figures 4.8 and 4.9 above, it can be seen clearly that while small business owners state threats by tax officials, inadequate education and information on tax reforms among others as challenges encountered in complying with tax reforms with inadequate education and information dominating with 55.44 percent, the GRA view lack of record keeping, tax evasion, and apathy by small businesses as challenges they encounter in the implementation of tax reforms. The 27.17 percent of small business owners who did not respond may be indicative of yet a more serious challenge with regards to compliance with tax reforms. Again, the other 2.17 percent that indicated that benefits of tax reforms were not known only further reinforces the fact that there needs to be more information and education on all government tax reform policies. One can make a convincing case that the little time given for compliance, as indicated by the 9.79 percent response, seems to suggest that even when there is enough information given, there should be a window of time for small businesses to ‘switch, to, as it were, to the implementation of the new policy



4.4 Expansion of business as a result of tax reforms

Figure 4.10: Small business growth associated with tax reforms



Source: Survey Data, 2011.

Figure 4.10 above indicates that while 55.43 percent of small businesses experienced growth as a result of tax reforms, 39.13 percent did not see any growth related to tax reforms. The rest of the 5.43 percent did not respond. Though, the percentage that experienced growth is relatively higher than the percentage that did not experience growth, much still needs to be done in this respect since there was a 5.43 percent of no response which could be indicative of a more serious problem.

Table below shows the ways in which small businesses have expanded as results of tax reforms.

Table 4.11: Areas of Small Business Expansion

Area of expansion	Frequency	Percent
assets	11	11.96
employees	1	1.09
no response	28	30.43
profit	25	27.17
turnover	27	29.35
Total	92	100

Source: Survey Data, 2011.

Respondents of small businesses who indicated that there was growth related to tax reforms were asked to state the form growth occurred. As indicated from table 4.11 above, 29.35 percent stated growth to be from turnover, 27.17 percent from profit, 11.96 percent from assets, 1.09 percent from employees and the remaining 30.43 percent did not respond. This, no response, figure includes the 5.43 percent that indicated earlier that there was no growth associated with tax reforms. Notwithstanding this, 25 percent of small businesses who indicated that there was growth could not state in what form the growth occurred because one would have expected just 5.43 percent of respondents not to respond in this respect. On the strength of this, one can make a convincing case that small business owners' understanding of growth is limited which boils down to the fact that they need education on record keeping and other related issues that border on tax reforms and their operations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter gives an account of the summary of the study, the conclusions arrived at and the recommendations in line with the tenets of the study.

5.1 SUMMARY OF MAJOR FINDINGS

Generally, the study focused on tax reforms in small businesses to encourage formalization and growth. Specifically, the study concentrated on assessing reforms in small business taxation over the years, the percentage of small business that file tax returns, as well as challenges faced by small businesses in complying with tax reforms and also challenges faced by the revenue agencies in implementing these reforms.

The study was conducted in the Tamale Metropolis of the Northern Region of Ghana. A combination of probability random sampling and purposive sampling techniques were used to generate the sample for the study. The grand sample for the study was 101. The study was essentially qualitative; hence, the researcher used open-ended interviews, questionnaires and unstructured interviews to gather primary data to complement secondary data obtained from published works.

5.1.1 Reforms in Small Business Taxation

The findings identified tax stamp, value added tax, income tax, VAT flat rate, and withholding tax as reforms in taxation identified by small business owners as those that relate to small businesses. Overall, 72.82 percent of small business respondents had an

idea of at least two forms/types of reforms related to small businesses; 14.14 percent of them had an idea of at least one form/type of tax reform related to small business; 7.61 percent had an idea about tax reforms but could not specify/state what it is and 5.43 percent had no idea at all about tax reforms in small businesses.

5.1.2 Percentage of Small Businesses that File Tax Returns

Findings revealed from the survey of small businesses indicated that 78.26 percent of small businesses do not file tax returns while 21.74 percent of them file tax returns. Findings from personnel of the revenue agencies also indicated that 85 percent of small businesses do not file tax returns while 15 percent of them file tax returns. These two findings are nearly the same, an indication of low number of small businesses that file tax returns. It was also revealed in the cross tabulation of tax compliance and number of years in business that respondents who had been in business between 1 and 5 years recorded the highest compliance rate/percentage while those who had been in business operations for 20+ years recorded the lowest compliance rate.

5.1.3 Challenges Faced by Small businesses in complying with reforms

Findings revealed inadequate information and education as the major challenge on the list of challenges encountered by small businesses in complying with tax reforms, few of the small business owners stated threats by tax officials, little time given to small businesses to comply among others as challenges encountered.

5.1.4 Challenges faced by GRA in implementing reforms

A survey of the revenue agencies also revealed lack of record keeping by small business, tax evasion, apathy among others as challenges they encounter in implementing tax reforms.

5.1.5 Growth Related to Tax Reforms

It was revealed that 39.44 percent of small businesses did not experience growth while 55.43 percent of them experienced growth in business. However, 5.43 percent of small businesses did not respond. A probe further on the form growth in business took place showed that growth in turnover constituted 29.35 percent, profit of 27.17 percent, assets of 11.96 percent, employees of 1.09 percent, with 30.43 percent no responses.

5.2 CONCLUSIONS

On the strength of the findings of the study, conclusions can be drawn as follows:

1. Though tax reforms have been introduced over the years geared towards small business growth, the majority of these small businesses lack information and education on what they are all about. This is due to the fact that most of the small businesses surveyed, though unwillingly involved in tax reforms of some sort, did not even know them to be tax reforms. Some of the small businesses could not clearly separate those meant for corporations/large businesses from those geared towards small businesses.
2. Though some small businesses file tax returns, this number constitutes just 22 percent of small businesses, an indication that the rest of the 78 percent do not file tax returns. This is a clear indication that either most of them operate within the informal sector or these small businesses even though formal (registered), indulge in tax evasion as alleged by some staff of the revenue agencies in the survey.

3. Some small businesses do not keep proper documentation of their activities which will aid them in the filing of tax returns. Tax officials thus encounter difficulties in implementing these tax reforms.
4. Some small business owners did not see any growth in business related to tax reforms while others though had experienced growth, could not identify the form of growth their businesses took place. This reinforces the need for education and training of small business owners on tax reforms and record keeping to aid in their operations.

5.3 RECOMMENDATION

Based on the findings and the conclusions thereof, the following recommendations are drawn. While these will be relevant to the revenue agencies, development partners as well as small businesses, they will be particularly relevant for small businesses and revenue agencies in the Tamale Metropolis of the Northern Region.

5.3.1 Tax reforms should be understandable to all stakeholders concerned

Reforms in taxes in small businesses aimed at motivating them to comply and formalize should be designed in such a way as to enable small businesses comply with them with relative ease. In effect, these reforms should be easily understandable by all parties involved.

5.3.2 There should be Tax Education and Awareness

Prior to the implementation of these reforms, officials of the revenue generating agencies should embark on mass awareness campaigns and education through the mass media and other methods, and possibly in the various local dialects, so that all concerned may

understand. This is because of the revelation in the survey on small businesses that,” the language used is sometimes technical; hence, we are unable to understand what we are supposed to do”. This is the frustration expressed by one small business owner during the survey. Additionally, small business owners could be trained on simple book-keeping to enable them maintain proper records of their businesses.

5.3.3 Benefits of Tax Reforms should be Clearly Outlined

Benefits to be derived by all parties involved in tax reform compliance and implementation should be clearly outlined. This will help improve compliance and, hence, implementation since these parties will willingly comply once they have understood the gains that they stand to make.

5.3.4 Need for Improve Relations between Tax Officers and Taxpayers

There should be regular and friendly interactions between the revenue agencies and small businesses through seminars, workshops, trainings, tax fora etc to create an environment of trust among all the players of tax reforms. This could also improve small businesses’ record keeping habit on their activities which will make tax assessments by the tax authorities easier and also dispel the notion, held by some of the small business operators that, tax officials are always out to harass them.

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KNUST



Appendices:

Appendix A-Interview guide for respondents of small businesses

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,
INSTITUTE OF DISTANCE LEARNING (IDL)**

**COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS
ADMINISTRATION (CEMBA)**

**ENCOURAGING GROWTH AND FORMALISATION OF SMEs THROUGH
TAX REFORMS: A STUDY OF THE TAMALE METROPOLIS IN THE
NORTHERN REGION.**

**INTERVIEW GUIDE FOR SMALL BUSINESS OWNERS IN THE TAMALE
METROPOLIS**

TARGETED RESPONDENTS: Selected owners of shops, kiosks, stores, etc.

SECTION A (BACKGROUND OF RESPONDENT)

Form Number.....

(Tick in the box where applicable)

1. Sex Male Female

2. Age 18-25 26-30 31-35 36-40

41-45 46-50 51-55 56 and above

3. Educational Level. Basic School Second Cycle

Tertiary None

4. What type of goods do you sell?

- a) Groceries
- b) Electrical Gadgets
- c) Stationery
- d) Building Materials
- e) Plastic Ware
- f) General Goods

5. How many years have you been in business?

- a) 1-5
- b) 6-10
- c) 11-15
- d) 16-20
- e) Over 20

SECTION B, (AWARENESS OF TAX REFORMS, RELEVANCE TO BUSINESS, AND EVIDENCE OF GROWTH).

1. Do you have any idea about tax reforms? Yes No

2. List the ones you are aware of

3. When were they introduced? Please state period(s).....

4. Do (did) you comply with these reforms? Yes No

5. Does your business benefit from these reforms? If yes proceed to 6, if no skip to 7.

Yes No

6. In what way did your business benefit from it?

.....
.....

7. Do you file annual tax returns? If yes proceed to 8, if no skip to 10. Yes

No

8. For how long have you been filing tax returns? 1 year 2 years

3 years 4 years 5 years and over

9. What is your motivation for filing tax returns?

.....
.....

10. If no, what prevents you from filing tax returns?

- a) Nor aware of it
- b) Does not know how to do it
- c) Time constraint
- d) Long procedure
- e) other

11. Are the reforms easily understandable? Yes No

12. Has your business expanded since the introduction of these reforms? If yes proceed to

13, if no proceed to 14. Yes No

13. In what way (s) has/have your business expanded?

- a) Turnover b) Employees c) Profit
 d) Assets

14. What, in your view, may be the cause of your business not expanding/ growing?

Explain

.....

SECTION C (VIEWS ON IMPLEMENTATION OF REFORMS BY REVENUE AGENCIES, EASE OR OTHERWISE WITH WHICH SMALL BUSINESSES UNDERSTAND AND COMPLY WITH POLICY INSTRUMENTS)

1. How do you become aware of tax reforms when they are put in place by the government?

.....

2. Do you comply with the reforms? Yes No

3. If no, why don't you comply with them?

- a) Not aware of them
 b) Do not understand them
 c) Not beneficial to business
 d) Time constraint
 e) Other

4. If yes, why do you comply with these reforms? Specify

.....

5. Do you encounter any challenges in complying with these reforms?

Yes

No

6. What, in your opinion, do you think can be done to mitigate these challenges?

.....
.....

7. Are the reforms easily understood by you? Yes

No

8. If no, why don't you understand them?

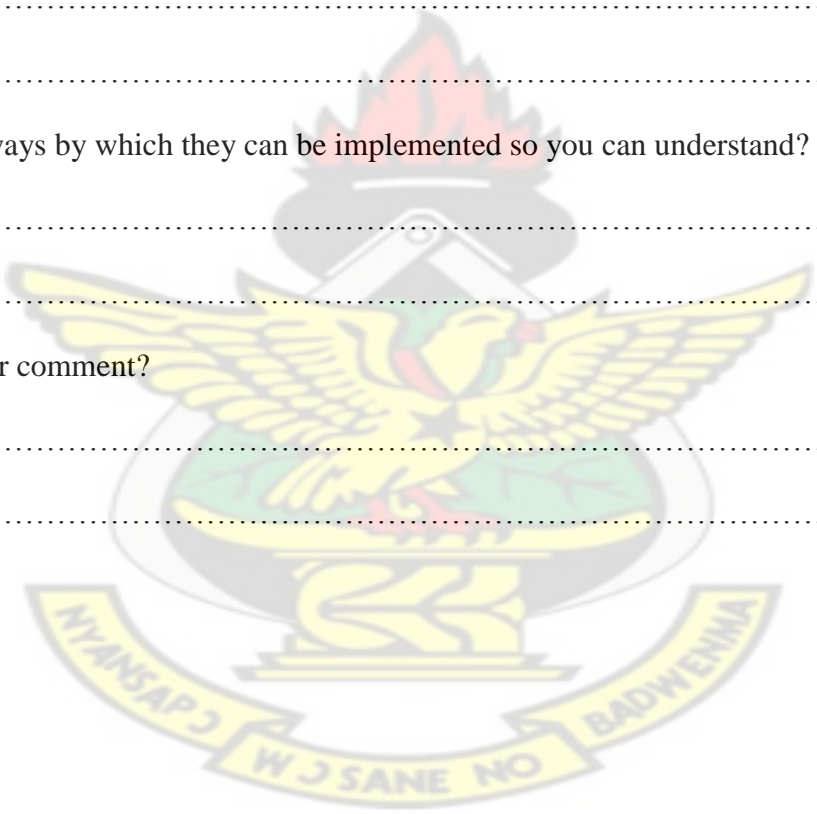
.....
.....

9. Suggest ways by which they can be implemented so you can understand?

.....
.....

10. Any other comment?

.....
.....



Appendix B- Questionnaires for respondents of Ghana

Revenue Authority

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,
INSTITUTE OF DISTANCE LEARNING (IDL)

COMMONWEALTH EXECUTIVE MASTERS OF BUSINESS

ADMINISTRATION (CEMBA)

ENCOURAGING GROWTH AND FORMALISATION OF SMEs THROUGH

TAX REFORMS: A STUDY OF THE TAMALE METROPOLIS OF THE

NORTHERN REGION.

QUESTIONNAIRES FOR KEY STAFF OF THE GHANA REVENUE
AUTHORITY IN THE TAMALE METROPOLIS

TARGETED RESPONDENTS: Regional Officer, Deputy, and Operations Officer
of CEPS and VATS and the District Officer, Deputy District Officer, and
Operations Officer of IRS.

INTRODUCTION

This questionnaire is designed to collect data for a study on the above topic. It is purely
for academic purposes and you are assured of confidentiality of data provided.

Form Number.....

1. Title of Respondent.....

2. Sex/Gender

Male

Female

3. Age 18-25 26-30 31-35 36-40

41-45 46-50 51-55 56 and above

4. Educational Level. Basic School Second Cycle

Tertiary

5. Which of the revenue agencies do you work with? IRS CEPS

VATS

6. How long have you been employed with your unit?

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7. Has there been any reforms in tax and tax administration since your appointment?

Yes No

8. What are the reforms in taxation that have taken place in the last decade that you are aware of?

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9. Which of these is (are) related to small businesses?

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10. What is the number of small businesses in the metropolis? 50-100
101-200. 201-300 301-400 401 and over

11. Do small businesses in the metropolis file tax returns? If yes, proceed to 12, if no,

skip to 13 . Yes No

12. If yes to 11, what in your estimation, is the percentage of small businesses that file tax returns?.....

13. What reasons do you think are responsible for their non filing of tax returns? State them.....

14. What is the frequency for filing tax returns by small business owners in the metropolis?

Monthly Quarterly Half yearly
Annually

15. Does your outfit experience any challenges in the implementation of reforms in the metropolis?

Yes No

16. If yes, what are the challenges? Specify

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17. Do these tax reforms lead to the formalization of small businesses in the metropolis?

If yes proceed to 18, if No, skip to 19 Yes No

18. What has been the average percentage increase in formalization of small business for the past 5 years?

Specify.....

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19. What do you think account for small businesses not formalizing their operations in the metropolis?

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20. Do you face any challenges in the implementation of tax reforms in the metropolis?

Yes No

21. If yes, what are the challenges that your outfit faces in reform implementation?

Specify

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22. If no, what can be done to make your work much easier?

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23. Suggest ways by which these challenges can be mitigated? Specify

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24. If no to 20, what can be done to make your work much easier and enjoyable?

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25. Any other comments?.....

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