

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,

KUMASI

COLLEGE OF ARTS AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

ASSESSING TAX COMPLIANCE AMONG SMALL BUSINESS INCOME

EARNERS IN THE SUAME MAGAZINE INDUSTRIAL AREA IN THE

KUMASI METROPOLIS

EMMANUEL BOATENG MANTEY

THESIS SUBMITTED TO THE SCHOOL OF BUSINESS, KWAME NKRUMAH

UNIVERSITY OF SCIENCE AND TECHNOLOGY IN PARTIAL

FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

(FINANCE)

NOVEMBER, 2015

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DECLARATION

I, Emmanuel Boateng Mantey hereby declare that this submission is my own work and that, to the best of my knowledge, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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DEDICATION

I dedicate this work to my dear wife Mrs Matilda Kare Boateng Mantey for her support and to my children Abena and Kofi who supported and prayed for me throughout my education.

ACKNOWLEDGEMENTS

I am very grateful to all those who supported me to go through this course. I am also indebted to the management and staff of Ghana Revenue Authority who gave me this great opportunity to pursue this course. I thank all the taxpayers' within Suame Magazine Industrial Area in the Kumasi Metropolis who took time off their busy schedule to respond to my questionnaire without which this work could not have been successful. I would like to thank my supervisor, Mr. Michael Adusei for his supervision and support. I would also thank my family, friends and loved ones who helped in diverse ways to enable me come out with this work. Finally, I will give my greatest gratitude to my God who protected and guided me throughout this programme.

ABSTRACT

This study examined tax compliance of small scale business in the Suame Magazine Industrial Area (SMID) in the Kumasi Metropolis of Ghana. The study specifically sought to determine the attitudes and knowledge of Small Business Income Earners (SBIE) towards tax compliance determine the level of compliance and identify the challenges of complying with tax regulations SBIE in the area. The study employed a qualitative research design because of its appropriateness in understanding and explaining attitudes of people. Small Scale Business Income Earners in the form of hairdressers, provision shop keepers, food vendors, petty traders and many others within the SMIA formed the study population. A sample size of 137 was chosen out of a sample frame of 208 registered SBIE in the SMIA. The study has revealed that, SBIE usually register with authorities but do not declare their incomes. SBIE barely understand the tax system in the country. They do not know much about the income tax laws and regulations and computing of tax liabilities is always difficult for them. The study has also revealed that, SBIE in the area have negative attitude towards the Ghanaian tax system. In order to improve tax compliance among SBIE, it is recommended that, the Ghana Revenue authority should reduce the inconveniences and obstacles in the tax registration process, and that, the general public should also be educated on tax regulations in the country, and that organizational tax educational programmes should also be organized for SME managers and that there is also the need for adequate training of tax collectors to improve their efficiency and effectiveness in tax collection.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The bulk of the business population in many part of the world is constituted by the small and medium-sized enterprises (SMEs) and so constitute a key body in modern economics in terms of information-basis (Mitchell & Reid, 2000). It is projected in Ghana that SMEs create jobs for about 15.5% of the working force (Parker, Riopelle & Steel, 1994), and so have witnessed greater labour growth relative to micro and large scale companies (5% in Ghana). The sector contributed 6% to GDP in 1998 (Ghana Statistical Service, 2010). The SMEs sector is therefore perceived as the initial developmental stage in economies driving in the direction of industrialization (Bashir, 2008). The phenomenal changing function of SMEs in less developed nations as the instrument via which the progress objectives of least developed countries can be reached has far been asserted and so the necessity for tax compliance. Nevertheless, the greater of SMEs in least developed nations such as Ghana are predominantly in the informal domain of the economy (Dzadzra, 2011), and contribute to less than 4% of national tax revenues of the country (Dzadzra, 2011).

Urging tax submission is a frequently witnessed hindrance for tax revenue collectors worldwide (Silvani, *et al.*, 2008; Alm *et al.*, 2006). Tax non-compliance among taxpayer is a progressive and upspring worldwide challenge (McKerchar and Evans 2009), numerous happening syndicates that least developed nations, many of them in Sub-Saharan Africa, are the greatest hit (Cobham 2005; Fuest & Riedel, 2009). Whilst revenues collected from taxes in OECD-nations contribute to 36% of GNI in 2007

(OECD, 2008), the portion in sampled growing nations contributed to 23 percent in Africa in 2007 (OECD, 2010a) and 17.5 percent Latin America (in 2004) (OECD, 2010b). Nevertheless, revenues accumulated from taxes have upsurge in numerous least developed nations. Conversely, this happening is predominantly attributed to augmented revenues collected in the form of taxes on natural resource, e.g. royalties, revenues from sharing in production and business revenue tax on oil and mining institutions and cannot be understood as a symbol of an enhanced system of tax or management. To enhance tax collection revenues, the state has to provide an atmosphere that would enhance taxpayers' awareness and desire return taxes willingly (Malima, 2013). Marshaling tax income is an avenue for states to generate monetary vacuum, make available critical services to the public, and decrease foreign monetary assistance and dependence on limited resource (Drummond *et al.* 2012). However, the domestic tax bases in most African countries are undermined by widespread tax avoidance and evasion (IMF 2011).

Ghana is progressively challenged in its tax revenues collection mechanism, and there appears to be no feasible solution to this barricading challenge. For example, only 1.5 million people from the projected taxable citizenry of 6 million contributed towards the tax revenues of the country in 2010 (Ghana, 2011). This characterizes just 25 percent of compliance. The portion of personal income tax to overall tax income has witnessed a falling trend in the previous 15 years (Ghana Vision 2020, 2012) including tax revenues accrued from the informal sector that constitute the greater portion of the business domain in Ghana. Factually, the populace of Ghana fervently resisted Act 486 of 1994, the decree that originally brought the Value Added Tax (VAT). The well-known "Kumipreko" protests and other confrontation demonstrations in contradiction to the emergence of the tax were ferocious (Ali-Nakyea, 2006). Rather lately, the overall

populace's reply to the bringing of the Communication Service Tax (CST) inaugurated "Talk tax" and taxes on many sampled banking products were undesirable. Tax investigation in the country, like other least developed nations, appears to center greatly on the identical problem of management improvements of taxation and decrease of exploitation (Richardson, 2006). For instance, Terkper (2007) investigated several means of enhancing the tax book keeping schemes of SME's in Ghana while Ayee (2007) deliberated on the methods for enhancing tax compliance via instituting and enhancing mutuality with the state. The study by Atuguba (2006) profiled the tax culture of Ghanaians. It however fell short of examining specific attitudinal antecedents of tax-paying behaviour. This study is hence carried out to examine the issue of tax payers' attitude effect on tax compliance.

1.2 PROBLEM OF THE STUDY

The greater part of the countries in the western part of Africa rarely mobilize more than 17% of their Gross Domestic Products in tax income, in contradiction of the average of 35% by the developed nations (OECD, 2009). Therefore, the least developed nations are vehemently confronting numerous of obstacles in an attempt to optimizing tax revenues whilst targeting to approach progressive margins. The insinuation of tax nonfulfillment on states capability to accumulate income to carry out its outlay has stimulated scholars and administrators to accord enormous consideration to the spectacle of nonfulfillment of tax obligations and hence the upsurge into study interest by scholars and administrators. Policymakers in less developed countries including Ghana require the appropriate mechanism to raise adequate national revenues and widen the tax net to ensure consistent income watercourses for financing developmental projects and to ensure diversification

of the income streams and eradicating tax avoidance, urged by tax harbours, regulatory faintness, and numerous corporate activities (Pfister, 2009).

Additionally, it is obvious from numerous studies that SMEs in least developed nations are greatly noncompliant to tax notwithstanding the substantial figure of improvements envisioned to boost submission (Terkper, 2007; Stern & Barbour, 2005; Ayoki, 2007). The tax compliance level of Ghana for instance was at a greatly minimal level of 17.2 percent by the end of 2010 business year (Ayoki, 2007). Many SMEs in Ghana have “unregistered revenues with the absence of third stakeholder reportage” (Gerxhani & Schram, 2006) and subsequently, they are regarded as the “hard to tax cluster from the informal area” (McGee, Ho, & Li, 2008). The ‘gaps’ the VAT revenues have been pegged at 50-60 percent in many least developed nations, relative to the 7-13 percent of the western world. Furthermore, tax gap in Ghana is estimated by the GRA (Ghana Revenue Authority) at 17 percent (\$95.3bn) of tax revenues unpaid in 1992 (GRA 1996). It is therefore anticipated that great tax submission costs (time & monetary costs) and low level of tax capabilities amongst taxpayers could attribute to the high level of noncompliance.

1.3 OBJECTIVES OF THE STUDY

The primary goal of the study was to investigate the tax compliance of Small Business Income Earners (SBIE) in the Suame Magazine Industrial Area (SMIA). The study particularly tried to:

1. Determine the attitude and knowledge of SBIE towards tax compliance;
2. Determine the level of tax compliance of SBIE in the SMIA;
3. Identify the challenges of SBIE in complying with tax payment.

1.4 RESEARCH QUESTIONS

Based on the direction and emphasis of the study, numerous critical questions are required to be answered. These critical questions include:

1. What is the attitude and knowledge of SBIE towards tax compliance?
2. What is the level of tax compliance of SBIE in the SMIA?
3. What are the difficulties of SBIE in conforming to expense installment?

1.5 SIGNIFICANCE OF THE STUDY

The method of reasoning behind this study is on the premise that, it would give as great premise to hypothesis improvement which would give an understanding that would be useful in connection to different mediations for duty organization in Ghana and to add to information by inspiring perspectives on the impacts of assessment avoidance on the Ghanaian economy. This would be a helpful asset which would be valuable to individual assessment manager, the legislature and the educated community. Moreover, the study discoveries could give entrepreneurs and supervisors with the fundamental information; capacities and aptitudes to empower them follow the duty necessities.

Toward the end of each year, as government plans budgetary proclamation for the ensuing year, gauging what it hopes to get and what it has a tendency to spend. The hefts of receipts, which are through tariff, serve as a wellspring of government income. These incomes are utilized to create both human and framework of the nation as clinic, schools, streets and to do fundamental administrations like power, water and sanitation, yet tragically enough dominant part of the citizenry who by statutory procurement are qualified to respect their expense obligation to the state neglect to do as such in this manner denying the state the obliged income to do these classes of ventures. It is

accepted that these classes of individuals would come to comprehend the reason for levy. What's more, the contentions that, the expense powers are wasteful and are in this manner not proactive in gathering assessments are considered sound thinking, yet then again, the way of life of the Ghanaian not to pay duty and even not hear the word "duty" is so established in the Ghanaian from the pilgrim days to current Ghana. This exploration would improve the SMEs to respect their duty commitment for the administration to respect its obligation. It is expected that things being what they are, toward the end of this exploration the citizenry won't be opposing about the assessment accumulation framework and in this manner respect their expense commitment.

1.6 SCOPE OF THE STUDY

The topical extent of this study is constrained to looking at the state of mind and information of SBIE towards charge agreeability; focus the level of assessment consistence of SBIE; and recognize the difficulties of SBIE in following expense installment. Topographically, the study was restricted to Small Business Income Earners in the Suame Magazine Industrial Area in the Kumasi Metropolis.

1.7 LIMITATION AND DELIMITATION OF THE STUDY

Despite the supportive discoveries of this study, this exact study has a few constraints to be recognized. In the first place, the aftereffect of this study relies on upon the earnestness of the respondents. It is perceived people would concur more on socially satisfying answers and restrict more towards socially undesirable answers as opposed to completely and genuinely express their inclination and assessments. Along these lines, the confinement of this examination is that the information of this study is gathered through the reviews, so there is a high likelihood of incorrect data. Moreover, the little

example size confines the dependability and the speculation capacity of the study. On top, as a quantitative study, the center of the study is along these lines not on speculation, but rather on particularization which give extensively comprehension of the duty agreeability of Small Business Income Earners and the conceivable difficulties of willful assessment.

Amidst this delimitation of the study, it limitations itself to researching the level of assessment consistence of SBIEs in the Suame Magazine Industrial Area, the mentality and learning of SBIEs on expense agreeability, and the difficulties of SBIE in following duty installment.

1.8 RESEARCH METHODOLOGY

The current study adopts a mixed approach to study. The study employs both qualitative and quantitative forms of data to achieve its objectives. The data for the study was collated from SBIEs in the Suame Magazine Industrial Area in the Kumasi Metropolis. The data was collated with the aid of well-designed structured questionnaire. The survey questionnaire was designed employing the ‘Likert Scaling’ type. A total of 137 Small Business Income Earners (SBIEs) in the Suame Magazine Industrial Area (SMIA) were sampled through multi-stage sampling procedure. The Suame Magazine Industrial Area was demarcated into four quadrants, and each quadrant surveyed through a systematic random sampling procedure till 30 SBIEs covered. The collated data was prepared, collated and processed with the aid of the Statistical Package for Social Sciences (SPSS). The result was also presented and analysed using descriptive tools. Analytical tools as Relative Importance Index (RII), Kendall’s rank test, and content analysis will be employed.

1.9 ORGANIZATION OF THE STUDY

This proposition has been separated into five Sections. The section one gives a foreword and foundation data about the territory of study. The same part likewise introduces the exploration issue, points and destinations, constraints and the significance of the study. The following section two to a great extent investigates an assortment of writing identified with assessment agreeability and duty consistence difficulties of SMEs. Part Three, managed the techniques decided for this exploration. Further, it plots a percentage of the systems utilized as a part of this examination; the section additionally displays the configuration and information catch strategies utilized as a part of this exploration. The last however one section of this study manages information examination, result presentation and elucidation from both a subjective and a quantitative perspective. At long last, the last part talks about the outcomes, and gives a general evaluation of the victories and disappointments made in the examination. This part additionally plots a few conclusions and proposals made amid the exploration process.

CHAPTER TWO

LITERATURE REVIEW

In chapter under consideration we reviews literature pertinent to the various thematic areas of the study including taxation in Ghana and taxation of SMEs, tax compliance by Small Scale Business, tax policy and level of compliance of SMEs, tax policy that encourages voluntary compliance of SMEs and attitude and behavior of SMEs towards tax compliance. It further reviews literature on the determinants of tax compliance considering sub-categorical factors such as financial factors, organizational factors, collective factors, human being factors and demographic factors.

2.1 TAXATION IN GHANA: A HISTORICAL PERSPECTIVE

The English Frontier Government during a period when World War II was exceptional declared levy in the Gold Coast in 1943. However, it is perceived that in advance of the organization of Pay Expense in 1943, numerous efforts had been affected. Case in point, in the prior years of 1852, the Survey Charge Statute was endorsed to accumulate funds to do the upsurge expense of the organization of the province by the English (Ali-Nakyee, 2006). Under the Announcement, all humankind living in the areas underneath English canopy were to give out one shilling by every individual per annum. The initial trials of the establishment of direct duty were unsuccessful due to the faintness innate in the plan of preparation and the reason that the initial revenues produced were principally employed to reward the upsurge pays of the authorities of the English and infrequently for setting up social framework.

The Pay Charge Law viewed as the first Pay Charge Law was likewise presented in 1943. This Declaration was shown to a great degree on the overall values fundamental to the Salary Charge Law then essentially in the UK (Ali-Nakyea, 2006). It required the expense for the most part on revenues sourced in Ghana; thus an outside salary inflow was not subjected to the tax except it was sent in the nation. A key characteristic of this Pronouncement was the various peculiar respites and derivations it constituted.

Next to achieving her political freedom and as another fangled independent nation, Ghana required financial asset to regulate the nation's apparatus, to amalgamate the once more won freedom and additionally to guarantee that the developing ambitions of citizenry are figured it out. In light of these intentions, it was fundamental for radical alterations in the arrangement of duty succeeded from the English. In 1961 for instance, radical changes were effected to the combined version under Act 68, trailed by Act 178 in 1963 and wrapped off by Act 132 in 1965. The Income Tax Decree, 1966-No. 78, viewed as the second combined version was made accessible in September, 1966 (Ali-Nakyea, 2006). Additional measures intended to uniting the Income Tax System resulted to various changes to the decree still the Income Tax Decree 1975, S.M.C. Decree 5 was passed. The present Income Tax Law is the Internal Revenue Act, of the 2000 (Act 592).

2.2 TAXATION OF SMALL AND MEDIUM ENTERPRISES

Monetary system is one of the fundamental components of macroeconomics approach and its obligations have been considered in a twofold connection: in the first place, the core of financial arrangement, and second, the unfaltering quality with the monetary strategy (Holban, 2007). In wide terms, the determination of assessment arrangement to take up relies on upon the utilization of one or both two gatherings of instruments; the

first being the utilization of one of a kind expense inclinations and the second impetuses to manage start-up and development of little organizations. The inspiration incorporates the lessening of corporate pay assessment rates, uncommon expense inclinations and alternate motivators to bolster start-up and development of little organizations. Besides the motivating forces of bringing down of corporate pay expense rates, uncommon duty exceptions and eases for little organizations could be executed. The basic role of levy is to raise salary adequately, through measures that suit every nation's conditions and authoritative capacity. In fulfilling the income work, an all-around arranged duty framework ought to be all around sorted out in minimizing the distortionary sway on asset circulation, and reasonable in its effect on distinctive gatherings in the public arena (Bolnick, 2004). It is critical that the nation's circumstances is legitimately investigated before taking any duty approach all together have a properly living up to expectations charge framework in light of the fact that as indicated by Slemrod (n.d), a number of the challenges with the expense powers are the result of misguided assessment strategies and an absence of conviction in regards to potential strategy changes. The primary target of any expense arrangement is to accomplish most extreme income with lower accumulation expense while minimizing the income misfortune, diversion to the economy, and the imbalance and unconventionality of the taxation rate.

In many economies, for example, Ghana that is still in the throes of a downturn, the expense framework must be sufficiently adaptable to advance sparing, rouse in speculation and compensate social obligation and exploration subsidizing. By widen the assessment net, approach creators should always remember the criticalness to give the fundamental foundation; empower fares, and essentially raise open incomes from non-oil sources (Punch, 2010). Thus, charge arrangements ought to go for bringing every single

assessable grown-up into the duty net with a graduated rate that ought to ensure that the affluent people pays their own particular offer while the low wage workers are given investment funds upgrading motivating forces.

A nation's advancement and improvement relies on upon an effective and proficient assessment organization framework, it is as a consequence of this that Baurer (2005) trusts that any duty organization must give an ensuring so as to note playing field to business that all citizens meet their expense documenting and paying prerequisites when due. The income power must adjust its instructive and bolster part with its authorization part.

The ordinances of tariff are the method of reasoning behind the entire arrangement of assessment as is reliable with two of the three noteworthy hypotheses of duty to be specific; the Capacity to-Pay Rule and the Equivalent Dissemination Rule. These two standards stress balance and reasonableness. While the Capacity to-Pay talks pushes that people ought to be required assessments taking into account their capacity to pay, the Equivalent appropriation Rule proposes that pay, riches, and exchange ought to be burdened at an altered rate; that is, individuals who procure more and spends more ought to pay more duties, however won't pay a higher rate of charges (Gabay, Remotin, & Uy, n.d).

2.3 TAX COMPLIANCE BY SMALL SCALE BUSINESS

Charge agreeability as is characterized as often as possible and utilized as a part of the writing may be thought to be excessively shortsighted. As referred to by James, *et al* (2003), a more far reaching definition has been created by James and Alley (2003). The

most well-known past methodology has been to conceptualize agreeability as far as the "expense crevice". It implies or speaks to the distinction between the real income gathered and the sum that would be gathered if there were 100 for each penny agreeability by assessable persons, however there are a few varieties as in the budgetary year 2008/2009 the GRA neglected to meet its objectives. Moreover as indicated by James (2000), assessment satisfaction is communicated regarding degree to which citizens meet the terms with duty law, and the level of resistance is measured as far as the expense hole, which is characterized by (Andreoni *et al.*, 1998 and Saalemi, 2000) the variety between the duties that the demonstration tries to gather and those truth be told gathered. There are crevices as a result of what happens by method for both assessment shirking and duty avoidance. In the same way, consistence hole is additionally characterized by (Deloitte, T. 2005) as the break between the genuine and the plausible expense income and how that prattle shifts among the diverse divisions of the taxpaying populace. With Andreoni *et al.* (1998), they added a period component to consistence, yet at the same time fundamentally concerned with expense avoidance as the crucial piece of the assessment crevice definition. Concerning time component, James (2000), was worried about the season of installment as it expresses that a citizen may eventually pay his or her full obligation at the same time, if the installment is late, the citizen can't be checked to have been agreeable. A more recent definition comprises of three particular sorts: reporting agreeability, documenting consistence and installment agreeability. By the by, these crucial ideas of the "tax gap" of non-compliance appear to document excessively shortsighted for pragmatic purposes. Charge chairmen could be fruitful if citizens co-work with the operation of an expense framework, instead of be compelled to attempt each part of their commitments reluctantly. The assessment law all alone can't adapt to each projection and must be supplemented with regulatory measures

and choices and, generally as vitally, keeping in mind the end goal to work, it needs to have a consistent level of willing agreeability with respect to the citizens themselves (James *et al.*, 2003).

Another concern is whether "compliance" alludes to deliberate or required behavior. On the off chance that citizens "meet the terms" simply because of dreadful trepidation or badgering or both, it would not give off an impression of being full consistence, regardless of the possibility that 100 for every penny of the assessment was brought up in accordance with the "tax gap" idea of resistance. As an option, it may be contended that fitting agreeability implies that citizens meet their assessment dangers or solicitation of lawful or association sanctions. A more suitable definition could hence mean the level of consistence with expense law and organization that can be accomplished without the quick risk or authentic use of implementation movement.

Charge shirking and duty avoidance may be seen as a terms of expense agreeability. These two exercises are normally recognized as far as legitimacy; the assessment shirking alludes to lawful strategies to decrease the taxation rate whiles charge avoidance is an unlawful measures. James (2000) portrays charge shirking as the legitimate method for controlling a singular's undertakings so as to diminish their duty obligation. Nonetheless, if citizens go to inordinate length to diminish their assessment risk, this could hardly be measured "consistence", regardless of the fact that it were inside of the letter of the law. Since tariff is not generally exact, Seldon (1999) in James *et al.* (2003) has likewise authored the expression "tax evasion" to depict circumstance where the law may be indeterminate. Then again, a few analysts see resistance just as an issue of avoidance, which does not appear to take into authority the full arrangement

ramifications of the issue. Clearly charge avoidance is an unnecessary type of rebelliousness. Be that as it may, if well behaved citizens go to preposterous length to diminish their assessment obligation this could scarcely be thought to be "consistence" either. In such circumstances, citizens may incorporate participating in false dealings to dodge expense, paying special mind to each conceivable lawful derivation, utilizing postponing methodology and advances wherever this may diminish the surge of assessment installments et cetera. "Tax exiles" even appear to want to relocate, instead of satisfy their commitments as natives barely a case of "compliance".

Albeit, such activities are inside of the restrictions the duty law, they are clearly not inside of the soul of the law. An assessment consistence may thus be better characterized as far as consenting to the soul and in addition the letter of the law. The "tax gap" methodology does not worry about the probability that a few citizens may pay more than their lawful commitment. We could check that not all citizens search for each conceivable strategy for diminishing their expense risk and a unidentified number don't guarantee their full benefit on passable reasoning's. An option better meaning of agreeability may along these lines include measures which are predictable with the soul and additionally the letter of the law. Then again a meaning of rebelliousness may be the disappointment of citizens to make strides as per the statutory necessities or aims of the duty law and organization without the use of authorization activity. From the above expressions agreeability can be seen as acting as per the duty law and resistance is takeoff from the expense law. Moreover, the expressions the meaning of assessment agreeability can be in a minute refined as the need or availability of the citizens to act as per the expense law and the deliberate exertion they practice to pay their duty obligation on convenient premise as and when due.

As began by Schultz (2004) and Fjeldstad (2004), without trust there is practically no premise for social co-operation and deliberate consistence with laws and regulations that could conceivably benefit everybody. The energy not to go along regardless of the fact that others do go along characterizes the freed riding issue that is basic in aggregate activity circumstances in private and open foundations. A subject that has enthusiasm from a mixed bag of observers is the issue of duty agreeability. In all circumstances, no assessment framework can work adequately without the co-operation of the greater part of citizens, and in this manner, the elements that impact consistence are essential. Charge agreeability definition is typically thrown regarding the level to which citizens follow charge law. By and large, it has been said that the level of rebelliousness can be measured as far as the 'duty hole'. This speaks to the distinction between genuine wage and that which would be set up if there were full agreeability (James, 2000).

Willful consistence is an element of open demeanor towards assessment and authoritative quality (proficiency and viability) of the duty power. Open mentality towards tariff is additionally thus influenced by the social, social, and political elements and mindfulness about expense and decency of the assessment framework. In the event that it is seen that just the individuals who are affluent or deceitfulness or both advantage from rebelliousness, this may lessen 'charge resolve' and the ability of whatever is left of the populace to go along. It has been noted by WallSchutzky (1993) in James (2000) that, about the greater part of the idea around there has been focused on why a few citizens don't agree as opposed to why others do. By and by, this study tries to concentrate on both sides i.e. why do citizens consent and why others don't go along. Despite the fact that Kenyan cutting edge charge organization is not more seasoned than a large portion of a century, it has experienced a few lawful revisions amid this time. Be

that as it may, the change is not as large as its age similarly as resident's willful agreeability is concerned.

In Ghana, the tax administrations by and large weights on lawful authorization as a solution for guarantee its fitting working which is the all-inclusive acknowledged practice. Case in point, the present wage charge declaration has expanded the measure of punishments and reinforced the method for implementation while it states nothing about how to make and build the familiarity with the citizens. The duty powers have the privilege to offer the property of evaders without going to courts keeping in mind the end goal to gather the remarkable expense charge. At first the majority of the change endeavors focused on institutional capability building and putting upholding legitimate structures set up while just unimportant exertion, if any was sent to make general society mindful of the advantages of paying expense to the country yet this arrangement is being improved.

The citizens training program that is being carried on once in a while, focuses more about showing the substance of the expense laws and punishments as opposed to advancing citizens' awareness of other's expectations toward levy and conceiving approaches to remunerate consistent conduct.

2.3.1 TAX POLICY AND LEVEL OF VOLUNTARY COMPLIANCE AMONG SMES

Under the customary arrangement of assessment, Little citizens are victimized, given that the agreeability prerequisites expense of consistence and duty rate are the equivalent for both little and extensive ventures. Reducing the compliance cost and tax rate increases the small undertakings profit edge. In all circumstances, the Administration's assessment

income increments, since the simple prerequisites for little and medium ventures diminish the measure of the casual economy and the quantity of non-consenting enrolled citizens (Vasak, 2008). Moreover, Small and Medium Enterprises for the most part need to work in an oppressive administrative environment with the plenty of administrative offices, various expenses, difficult importation method and high port charges that consistently apply genuine weight on their operations. An unnecessarily complex administrative structure and tax system or one troublesome in its organization and implementation makes charge agreeability unduly harsh and frequently have a distortionary impact on the improvement of Small and Medium Endeavors as they are enticed to transform into ways that offer a lower taxation rate or no assessment load by any means (Masato, 2009), and this has brought about an assessment framework that forces high costs on the general public. A feebly executed assessment plot likewise prompts low productivity, high accumulation charges, exercise in futility for citizens and the staff, and the low measures of got duties and the variety of ideal circulation of assets (Farzbod, 2000). Open watched proof obviously demonstrates that little and medium measured organizations are influenced nonsensically by these expenses: when scaled by deals or resources, the consistence expenses of Small and Medium Enterprises are higher than for substantial organizations (Weichenrieder, 2007).

2.3.2 TAX POLICY THAT ENCOURAGE VOLUNTARY COMPLIANCE BY SMES

Much of the time, Small and Medium Enterprises make up unexploited income potential and an uneven playing field in numerous nations (International Tax Dialogue, 2007) and in that capacity they should be into the expense net by all models. Be that as it may, however enactments are required controller for assurance of the business environment

and insurance of the financial operators, for establishing of the vital government disability regulations, they might likewise hinder agreeability and the improvement of business through additional uses and managerial hindrances. As indicated by Shahroodi, (2010) for an expense structure to be proficient, the assessment methodology should be arranged such that the duty rates are suitable and normal, the exclusions are lower in sum, the duty gathering strategy are more productive, the taxation rate of the poor individuals ought to be lighter and the battle against affectation and expense avoidance ought to be a great deal more extreme.

The arrangements of tax strategies can be organized so as to not just straightforwardly influence SMEs additionally somehow go ahead for intentional agreeability and their development. Yaobin (2007), in his accentuations expressed that uncommon duty administrations for Small and Medium Enterprises may be suitable methodology instruments for minimizing the expense of gathering. The consciousness of the perils of inadequate assessment of SMEs has developed as a result of the capability of uneven duty authorization to bring about mutilations of rivalry, deliberate consistence by bigger undertakings and by compensation workers, (International Tax Dialogue, 2007), administration contribution ought to help manage parity while guaranteeing that nations abuse the social advantages from more prominent rivalry and business. Ace business (and Pro-SME) Tax administrations and implementation ought to be basic, steady and unsurprising ought to lower agreeability and managerial expenses, and subsequently diminish vulnerability confronted by citizens and also enhance the levels of intentional consistence (Kasipillai, 2002).

2.4 ATTITUDE AND BEHAVIOUR OF TOWARDS TAX COMPLIANCE

Concerning elevated amounts of rebelliousness in Ireland, the Workplace of the Executive of Corporate Implementation (ODCE) was set up by the Organization Law Authorization to uphold the Irish Organization Act with the intend to diminish the business dangers of resistance by restricting the rate of false, exploitative, and rebelliousness conduct (Heneghan & O'Donnell, 2007). Subsequently, Schmidt, Bennis, Bainbridge, and Hallsworth (2007) held that the retail and administration area is presently a standout amongst the most exceptionally managed parts of the United Kingdom economy, with the presentation, usage, and authorization of new business enactment bringing about significant extra cost.

As per Schmidt *et al.* (2007) the managerial expenses incorporate all the time and assets spent by proprietors, directors, and staff or employed hopes to comprehend regulations, gather, plan, report, hold information, and fill in structures needed by governments. Munnich (2007) likewise fought that consistence costs for SMEs is more than five times higher than those for substantial organizations, a disproportionality that is especially unmistakable in the administration segment. Three principle purposes behind this are the size of the expense as administrative expenses make up a bigger extent of use, the altered way of numerous agreeability costs that outcome in raising the breakeven focuses, and aberrant expenses from the diversion of entrepreneurial consideration (Schmidt *et al.*, 2007).

Directors and proprietors of SMEs feel overburdened with existing workloads and think that it's hard to experience all their research material and stay state-of-the-art on enactment (Schmidt *et al.*, 2007). As needs be, Small and Medium Enterprises need to

hold up under with the differential expenses of, for instance, concocting and directing more formal methodology for overseeing customarily casually took care of staff base, and in addition the regularly higher variable expenses connected with manual checks whereas bigger organizations have automated frameworks set up (Schmidt *et al.*, 2007). Briscoe *et al.* (2000) in his announcement reported that the New Construction Industry Scheme (CIS) accompanies its new obligations regarding utilizing foremen and these included checking the legitimacy of any displayed declarations and recording any installments made on fitting vouchers.

SMEs are furnished with data through the Web however a large number of them don't make utilization of this data source (Schmidt *et al.*, 2007). They further announced that the absence of consciousness of what should be done, and when there is attention to approaching regulations, people's view of potential expenses and advantages are regularly mutilated, as delineated by the proprietor of the ranch shop who stresses over failing to understand the situation and just reacts by staying away from instead of tending to the issue. Poor data can prompt excessively lavish agreeability arrangements, including further expenses as a consequence of lack of awareness and misperceptions. A large portion of the proprietors of SME runs it as a way of life and may receive a casualty position, though a more proactive methodology can do significantly more to bolster the long haul accomplishment of business (Schmidt *et al.*, 2007).

Bannock (2001, p.3) contended that, "administrative expenses are genuine asset costs which have option utilizes ... in the event that administrative expenses could be decreased by, say, 2 rate purposes of Gross domestic product, tariff on business could be expanded by a comparable sum without business being more regrettable off." In Schmidt

et al. (2007) it is trusted that on the other hand the assets could be put resources into the development and running of SMEs, empowering them to continue to make an essential commitment to the U.K. economy.

In Briscoe *et al.* (2000) it was accounted for that the powers attempted to close escape clauses in the enactment by, for instance, by making it obligatory for builders to formally utilize the independently employed with the goal that they will be qualified to paying Pay as You Earn (PAYE) and National protection. Another probability was to move specialists In the process of childbirth offices and rehire their administration or to help gatherings of independently employed to shape into a restricted organization (Briscoe *et al.*, 2000). Additionally, an arrangement of fines and charges apply to foremen who neglected to legitimately execute the new plan, for example, getting pertinent authentications with inability to get such endorsements being constrained onto the SC60 scheme, where essential rates of assessments and national protection are deducted at forthright from any payment.

Another way to deal with inciting more noteworthy duty agreeability is favored as opposed to fines and more tightly regulation. Schmidt *et al.* (2007) reported that their discoveries unequivocally bolster the conceivable arrangements proposed by the Public and Corporate Economic Consultants (2004) whereby respondents requested less regulations, a diminishment in the intricacy and research material needed, enhanced examination preceding the presentation of new regulations, more prominent adaptability in duty consistence, and additionally an one-stop-search for giving data and backing. Also, they expressed that doubtlessly the greater part of the issues brought up in their study could be resolved by means of supplementary counsel and bolster components

proposed particularly at SMEs and conveyed through channels traditionally utilized and trusted by SME owners.

Asides the torments of powers to control resistance, there are various hindrances to assessment consistence, for instance, Rusi and Sadiraj (2003) prominent that around 59% of undertakings were found in areas that did not correspond with locations found in the duty workplaces. It is for the most part troublesome for powers to track citizens, bringing about huge duty avoidance. A just as difficult issue, as indicated by Fries, Lysenko, and Polanec (2003), was that "associations both under reported genuine deals to tax authorities and re-numerated them with a specific end goal to lessen their monetary weight. Traditions shows up as the exceedingly debased foundation, as almost 90% of its authorities turned to exploitative practices" p. 14. Such practices have a tendency to trade off the capacity of expense powers to gather enough income for the fiscus as highlighted by Bitzenis and Nito (2005) that numerous organizations in Albania in the formal division dodge assessments to some degree by keeping up "two sets of books" while unregistered firms have a critical duty advantage on the grounds that they sidestep the high taxation rate. The vast majority don't have faith in the assessment framework and Bitzenis and Nito (2005, p.573) expressed, 10% of the specimen trusted that the levy framework is proper, 15% felt that it is mostly fitting and needs assist impetuses for development, while 71% asserted that the tariff framework is unseemly and VAT rates were thought to be too high..

This disposition appears to win in the dominant part of would be citizens in Ghana and along these lines citizens have a tendency to fall back on any technique to abstain from paying charges. It will be fascinating to see what else ZIMRA is doing to support charge accumulation from the up to this point untaxed lion's share.

2.5 DETERMINANTS OF TAX COMPLIANCE BEHAVIOUR

Hypothetically, tax system structure, noncompliance opportunity, attitude and perception have direct impact on tax compliance conduct while demographic components have circuitous impact (Fischer *et al.*, 1992). Tax framework structure is a noteworthy determinant of duty consistence conduct (Jackson & Millron, 1986; Fischer *et al.*, 1992; Richardson & Sawyer, 2001). The components that focus the adequacy of the assessment framework structure of any nation incorporate likelihood of recognition, punishment, expense rate and many-sided quality of duty framework. Studies have given proof connecting these variables to agreeability conduct (Chan *et al.*, 2000; Fischer *et al.*, 1992; Jackson & Millron, 1986). Observationally, Friedland, Maital and Reuentberg (1978) reported that expense reviews have an in number impact on assessment consistence conduct. Likewise, Witte and Woodbury (1985) additionally found that there is a critical positive relationship between tax audit and rate of tax compliance. So did the discoveries in the investigations of Dubin and Wilde (1988), and Slemrod, Blumenthal and Christian (2001).

The tax authority punishes the citizens who neglected to consent to expense rules. Chau and Leung (2009) guaranteed that tax punishment is a vital element impacting tax compliance conduct and the creators recommended that the apprehension of punishments would forbid the rebelliousness inclination. Witte and Woodbury (1985) set up a

noteworthy relationship between the seriousness of criminal authorizes and duty agreeability. Comparable result was accounted for in Feld and Frey (2006). Different components of the assessment framework structure, which impacts charge agreeability conduct, incorporate expense rate structure and intricacy of the duty framework (Fischer *et al.*, 1992).

Moreover, a singular's state of mind towards the tax framework may foresee his expense consistence conduct. A taxpayer who has a good state of mind towards tax evasion is relied upon to be less agreeable and similarly a taxpayer with an unfavorable demeanor is liable to be more consistent (Kirchler, Hoelzl & Wahl, 2008). Eriksen and Fallan (1996) uncovered that taxpayer's attitude towards tax framework has an impact on strengthening the craving towards tax evasion and compliance. Different studies reported comparative discoveries on the relationship between citizen' state of mind and agreeability conduct (Chan *et al.*, 2000; Oriviska & Hudson, 2002; Trivedi, Shehata & Mestelman, 2005).

In Fischer's model, wellspring of salary, level of pay and occupation are considered as variables giving chance to assessment rebelliousness. Observationally, studies have verification the relationship between resistance opportunity elements and expense consistence conduct. Ritsema and Thomas (2003) demonstrated pay level is emphatically identified with the duty owed. Likewise, Manaf, Hasseldine, & Hodges (2005) found that middle-income taxpayers are more compliant. Concerning wellspring of income, Fjeldstad and Semboja (2001) likewise watched that representatives paying their duties through a withholding framework have less chances to be rebellious. In another study, Richardson (2006) found that salary source is essentially identified with expense

avoidance. In admiration of occupation, Andreoni *et al.* (1998) prominent that there was putting it mildly of duties by a more noteworthy rate by sole proprietors. Conversely, Manaf *et al.* (2005) demonstrated sole proprietors are liable to be more consistent.

Notwithstanding the elements in the Fischer's model, Bobek, Robert and Sweeney (2007) and Chan *et al* (2000) considered good responsibility as an element that impacts charge consistence and for this situation, Erard and Feinstein (1994) contended that the level of citizen's ethical thinking hones their agreeability conduct. Experimentally, Recker, Sanders and Roark, (1994) prominent that when tax noncompliance is considered as an ethical issue, people are less inclined to avoid assesses independent of the circumstance. Chan *et al.* (2000) additionally demonstrated that Hong Kong taxpayers have a low level of good thinking, and, therefore, low assessment agreeability. Interestingly, in any case, Bobek and Hatfield (2003) observed that an abnormal state of good commitment alone would not completely dispense with assessment rebelliousness.

Writing additionally gave proof on the relationship between particular duty learning and expense agreeability conduct. Song and Yarbrough (1978) showed that the respondents with high financial information had a more positive duty ethic score than those with less monetary learning. Eriksen and Fallan (1996) likewise reported that expanded particular expense learning made respondents consider their own particular assessment avoidance all the more truly, their discernment about duty decency expanded and their disposition towards other singular's expense rebelliousness got to be stricter. Essentially, Manaf *et al.* (2005) found that learning and comprehension of assessment is identified with area citizens' agreeability disposition in Malaysia.

Thus, Everest-Phillip and Sandall (2009) pronounced that open administration quality is important to have a decent duty framework and that likewise, a great assessment framework is crucial to accomplish open administration quality. In dissecting the relationship in the middle of citizens and government, Levi (1988) expressed that the expense agreeability is impacted by a vertical contract. Levi (1988) contended that if the citizens see that the rate of change from tax to political products is low then they will feel that the legislature has not kept its commitment of the agreement, subsequently, intentional duty consistence would decay. Egwaikhide (2010) fought that there is a high relationship between assessment agreeability and great open administration. Different creators likewise give support on the contention that open administration quality has impact on citizens' consistence conduct (Akpo, 2009; Alm & Gomez, 2008; Mann & Smith, 1988; Torgler, 2003).

The nature of administration gave by tax workplaces additionally has sway on taxpayer' conduct. Ott (1998) pronounced that the objective of any expense organization is to offer a superior administration to citizens. The way in which citizens are dealt with over the span of the procurement of assessment administration may impact their consistence conduct (Jackson & Millron, 1986; Feld & Frey, (2006). Torgler (2007) contended that taxpayer' ability to chip in with the tax authority will increment, if the power sees itself as an administration establishment and gives a quality administration and regards the citizens as accomplices. So also, OECD (2010b) presented that the conveyance of value administration to citizens will fortify their readiness to conform to expense principles and regulations willfully, and, subsequently will add to the general level of tax compliance.

Different studies have demonstrated that the level of assessment agreeability may be influenced by the level of trust and cohesiveness in a nation (Kimenyi, 2003; Lassen, 2003; Torgler, 2003). Correspondingly, it has been pointed out that the level of level of trust in a general public is connected with the level of ethnic polarization and assorted qualities existing in the general public (Kimenyi, 2003; Lassen, 2003; Zerfu, Zikhali & Kabenga, 2009). As indicated by Kimenyi (2003), a general public with various ethnicity is portrayed with low trust and, just as, such a general public can be described by a notably lower level of citizens' agreeability when contrasted with a general public with high trust. On the other hand, Okediji (2005) has contended that moral differing qualities ought to incorporate social variables like religion on the grounds that certain ethnic gatherings are identifiable with a specific religion. Exactly, Song and Yarbrough (1978) found peripheral contrast in the middle of blacks and whites in expense agreeability, while the investigation of Aitken and Bonneville (1980) reported that a bigger number of blacks than whites were less consistent. Cummings, Martinez-Vazquez, Mckee and Torgler (2006) watched that distinctions in the consistence level between the US and the two African nations (Botswana & South Africa) are because of contrasts in ethnic foundation.

2.5.1 DEMOGRAPHIC FACTORS AFFECTING TAX COMPLIANCE

Demographic components, for example, age have long been mulled over by scientists; however the discoveries from distinctive studies stay uncertain. Case in point Tittle (1980), Warneryd and Walerud (1982) and Wahlund (1992) set an antagonistic affiliation - i.e. more seasoned individuals are less agreeable. Interestingly, Clotfelter (1983), Dubin and Wilde (1988) and Beronet *al.* (1992) contended that age was decidedly related with consistence. Then again, there have been a noteworthy number of

studies that have discovered no relationship (Spicer and Lundstedt, 1976; Spicer and Becker, 1980 and Porcano, 1988). Chan *et al.* (2000) likewise focused on age and agreeability conduct and further proposed that age has an immediate, beneficial outcome on salary and an immediate, positive (negative) impact on training in the US (Hong Kong). These conflicting discoveries are clarified by Torgler (2007) as in the first place, age does not affect consistence in all citizens; also, conflicting resistance definitions utilized as a part of the examination; third, the impact on citizens agreeability is weakened when age is connected with various different variables and fourth, the evaluating cooperation of age with different variables is risky.

Jackson and Milliron (1986) observed that salary level has a blended and vague effect on consistence, a hypothesis additionally bolstered by Christian and Gupta, (1993) and Hite (1997). In spite of the fact that Jackson and Milliron did not obviously expound on the purposes behind this discovering, it is assumed that the endogenous tax regulations among nations may add to the conflicting discoveries. For instance, dynamic tax rates may urge high income group to evade instead of lower income group on the grounds that their (high income group) tax rates and taxable income are high, hence making the expense liabilities much higher than those in the lower pay bunch. For instance Wallschutzky (1984) in his study in Australia and Beron *et al.* (1992) contended that age was decidedly related with consistence. These studies have confirmed that wage level has a noteworthy effect on agreeability. Conversely, high salary workers are liable to be more consistent as opposed to lower wage workers, as proposed by Wearing and Heavy (1997) and Torgler (2007). In a nation where the wage redistribution is not satisfying⁹⁸, higher salary gatherings have a tendency to dodge more (Mohani, 2001) on the grounds that a high pay worker may feel the tax framework is not treating him reasonably.

Chan *et al.* (2000) additionally investigated whether taxpayers' compliance is affected by societies as a component of their study, they investigated likenesses and contrasts in taxpayer agreeability conduct between the USA and HK. Their study approved the experimental connection set up in earlier research between good convictions and citizen consistence (Hanno and Violette, 1996; Hite, 1996); at the same time, they displayed and tried all the significant develops explained in the Fischer *et al.* (1992) model (Fischer Model) in particular demographic, rebelliousness opportunity, states of mind towards and impression of the tax framework and, specifically compelling to this area, investigated the potential impacts of an extra build: social distinction on taxpayer consistence in a universal setting as recommended by Andreoni *et al.* (1998). The motivation behind why the study made an examination between the USA and HK was because of various auxiliary contrasts in the middle of US and HK charge frameworks. HK utilizes a proportional tax rate structure, no intermittent withholding, a required temporary expense, no capital additions tax and no self-evaluation instrument though the USA utilizes a dynamic assessment rate structure, occasional withholding, no temporary assessment, a capital increases expense and a self-assessment mechanism. Both nations additionally have noteworthy issues with citizen rebelliousness.

As indicated by the Fischer Model, non-compliance opportunities can influence tax compliance both specifically and in a roundabout way through states of mind and observations. Chan *et al.* (2000) explores the immediate and roundabout impacts of two rebelliousness opportunities, specifically instructive and salary level. Past writing backings the immediate, negative relationship between instructive level and citizen agreeability however an immediate relationship between income level and tax compliance is vague (Jackson and Miliron, 1986; Roth *et al.*, 1989). Chan *et al.* (2000)

likewise propose that more noteworthy instruction is specifically connected to a probability of consistence. They contend that informed citizens may be mindful of resistance opportunities, yet their possibly better comprehension of the expense framework and their larger amount of good advancement advances a more positive taxpayers mentality and in this way more noteworthy consistence. Chan *et al.* likewise recommended that those with an advanced education level are more prone to have a larger amount of good improvement and more elevated amount mentalities toward agreeability and in this way will have a tendency to consent more.

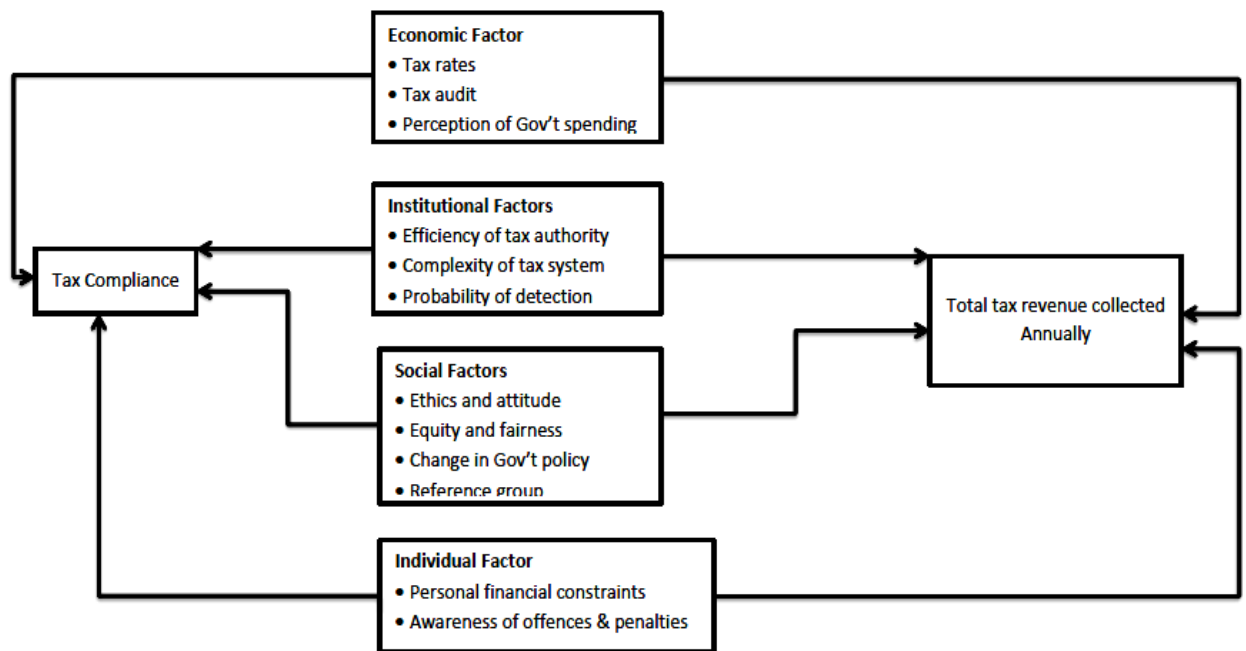
Numerous studies have reported that male and female citizens show diverse levels of assessment agreeability (Alm, Cherry, Jones and Mckee, 2010; Cummings, Martinez-Vazquez, Mckee and Torgler, 2006; Spicer and Saint, 1985; Friedland, Maital and Rutenberg, 1978). Spicer and Hero, (1985) for instance discovered female agreed more than male members in a research facility tests. On the other hand, "ladies are more prone to dodge than men, however underreport a much littler division of their pay than men" (Friedland, Maital and Rutenberg, 1978:113). Bordignon (1993) recommended men citizens are more daring individual than ladies that is the reason men taxpayers go along lesser than ladies taxpayers. The relationship in the middle of sex and tax non-compliance has gotten some consideration in former writing on the other hand, discoveries change crosswise over studies. A few studies found that guys are more consistent however others discovered the other route around. Despite the fact that the understanding among the discoveries is still in exchange, the need to investigate this all the more completely is still applicable particularly in a SAS, so as to help charge chairmen to arrange and focus the structure of their duty reviews and help target charge training projects adequately. Hasseldine and Hite (2003) found that guys were more

induced by adversely confined messages while females were more influenced by decidedly encircled messages. In spite of the fact that the aftereffect of the study can be considered as persuading, all things considered, this study does not contrast and the other two methodologies of encircling, which hazardous decision confining and characteristic are surrounding. Levin *et al.* (1998) said that the examination proof for objective encircling is less homogenous than different sorts of confining as a result of more noteworthy varieties in operationalizing objective surrounding.

2.6 COCEPTUAL FRAMEWORK OF THE STUDY

This segment of the study creates and conceptualizes the study diagrammatically in view of the looked into writing in this part of the study. The area tries to build up relationship between financial elements, institutional variables, social components, individual elements, and SMEs charge agreeability and additionally their impact on the measure of expenses gathered by the Ghana Revenue Authority every year. The relationship is indicated by Figure 2.1, precisely developed by the specialist taking into account extent of the study.

Figure 2.1: Reasonable Structure of the Study



Source: Author's Own Construct, 2015

From the Figure 2.1, envisages the influence of some factors which includes tax rates, tax audits, and the perception of state expenditure on tax compliance of SMEs and hence totals tax revenues collected annually by the Ghana Revenue Authority and this is term economic factors. It also conceptualizes the influence of factors of institutional nature such as the efficiency of tax administration, the complexity of the system of taxation, and the possibility of discovery by the system on SMEs tax compliance and hence the total tax revenues collected annually. Studies on the impact of these elements on consistence appear to deliver repudiating results (Chau *et al.*, 2000); Fischer *et al.*, 1992), Fischer, 1992; Jackson & Millron, 1986). Experimental, Friedland, Maital and Reuentberg (1978) reported that duty reviews have solid impact on expense consistence conduct. Additionally, Witte and Woodbury (1985) likewise found that there is a huge positive relationship between assessment review and rate of duty consistence. So did the

discoveries in the investigation of Dubin and Wilde (1988), and Slemrod, Blumenthal and Christian (2001).

The social factors such as ethics and attitude, payer's perception of fairness and equality of the tax system, the variations in government policies, and reference groups (family and relatives) on SMEs compliance and hence total tax revenues collected annually. The study also conceptualizes the impact of individual issues such as personal financial limitations and awareness of offences and consequences on SMEs tax compliance and hence total revenues collected by the Ghana Revenue Authority annually.

There is also no clear case of the influence of these factors on the tax compliance of SMEs. For instance, In Witte and Woodbury (1985) a significant connection between the harshness of criminal sanctions and tax compliance was established. Similar result was reported in Feld and Frey (2006). Other factors of the tax system structure, which influences tax compliance behaviour, include tax rate structure and complication of the tax structure (Fischer *et al.*, 1992). Chau and Leung (2009) claimed that the fine is a significant feature influencing tax compliance behaviour and the authors in their conclusion stated that the fear of penalties would prevent the noncompliance trend. However, other researchers have also discovered negative influence of these factors on the tax compliance of tax payers.

CHAPTER THREE

METHODOLOGY AND STUDY AREA

3.1 OVERVIEW OF METHODOLOGY

This part examines the research methodology embraced in this thesis. The part talks about the examination outline, the populace and the example and inspecting procedure of the study. The part then blueprints the explanations behind the selection of the contextual investigation technique. It likewise gives an outline of the information accumulation systems utilized for the postulation, and the methods used to break down the information. The last segment of the section talks about the legitimacy and dependability issues that upgrade the quality standard of the exploration.

3.2 RESEARCH DESIGN

As per Polit *et al.* (2001) the exploration outline is a general arrangement for directing the study with a specific end goal to answer the examination question. The examination configuration demonstrates the strides which will be followed in leading the exploration. The ebb and flow study depends on the subjective way to deal with exploration. Quantitative techniques fittingness in clarifying top to bottom variables, for example, the disposition information of SBIE towards charge agreeability, the determinants of SBIE consistence to tax installment, and the difficulties of SBIE in conforming to expense installment, and so forth is more restricted (Amaratunga *et al.*, 2002), and consequently the for the subjective strategy to represent the omissions introduced by the quantitative methodology. This quantitative methodology try to accumulate real information which will be contrasted and the poll result and the past subjective and amounts, studies, and to demonstrate the relationship between certainties from the contextual analysis and the

truths, recognitions and states of mind that were gotten from the survey results. Haseman (2006) clarified that, quantitative exploration grasps an arrangement of investigative, deductive methodologies and sets up examination inquiries and speculations from hypothetical models and them against observational confirmation, while the subjective examination works in an unexpected way. It inclines toward inductive methodologies and essentially envelops an extensive variety of examination techniques and systems, grasping the viewpoints both of exploration and members, and has an essential point of comprehension the significance of human activity.

Also, in light of the fact that the center of this study is on contemporary sensation with some genuine setting and which incorporates direct perception and survey organization, the contextual analysis routines is the favored decision in the study. Contextual analysis examination configuration has different implications in the investigation of sociologies. It can be utilized to depict a unit of examination (an investigation of a specific association or restricted territory) or to portray an exploration system. Yin (2003) characterizes contextual investigation as an experimental enquiry that investigates contemporary marvel inside which it's genuine circumstance, all the more so when the limits in the middle of wonder and setting are not unmistakably expressed. The characterized instance of this study was the Suame Magazine Industrial Area in the Kumasi Metropolis.

3.3 POPULATION OF THE STUDY

A populace is a gathering of people, persons, articles, or things from which tests are taken for estimation (Saunders *et al.*, 2009:101). Target populace is the whole gathering of people about whom you need to accumulate data. To outline a helpful exploration

venture, there is the need to should be particular about the size and area of your objective populace. The objective populace of the study for the most part constitute differing little scale organizations in the Suame Magazine Industrial Area in the Kumasi Metropolis. The real Small Business Income Earners that would constitute the objective populace incorporates Beauticians, Dressmakers and Tailors, Food Vendors, Artisans, Petty traders, Vehicle Mechanics, Provision Shop Keepers, Fuel Station Shopping centers, and Spare Parts Shop Operators. The aggregate SMEs enlisted under the Kumasi Metropolitan Assembly situated in the Suame Magazine Industrial Area are 208.

3.4 SAMPLE SIZE AND SAMPLING METHODS

The example size for the present study was one-hundred and thirty-seven (137) Little Business Pay Workers in the Suame Magazine Modern Range. The fittingness of this specimen size is advocated by the deVaus (2002) example size extent equation approach which has been utilized to figure the proper example size as demonstrated as follows:

$$n = \frac{N}{1 + N(e^2)}; \quad n = \frac{208}{1 + 208(0.05^2)}; \quad n = 208 / 1.52; \quad n = 136.8 \cong 137$$

$n = \text{Sample size}$

$N = \text{Population}$

$e = \text{Confidence Level}$

A non-probability sampling method was applied in this research. The sampling technique used was purposive. According to Ayee, (2007) most Medium and Small Scale Enterprises in Ghana are managed by semi-literate individuals who are indifferent to proper record keeping. It would have therefore been inappropriate to randomly select respondents using probability sampling techniques as it is likely that a respondent may be randomly selected who cannot provide answers to the questions. The sample was

drawn from a population consisting of the following business categories; hairdressers, vehicle mechanics, provision shop keepers, fuel station malls, other shopping malls, and bookshop keepers, vendors of small wares and market women and men. A total of 137 questionnaires were given out of which 115 were successfully returned. The return rate was 83.9%. Out of the successful returns 10 questionnaire forms were omitted.

3.5 DATA COLLECTION

Primary data were mainly used for the study. Data collected through a field survey of Small Business Income Earners in the Suame Magazine Industrial Area were cross-sectional ones. Information was collected on the attitude and knowledge of SBIEs towards tax compliance, the determinants of SBIE compliance to tax payment, and the challenges of SBIE in complying with tax payment. The data was principally obtained from 137 Small Business Income Earners sampled from Suame Magazine Industrial Area with the aid of a questionnaire.

3.5.1 QUESTIONNAIRE

Surveys were utilized to gather information for the study. Survey was utilized to assemble information for this study on the grounds that it isolates a high level of secrecy of people and in addition guarantees the utilization of institutionalized inquiries for every one of the respondents. The Likert scale (a 5-point) rating scale was utilized. Before the planning of the instrument, an intensive writing hunt was directed to focus and arrange ideas and variables utilized as a part of comparable past studies. There were altered to suit the objective of the present study. The survey is self-directed to the Little Business Pay Workers in the Suame Magazine Mechanical Territory.

The survey contains ten inquiries on demographic data and fifteen inquiries on the variables watched, some outlined in a bunch structure. The composed survey comprised of five segments ordered trying to accomplish the set targets of the study. The primary segment depicted the socio demographic qualities of the respondents, the second area expounded on the demeanor and information of SBIE towards charge consistence, the third segment evaluated the level of expense agreeability of SBIE in the SMIA and the last segment distinguishes the difficulties of SBIE in conforming to duty installment.

To evaluate the legitimacy of the poll, master judgment strategy is connected. In this way, the created survey with respect to terms and ideas were introduced to three college speakers and two specialists in assessment. As being what is indicated, they were gotten some information about its build, content, formal appearance and composing model. Numerous inputs were given and included while concluding the survey. It was additionally seen that a portion of the inquiries required update alongside a few increments and cancellations. The important changes were then made and its substance and develop legitimacy were guaranteed lastly affirmed by different specialists. The poll comprised of things in which the view of the member was focal. The things measured the members' observation, work practices and states of mind towards the longing to conform to agree to assessment installment. A large portion of the things are scored on a five-point Likert scale running from 1 "I strongly disagree" to 5 "I strongly agree".

3.5.2 PILOT-TESTING OF INSTRUMENTS

Keeping in mind the end goal to check the consistency of reactions to the things of the organized survey of the study, it got to be basic to lead a pilot test. In perspective of this, a specimen of 25 Small Business Income Earners in the Adum Business Zone who were

not some piece of the principle information organization were chosen deliberately for the pilot testing.

The method of reasoning for utilizing piece of the proposed populace for the pilot test is advocated by what Tuckman (1992) expressed. He demonstrated that a pilot may be led on a gathering of respondents who ought to have been a piece of the proposed test populace however won't be a piece of the fundamental specimen for the study. They could be utilized to test the dependability of the information gathering instruments.

In perspective of the foundation given, a time of one month was utilized to direct the pilot survey to the 25 Small Business Income Earners in the Adum Commercial Area. A self-tended to letter was composed and used to acquaint the analyst with the respondents. At first, the respondents were not arranged to help with the exploration but rather upon determined influence they obliged and in the long run every one of them were met. Information gathered with the organized poll was broke down electronically. All reactions were coded by given them numerical qualities which were then inputted into the electronic programming, the factual item and administration answers for the sociologies. At last, an unwavering quality test was keep running on the things and created an aggregate dependability of $\alpha = 0.8545$ and this is viewed as sufficiently solid for the instruments to be utilized for last information administration.

3.6 METHODS OF DATA ANALYSIS

The target one and two of this study were broke down distinctly. The unmistakable investigation led included the utilization of plain examination (rates and frequencies), means and diagrams for talking about the key variables included in the study.

Be that as it may, the significant difficulties of SBIEs in conforming to assessment installment were positioned with the guide of the Relative Significance Record (RII). Egemen and Mohamed (2005) clarified that, the relative index technique has been generally utilized as a part of research for measuring mentalities regarding reviewed attitudes. A few specialists, for example, Peters *et al.* (2001) Egmen and Mohamed (2005), Assaf *et al.* (2001) and others utilized the Relative Significance File (RII) in their investigation. Relative Significance File (RII) was figured from the equation given beneath:

$$RII = \frac{\sum W}{A * N}$$

Where

RII = Relative Importance Index

W = is the weighting given to each factor by respondents ranging from (1 to 5)

A = highest weight (i.e. 5 in this case)

N = Total no. of respondents

3.7 VALIDITY AND RELIABILITY

Heffner (2004) clarified that, validity refers to the degree in which measuring gadget is really measuring what we planned it to quantify. Burns and Grove (2001) characterized the legitimacy of an instrument as a determination of the degree to which the instrument really mirrors the conceptual build being inspected. Polit and Hungler (1999) give another definition, "Legitimacy alludes to the extent to which an instrument measures what it should be measuring". High legitimacy is the nonattendance of efficient slips in the measuring instrument. At the point when an instrument is legitimate; it genuinely mirrors the idea it should quantify. Accomplishing great legitimacy obliges the

consideration in the exploration plan and test choice (Fellows and Liu, 1997). To upgrade the legitimacy of this study, a pilot study was completed. In addition, the altered survey was finished by the boss and three specialists in assessment to assess the technique of inquiries and the system for investigating the outcome. The specialists concurred that the poll was substantial and sufficiently suitable to quantify the reason that the survey is intended for. Unwavering quality of an instrument is the level of consistency with which it quantifies the credit it should be measuring (Pilot and Hunger, 1999). The test is rehashed to the same specimen of individuals on two events and after that looks at the scores acquired by figuring a dependability coefficient over 0.7 are viewed as attractive. Time of two weeks to a month is prescribed between two tests (Burns and Grove (2001). Because of trouble in becoming acquainted with the SMEs in Adum Business Zone, it was excessively troublesome; making it impossible to ask them to reacts to the organized survey twice inside of the brief time. Barakat (2007) clarified that, defeating the conveyance of the survey twice to quantify the dependability can be accomplished by utilizing Cronbach Alpha coefficient System through the SPSS programming. Hence, the reliability of the major constructs of the research was tested using the Cronbach Alpha coefficient Method which produced an alpha value of 0.8545.

3.8 ETHICAL CONSIDERATION

De Vos (1998) characterizes morals as 'an arrangement of good standards which is proposed by an individual or gathering, is along these lines generally acknowledged and which offers rules and behavioral assumptions about the most right lead towards exploratory subjects and respondents, superintendents supports, different analysts, aides and understudies'. Moral issues considered in this study incorporate the privileges of the foundation and exploratory trustworthiness with respect to the analyst. The objective of

directing the exploration is to produce information through legit lead, reporting and production of an examination report. The analyst is mindful that information ought not be adulterated nor controlled with a specific end goal to keep up the nature of the examination and the report (Burns and Grove (1993). To perform this, a composed assent was gotten from the fitting powers of the Suame Magazine Industrial Area. Moreover, a covering letter, which clarified the target of the examination and the advantages that could be given to the citizens, was joined to the overview. A few guidelines on the most proficient method to finish the poll were added and the time expected to complete this work was evaluated. Since the consummation of the overview ended up being lengthy, the members were fortified by an impetus. The analyst revealed to the respondents that the study is simply intended to fulfill a scholarly prerequisite and not for some other reason. The names of the respondents were not written on the questionnaire for confidentiality was watched

3.9 LIMITATION AND DELIMTAION OF THE STUDY

Regardless of the helpful discoveries of the study, this experimental study has a few constraints to be recognized. To start with, the discoveries in this study rely on upon the genuineness of the respondents. It is known people would concur more on the socially attractive answers and differ more towards socially undesirable answers instead of completely and genuinely express the inclination and sentiments. Next, the confinement of this examination is that the information of the study is gathered through the reviews, so there is a high likelihood of mistaken data. Also, the little example size restricts the dependability and the speculation capacity of the study. Also, as a subjective study, the center of the study is accordingly not on speculation, but rather on particularization which give inside and out comprehension of the duty agreeability of Small Business

Income Earners (SBIEs). With respect to the delimitation of the study, it limits itself to demeanor and learning of SBIE towards charge agreeability; the level of duty consistence of SBIE in the Suame Magazine Industrial Area (SMIA). The study additionally topographically limited to the Suame Magazine Industrial Area in the Kumasi Metropolis.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESULT

This part introduces and examines the consequence of the study with an end goal to address the particular destinations of the study. The significant ranges the part talks about incorporate respondent's experience, charge agreeability level of little business administrators, the demeanor and information of little business administrators and the difficulties of small business operators in guaranteeing expense consistence.

4.1 SOCIO DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

This segment of the study describes the socio demographic attributes of the studied small business owners Suame Magazine Industrial Area in the Kumasi metropolis. The major demographic information discussed included gender, age of respondents, marital status, highest level of education, professional qualification, and sector of business and the annual income of business. The result of the demographic information of the studied small business owners Suame Magazine Industrial Area in the Kumasi metropolis is presented in Table 4.1.

Table 4-1; Socio Demographic Characteristics

Socio Demographics	Frequency	Percent
Sex of respondents		
Male	26	22.6
Female	89	77.4
Age of respondent		
20-30 years	7	6.1
31-40 years	68	559.1
41-50 years	32	27.8
51 + years	8	6.9
Marital status		
Single	19	16.5
Married	78	67.8
Divorced	6	10.4
Widowed	12	10.4
Highest educational qualification		
Basic	26	15.7
SSCE/WASCE	75	65.2
HND	21	13.0
First Degree	12	4.3
Master's Degree	2	1.7
Professional qualification		
ACA/ACCA	9	7.8
Others	106	92.2
Sector of business		
Manufacturing	23	20.0
Agro-business	28	24.3
Wholesale/retail	52	45.2
Service	12	10.4
Annual Income from business		
< 5,000	87	75.7
5,000-10,000	18	15.7
> 10,000	10	8.6

Source: Field Survey, 2015

From Table 4.1, out of the total respondents of 115 small business owners, the majority (77.4%) were females whereas 22.6% were males. This is so because the Ghanaian small business sector predominantly belongs to the informal sector that is largely dominated by women. The majority (59.1%) of the surveyed small business owners were within the age category of 31 and 40 years, whereas 27.8% were also within the age category of 41 and 50 years. It is therefore evident that the majority of the surveyed small business owners were within the economic age bracket of Ghana. This implies that the majority of the surveyed small business owners are within the active working population of Ghana (GLSS, 2000). It is therefore not surprising that the majority (67.8%) of the surveyed respondents are currently married, whereas 16.5% are single. The highest educational qualification of the majority (65.2%) of the surveyed small business owners is SSCE/WASCE, whereas 15.7% only have basic education. The majority (92.2%) of the small business owners surveyed have no qualification in ACA/ACCA. Out of the total small business owners surveyed, 20.0% operate manufacturing firms, 24.3% operate agro-businesses, 45.2% operate wholesale/retail businesses and 10.4% operate service firms. The annual income of the majority of the surveyed small businesses is less than GH¢5,000, whereas 15.7% also earns between GH¢5,000 and GH¢10,000 annually.

4.2 TAX COMPLIANCE LEVEL OF SMALL INCOME EARNERS

This section of the study discusses the tax compliance level of Small Income Earners. The section assesses whether the surveyed businesses keep financial records, have other source of income and declare their incomes to tax authorities. The result of the section is presented in Table 4.2.

Table 4.2; Tax Compliance Level of Small Income Earners

Tax Compliance	Frequency	Percent
Is business registered		
Yes	113	98.2
No	2	1.8
If yes, to which organisation		
GRA	53	46.0
KMA	43	37.4
Trade Association	11	9.6
District Assembly	8	7.0
Years of been in business		
1-5 years	14	12.2
6-10 years	32	27.8
11 + years	69	60.0
Keep financial records of activities		
Yes	86	74.8
No	29	25.2
Have other source of income		
Yes	37	32.2
No	78	67.8
Do you declare the income		
Yes	36	31.3
No	79	68.7
Tax is paid to		
GRA	75	90.4
District Assembly	8	9.6
Rate of payment of tax		
Monthly	53	63.9
Quarterly	12	14.5
Bi-annually	5	6.0
Annually	13	15.7

Source: Field Survey, 2015

The result of Table (4.1) showed that the majority (93.2%) of the surveyed businesses Suame Magazine Industrial Area in the Kumasi metropolis are registered, whereas 1.8% are not registered. The majority (46.0%) of these businesses is registered with the Ghana Revenue Authority (GRA), 37.4% are registered with the Kumasi Metropolitan Assembly (KMA) and 9.6% are registered with Trade Associations. The majority of the businesses have been in business or operated for 11 years or more and 27.8% have been in operation for 6 to 10 years. The majority (74.8%) of the surveyed businesses do not keep financial records of their activities and hence the difficulty of accurately deducting tax from these enterprises. Moreover, the majority (67.8%) of the owners of the surveyed businesses do not have other sources of income. However, the majority (68.7%) of the 32.2% that have other sources of income rarely declare the income to tax authorities in the metropolis.

The taxes paid by the surveyed businesses are predominantly paid to the Ghana Revenue Authority (GRA) as indicated by 90.4% of the respondents. Also, 9.6% pay taxes to VATS and district assemblies respectively. The taxes are paid predominantly in a monthly basis as indicated by 63.9% of the surveyed respondents.

4.2.1 TAXPAYER'S LEVEL OF COMPLIANCE WITH TAX OBLIGATIONS

The tax compliance level of small business owners Suame Magazine Industrial Area in the Kumasi metropolis is discussed in this section of the study. The section emphasizes on small business owners tax registration experience with tax authorities and their attitude toward filing of returns. The result of the section is presented in Table 4.3

The duty consistence level of small business owners Suame Magazine Industrial Area in the Kumasi metropolis is talked about in this area of the study. The segment underscores on little entrepreneurs charge enlistment involvement with expense powers and their demeanor toward documenting of profits. The consequence of the area is exhibited in.

Table 4.3: SBIEs Tax Compliance Levels

Obligation	Level of Compliance			
	Yes		No	
	Frequency	Percent	Frequency	Percent
Initial Registration	98	85.2	17	14.8
Annual Registration	7	6.1	108	93.9
Monthly filing of returns on salaries	28	24.3	87	75.7
Payment of taxation obligations on time	23	20.0	92	80.0
Filing of annual returns/accounts	19	16.5	96	83.5

Source: Field Survey, 2015

The result of table 4.3 shows that the majority (85.2%) of the respondents managing or owning SMEs in Suame Magazine Industrial Area have undertaken initial registration with Ghana Revenue Authority (GRA) whereas 14.8% are yet to. The majority (93.9%) of the respondents rarely undertakes annual registration with GRA and this could be attributed to the gradual fading out of this process in the Ghanaian tax registration system. the surveyed SMEs in the Suame Magazine Industrial Area rarely undertake monthly filing of returns on salaries with GRA as indicated by 75.7% of the respondents. Furthermore, the small business operators surveyed barely ensure payment of tax obligations on time and/or rarely file annual returns or accounts with tax authorities principally because such businesses barely keep records of business activities. Moreover, many small business operators have poor image and attitude towards tax authorities in Ghana.

4.3 ATTITUDE AND KNOWLEDGE OF SMALL INCOME EARNERS

The attitude and knowledge of small business owners on tax compliance is assessed in this section of the study. The section examines small business owner's interpretation of tax regulations, tax planning and functional proficiencies, and business operational proficiencies. The result of the section on the knowledge of small business owners on tax compliance is presented in Table 4.4 through a descriptive method.

Table 4.4: SBIEs Knowledge on Tax Compliance

Knowledge of SBIEs on tax compliance	1	2	3	4	5
Interpretation of tax law regulations					
I understand the Ghanaian tax systems	68(59.1)	31(27.0)	8(7.0)	6(5.2)	2(1.7)
I am aware of most tax laws and guidelines about taxation of incomes for organization	66(57.4)	34(29.6)	10(8.7)	5(4.3)	0(0.0)
I understand income tax laws and regulations in Ghana	58(50.4)	36(31.3)	18(15.7)	3(2.6)	0(0.0)
I can interpret tax laws and compute tax liabilities	62(53.9)	26(22.6)	16(13.9)	7(6.1)	4(3.5)
Tax Planning and Functional Proficiencies					
I know how to treat the expenses incurred in relation to income tax in Ghana	23(20.0)	68(59.1)	16(13.9)	8(7.0)	0(0.0)
I can compute tax liability of our business with ease	14(12.3)	37(32.2)	56(48.7)	8(7.0)	0(0.0)
I always file tax returns with GRA on timely basis as required by law	12(10.4)	26(22.6)	64(55.7)	6(5.2)	7(6.1)
Business Operational Proficiencies					
I always supervise and support my subordinate with tax matters	26(22.6)	68(59.1)	8(7.0)	6(5.2)	7(6.1)
I attend taxation seminars and workshops on behalf of the business to update myself with tax knowledge	18(15.7)	68(59.1)	17(14.8)	12(10.4)	0(0.0)

Rank: [1= Strongly Disagree, 2= Disagree, 3= Fairly Agree, 4= Agree and 5= Strongly

Agree] Percentages are in Parentheses

Source: Field Survey, 2015

The result of Table 4.4 showed that the majority (59.1%) of the small business owners surveyed rarely understand the Ghanaian tax system. The result further showed that the majority (57.4%) of the surveyed business owners are not aware of most tax laws and guidelines about taxation of incomes for organisations. The surveyed small business owners also rarely understand the incometax laws and regulations in Ghana and cannot interpret tax laws and compute tax liabilities. This finding is consistent with the study of Schmidt *et al.* (2007) that showed that the lack of awareness of what needs to be done is a usual characteristic of many SMEs.

The result of Table 4.4 showed that the majority (59.1%) of the surveyed small business owners disagreed with the statement that they know how to treat the expenses incurred in relation to income tax in Ghana. The result of the Table 4.4 further showed that small business owners cannot compute the tax liabilities of the business. The majority of the surveyed small business owners fairly agreed that they file tax returns with GRA on timely basis as required by law. The majority (59.1%) of the surveyed small business owners disagreed that they always supervise and support subordinates with tax matters. The business owners barely understand the tax regulations of Ghana to assist their subordinates in tax matters. It can also be deduced from the result of the Table 4.4 that the surveyed small business owners do not attend taxation seminars and workshops on behalf of the business to update their knowledge in the Ghanaian tax system.

4.3.1 ATTITUDE OF TAXPAYERS TOWARDS TAX COMPLIANCE

The attitude of the surveyed small business owners with regards to tax compliance is assessed in this section of the study. The result of this section is presented with descriptive tool in table 4.5.

Table 4.5: Attitude of Taxpayers toward Compliance

Attitude of taxpayers	1	2	3	4	5
I believe that government gives a good return for taxes paid	72(62.6)	23(20.0)	12(10.4)	8(7.0)	0(0.0)
I believe that cost of tax and compliance is high	26(22.6)	5(4.3)	16(13.9)	68(59.1)	0(0.0)
I believe that information about registration is available	24(20.9)	72(62.6)	12(10.4)	5(4.3)	2(1.7)
I believe that tax authority/officers are unfair/corrupt	1(0.9)	12(10.4)	26(22.6)	68(59.1)	8(7.0)

Rank: 1= Strongly Disagree, 2= Disagree, 3= Fairly Agree, 4= Agree and 5= Strongly

Agree]

Percentages are in Parentheses

Source: Field Survey, 2015

The result of Table 4.5 showed that the majority (62.6%) of the small business owners surveyed believe that government of Ghana does not give a good return for taxes paid. The majority (59.1) of the surveyed small business owners also believe that cost of tax and compliance is too high. This finding is consistent with the study of Schmidt *et al.* (2007) that showed that the compliance cost of SMEs is relatively higher than the larger companies. Munich (2007) revealed that compliance cost for SMEs is up to Six(6) times higher than those for large companies, a disproportionality that is particularly pronounced in the service sector. This attitude and perception explains the high level of tax non-compliance among small businesses in Ghana. The majority (62.6%) of the surveyed small business owners believe that information about tax registration is not available. However, the majority (59.1%) of the small business owners agreed that tax authorities or officers are unfair or corrupt. It is therefore evident that the surveyed small business owners hold negative attitude towards the tax system and officers or authorities of Ghana.

4.4 CHALLENGES OF SBIES IN TAX COMPLIANCE

The perceived challenges of small business operators and the Ghana Revenue Authority are identified and ranked in this section of the study. Respondents were presented with a list of 5 constraints usually reported in the literature as hindering small business operator's compliance with tax regulation. The task of each respondent was to indicate their level of agreement to the factors as obstacles to small business operator's tax compliance. The Table 4.6 displays the mean ranks and by extension, the ranks of the problems as adjudged by the 115 small business operators in the Kumasi metropolis. The result of Table 4.8 was obtained following the non-parametric test for k-related samples in SPSS 17. The level of agreement between the 115 small business operators was tested using the Kendall's coefficient of concordance since there are three or more judges or small business operators.

Table 4.6: Challenges of SBIEs in Tax Compliance

Challenges	Mean Rank	Rank
Low awareness of tax laws	5.89	1
Low integrity of employees of the revenue authority	5.10	2
Low frequency of visitation by Tax officers	4.87	3
Inadequacy of training for SMEs on tax compliance	3.51	4
Low Business Experience	2.82	5
Test Statistics		
N		115
Kendall's W ^a		0.791
Chi-Square (χ^2)		421.331
Degree of Freedom		4
P-Value		0.000
a. Kendall's Coefficient of Concordance		

Source: Field Survey, 2015

The result of Table 4.6 showed that the highest ranked constraining factor in the tax compliance level of small business operators is their low awareness of tax regulations in Ghana with mean rank of 5.89. Most small business operators in Ghana have low level of

education and so barely understand the tax regulations or laws of Ghana. This is consistent with the study of Schmidt *et al* (2007) that identified lack of awareness of what needs to be done as a major problem in tax compliance among SMEs. The second and third ranked obstacle to the tax compliance attitude of small business operator in the Suame Magazine Industrial Area in the Kumasi metropolis were their low integrity of employees of GRA and low frequency of visitation by tax officers with mean ranks of 5.10 and 4.87 respectively. Small business operators generally perceive employees of tax authorities in Ghana as corrupt. Moreover, small businesses are predominantly non-formal and scattered in the country, and tax authorities barely have the financial acumen and adequate personnel to cover them all to ensure compliance. The fourth ranked obstacle is the inadequacy of training for SMEs on tax compliance with mean rank of 3.51. The Ghanaian economy is dominated by small business operators who barely receive training on tax compliance due to financial constraints of the tax authorities. However, the least ranked constraining factor is the low experience of small business operators with mean rank of 2.82.

Kendall's coefficient of concordance (W^a), testing the null hypothesis that there is no agreement (small business operators differ significantly) among the small business operators with respect to how constraining the inventory of problems affect tax compliance was rejected at a 1% significance level. The degree of unanimity as measured by the W-statistics is about 79% since the score is zero for random ranking and 1 for perfectly unanimous ranking. Small business operators in the study area can therefore, be said to unanimously agree that the most constraining factors to tax compliance of small business operators are more related first to low awareness of tax laws and secondly to the low perceived integrity of tax officers.

4.4.1 PERCEIVED CHALLENGES OF GRAS IN TAX COLLECTION

The challenges of GRA in tax collection as perceived by the surveyed small business operators in the Kumasi metropolis is identified and ranked in this section of the study. The mean ranks and by extension, the ranks of the problems as adjudged by the 115 small business operators in the Kumasi metropolis is displayed in Table 4.7.

This result was obtained following the non-parametric test for k-related samples in SPSS 17. The level of agreement between the 115SME respondents was tested using the Kendall's coefficient of concordance since there are three or more judges or respondents.

Table 4.7: Challenges of GRA in Tax Collection

Challenges of revenue collectors	Mean Rank	Rank
Capacity constraints of GRA	5.68	1
Inadequate tax education by GRA due to inadequate resources	5.31	2
Inadequate financial transparency	4.74	3
Poor record keeping	3.89	4
Difficulty in locating business premises and identifying individuals	3.89	4
High cost of collection	3.56	6
Inadequate database	2.81	7
Political Will	1.89	9
Test Statistics		
N		115
Kendall's W ^a		0.791
Chi-Square (χ^2)		116.46
Degree of Freedom		8
P-Value		0.000
a. Kendall's Coefficient of Concordance		

Source: Field Survey, 2015

The result of table 4.7 showed that the highest perceived challenge of GRA in ensuring compliance among small business operators Suame Magazine Industrial Area in the Kumasi metropolis is the capacity constraints of GRA with mean rank of 5.68. GRA is

bereft of the financial capacity and personnel capacity to ensure tax compliance among SMEs that constitute about 70% of businesses in Ghana. As a result, most SMEs escape the loose tax net of the Ghana Revenue Authority. The second and third ranked perceived challenges of GRA in ensuring tax compliance are inadequacy of tax education due to inadequate resources and inadequate financial transparency with mean ranks of 5.31 and 4.74 respectively. The GRA barely organizes workshops or seminars to educate SMEs on the need for compliance due to staffing inadequate and logistics. Moreover, the finances of the Ghana Revenue Authority are not transparent enough to encourage high level of compliance among SMEs. Many Ghanaians also perceive tax officers to be highly corrupt, and that government greatly misappropriates tax revenues. Fries, Lysenko and Polance (2003) indicated that organizations both under reported actual sales to tax authorities and bribed them in order to reduce their fiscal burden. Customs appears as the highly corrupted institution, as nearly 90percent of its officials resorted to dishonest practices.

Poor record keeping and the difficulty in locating business premises and identifying individuals were ranked fourth obstacle of GRA its revenue mobilization activities. Rusi and Sadiraj (2003) noted that 59 percent of enterprises were found in locations that did not coincide with addresses found in the tax offices. This made it difficult for authorities to track taxpayers, resulting in massive tax evasion. However, the least two ranked perceived challenges of GRA in ensuring tax compliance are high cost of collection and inadequate database with mean ranks of 2.81 and 1.89 respectively.

Kendall's coefficient of concordance (W^a), testing the null hypothesis that is no agreement among the small business owners with respect to the perceived constraint of GRA in ensuring tax compliance was rejected at a 1% significance level. The degree of unanimity as measured by the W-statistics is about 79% since the score is zero for random ranking and 1 for perfectly unanimous ranking. The small business operators in the study area can therefore, be said to unanimously agree that the most constraining factor to efficient collection of taxes among GRA is capacity constraining factors like finance and personnel.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents a summary of the findings of the study, draws conclusions based on the key findings and also makes recommendation.

5.1 SUMMARY OF FINDINGS

The study sought to assess the tax compliance among Small Business Income Earners in the Suame Magazine Industrial Area by conceptualizing on areas such as: (1) determine the level of tax compliance of SBIEs in SMIA; (2) examine the attitude and knowledge of SBIEs; (3) identify the determinants of tax compliance among SBIEs; and (4) examine the challenges of SBIE in complying with tax payment.

The Small Income Earners are predominantly registered with GRA and KMA but rarely declare their incomes to these organisations. However, taxes paid by these organisations are paid to the Ghana Revenue Authority. The taxes are predominantly paid monthly. Though the SBIEs highly comply with annual registration with the GRA, they rarely comply with monthly filing of return on salaries, payment of taxation obligation on time and filing of annual returns or accounts.

The SBIEs can barely understand the Ghanaian tax system. The SBIEs are unaware of most tax laws and guideline and barely understand the income tax laws and regulations. The interpretation and computation of tax liabilities are also difficult for SBIEs. There is also low level of tax planning and functional proficiency among the SBIEs in the Suame Magazine Industrial Area in the Kumasi metropolis. They have little knowledge about

the treatment of expenses incurred in relation to income tax in Ghana and compute the tax liability. This low level of knowledge about the Ghanaian tax system could be attributed to the fact that they barely attend taxation seminars and workshops on behalf of their respective businesses.

The SBIEs have generally negative attitude towards the Ghanaian tax system. They perceive that government does not give a good return for taxes paid, that the cost of tax and compliance is very high and that the information about registration is unavailable. The SBIEs further perceived the tax authorities or officers as corrupt and the system as unfair.

The major four challenges of SBIEs in complying with tax payment or compliance Suame Magazine Industrial Area in the Kumasi metropolis were low awareness of tax laws, low integrity of employees of the revenue authority, low frequency of visitation by tax officers and inadequacy of training for SMEs on tax compliance.

5.2 CONCLUSION

There is high level of non-compliance among the SBIEs as few of them in the Suame Magazine Industrial Area in the Kumasi metropolis declare incomes to the revenue collection agencies. However, the few SBIEs that pay their taxes do that with the Ghana Revenue Authority every month. The non-compliance of the SBIEs is highly exhibited in their refusal to undertake monthly filing of returns on salaries, pay tax obligations on time and rarely file annual returns or accounts with the revenue collection agencies.

The low level of compliance could be attributed to several factors including SBIEs difficulty in understanding the Ghanaian tax system and income tax laws and regulations in Ghana. The SBIEs are unaware of most of the existing rules and regulations regarding income taxation of organisation's and can also barely interpret the tax laws and compute liabilities. The low tax planning and functional proficiency level also contributes to the low compliance of SBIEs in the Kumasi metropolis. The seminars and workshops organized for SBIEs are barely attended by or for the business of the business and so could hardly supervise and support subordinates with tax matters. Furthermore, the non-compliance level could also be attributed to the SBIEs perception that government does not give good return for taxes paid, cost of tax and compliance as too high, unavailability of information about registration and tax authorities as corrupt negatively influences compliance.

These perception problems of SMEs are impounded by SBIEs low awareness of tax laws, low integrity of employee of the revenue collection agencies that are perceived corrupt, and the low frequency of visitation by tax officers. These problems are further compounded by several administrative challenges of GRA in the tax administration and collection process. Some of these challenges were capacity constraints of GRA, inadequacy of tax education and inadequate financial transparency. Based on these findings, the make several imperative recommendations in the subsequent section of the chapter.

5.3 RECOMMENDATIONS

From the numerous findings of the research, the study makes a lots of recommendations regarding and human skills and policies to ensure successful tax administration in Ghana and also ensure higher level of compliance among SBIEs in Ghana.

Generally, the tax administration process is perceived complex, time consuming and costly by SMEs. Therefore, the Ghana Revenue Authority can reduce the inconvenience and obstacles in the registration and collection process to enhance compliance among SMEs. An effective and efficient form of computerization can be used to improve the system of registration and return filing method. This system could reduce administrative cost, enhance administrative efficiency, reduce waiting time, reduce GRA visitation, simply assessment of SMEs, prevent duplication of data and also prevent double payment by SMEs. All these potential improvements that could be achieved through the adoption of ICT in the tax administrative and collection process would culminate into increases in the amount realised annually from tax revenues. The adoption of an effective computerized system can successfully be achieve through the financial support of the government of Ghana since GRA currently lacks the financial acumen to adopt such a system effectively.

The general public should be educated on the need for tax compliance. They should be educated on the need and the benefits of tax compliance to the nation and the individual. Such education on taxes could be carried on the national television daily. The Ghana Revenue Authority could also liaise with the numerous radio stations in the country to provide air time for tax education and the need for tax compliance by the general populace. This form of education can improve the image of GRA and reduce the

negative general perception of the public about tax officials and the Ghanaian tax system.

The SMEs have low level of knowledge and understanding of the tax regulations. SME managers have low level of proficiency in taxes and tax planning. There is therefore the need of organisation of tax educational programmes for SME managers. The Ghana Revenue Authority could monthly organize seminars and workshops for SME managers on tax computation and many others. Furthermore, such education can also be carried out through ICT adoption. With ICT adoption, the GRA can educate the SME managers on tax computation and planning through phone messages.

The Ghana Revenue Authority should provide adequate training programmes for tax collection officials and other personnel so as to enhance effective collection and administration. Such training programmes can be sourced externally or internally. The organisation can bring experts in tax administration from other countries to provide training programmes for GRAs staff to enhance their administrative proficiency in taxes. Otherwise, GRA can also sponsor some of its personnel to attend such tax administrative programmes abroad, who would in turn educate the other personnel of the institution through the organisation of workshops internally. Furthermore, it is imperative for GRA to employ more personnel to increase its capacity in reaching out to all potential taxpayers in the country.

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APPENDIX

QUESTIONNAIRE

Dear respondent;

I am an MBA student of KNUST undertaking a study on tax compliance among Small Business Income Earners in the Suame Magazine Industrial Area. This study forms part of the requirement for the programme of Master of Business Administration (Finance) in the Business School of KNUST. Please, read each question carefully before responding, and then circle or tick the appropriate answer in the designated space. Please answer to the best of your ability. You are rest assured that the study is for only academic purposes; all and every information provided will therefore be treated with the utmost confidentiality. Thank you for your help.

A) BIO-DATA

1. Sex:

Male [] Female []

2. Age groups

20 – 30 years [] 31 – 40 years [] 41 – 50 years [] Above 50 years []

3. Marital status:

Single [] Married [] Divorced [] Widowed []

4. Educational Qualifications

Basic [] SSCE [] HND [] First Degree [] Master's Degree []

5. Professional qualifications

ACA/ACCA [] Others (please specify).....

6. Sector of Business

Manufacturing [] Agro-business [] Wholesale/retailing [] Service sector []

7. Income Level of business

< 5,000

5,000-10,000

> 10,000

B) TAX COMPLIANCE BEHAVIOUR: LEVEL OF TAX COMPLIANCE

8. Is your business entity a registered one?

Yes [] No []

9. If yes to (question 8), which organization?

IRS [] VATS [] Trade Association [] District Assembly []

10. How long have you been in business?

1- 5 years [] 6 – 10 years [] 11 years+ []

11. Do you keep financial records of your activities?

Yes [] No []

12. Do you have other sources of income?

Yes [] No []

13. If yes to (question 12), do you declare your other income?

Yes [] No []

14. Which organization do you pay tax to?

IRS [] VATS [] District Assembly []

15. How often do you pay your tax?

Monthly [] Quarterly [] Biannually [] Annually []

16. Please indicate whether your outfit comply with the following tax obligations by
ticking yes or no

Obligations	yes	No
Initial Registration		
Annual Registration		
Monthly filing of returns on salaries and allowances		
Payment of taxation obligations on time		
Filing of annual returns/accounts		

C) ATTITUDE AND KNOWLEDGE OF SBIEs TAX COMPLIANCE

17. Please indicate the level at which you agree with the underlisted statements by

choosing from a scale of 1 to 5. (1= Strongly Disagree, 2= Disagree, 3= Fairly Agree,

4= Agree and 5= Strongly Agree)

Knowledge of SBIEs on tax compliance	1	2	3	4	5
Interpretation of tax regulations					
I understand the Ghanaian tax system					
I am aware of most tax laws and guidelines about taxation of incomes for organization					
I understand the income tax laws and regulations in Ghana					
I can interpret tax laws and compute tax liabilities					
Tax Planning & Functional proficiencies					
I always advise management on tax planning issues					
I advise and communicate tax matters to the management of my employer					
I am sure of the incomes/turnover on which we pay income taxes as a firm					
I know how to treat the expenses incurred in relation to income tax in Ghana					
I can compute the tax liability of our business with ease					
I always file tax returns with IRS on a timely basis as requires by law					
Business operational Proficiencies					
I always supervise and support my subordinates with tax matters					
I attend taxation seminars and workshops on behalf of the business to update myself with tax knowledge					
I sometime bargain with IRS when to pay tax in case I fail to meet deadlines					
Attitude of taxpayers					
I believe that government gives a good return for taxes paid					
I believe that cost of tax and compliance is high					
I believe that everybody should/does pay taxes					
I believe that information about registration is available					
I believe that tax authority/officers are unfair/corrupt					

18. Please indicate the extent to which you agree with the underlisted factors as reasons for your attitude and compliance to tax payment by choosing from a scale of 1 to 5. (1= Strongly Disagree, 2= Disagree, 3= Fairly Agree, 4= Agree and 5= Strongly Agree)

	1	2	3	4	5
A feeling that you are paying fair tax					
Peers reporting and paying tax honestly					
Believing in no corruption and feeling obliged					
High degree of being detected for non-payment					
Rewards given to taxpayers					
Use of informants by GRA to report evaders					
Fear of tax audits and prosecution					
Tax laws are easy to understand i.e. calculation of tax filing and paying dates					
Paying tax fines and penalties					
Aggressive tax enforcement efforts by IRS					
Feeling tax is an obligation					
Government is achieving its tax objectives and is fighting corruption					
Harassments by IRS					
High business profit by operating illegal business, underreporting of profits etc					
Unfair tax system					
Taxes are too high					
Taxes are unaffordable					
Poor public services					
The government waste/steal taxes					

D) CHALLENGES OF SBIE IN COMPLYING WITH TAX PAYMENT

19. Please indicate the extent to which you agree to the underlisted factors as challenges of Small Business Income Earners in complying with tax regulations by choosing from a scale of 5 to 1. (1= Strongly Disagree, 2= Disagree, 3= Fairly Agree, 4= Agree and 5= Strongly Agree)

	1	2	3	4	5
Low Business Experience					
Low awareness of tax laws					
Low integrity of employees of the revenue authority					
Low frequency of visitation by Tax officers					
Inadequacy of training for SMEs on tax compliance					

20. Please indicate the extent to which you perceive the underlisted factors as challenges of GRA/IRS in ensuring tax compliance among Small Business Income Earners by choosing from a scale of 5 to 1. (1= Strongly Disagree, 2= Disagree, 3= Fairly Agree, 4= Agree and 5= Strongly Agree)

Challenges	1	2	3	4	5
Poor record keeping					
Inadequate financial transparency					
High cost of compliance for taxpayers					
Difficulty in locating business premises and identifying individuals					
Inadequate tax education by GRA due to inadequate resources-staffing and logistics					
High cost of collection					
Inadequate database					
Capacity constraints of GRA					
Political Will					