

**ASSESSING THE VEHICLE INCOME TAX PAYMENT WITHIN THE  
INFORMAL SECTOR: A CASE STUDY OF KUMASI METROPOLIS.**

**BY**  
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## DECLARATION

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

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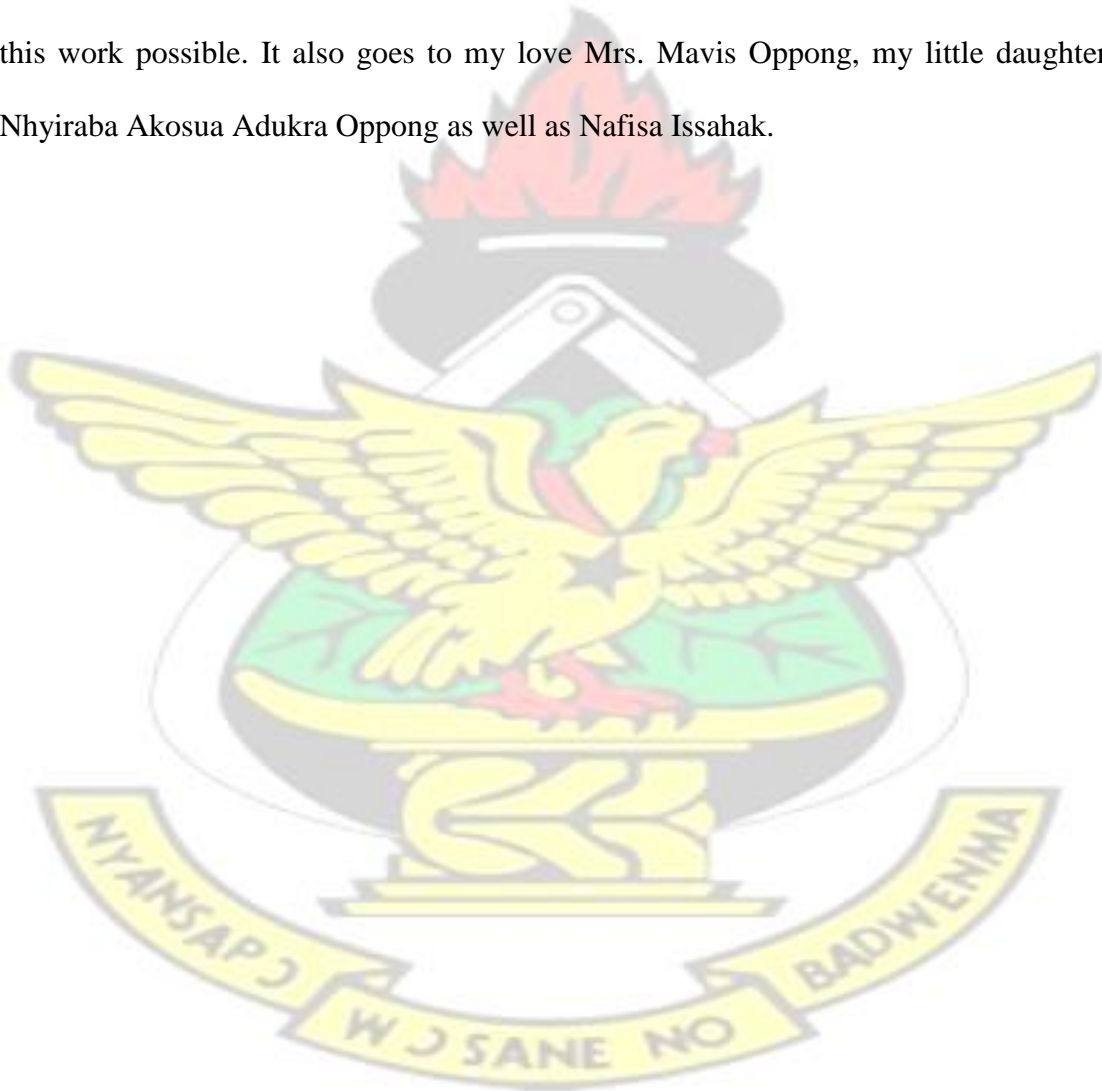
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# ABSTRACT

Taxation plays an important role in economic development by sustaining the existence of the state and financing both social programs and infrastructure investment. However the widespread informal sector posits challenges on transitional economies with domestic revenue mobilization. The key objective of the research was to assess the effectiveness of the Vehicle Income Tax system in widening the tax net and the perception of drivers and car owners' towards the Vehicle Income Tax. The population consisted of all commercial drivers in Kumasi. The study adopted purposive and convenience sampling in collecting data from respondents. Both primary and secondary data were used with questionnaires as the main instrument used for the collection of primary data. Most of the respondents are of the view that the government does not provide enough information about how they use taxpayers' money (VIT). Again, a large proportion of taxes are used by the government for meaningless purposes. They see issues of waste and corruption in government to be so high that they do not see the need to pay VIT. The study recommended that the printing of the VIT stickers should be vested in the hands of Ghana Revenue Authority.

## DEDICATION

I highly dedicate this work to God for giving me strength and knowledge to complete the research. I also dedicate this work to my boss Mr. R.A Kaleo (Deputy Commissioner, Large Taxpayers Office) who have helped me in so many ways to make this work possible. It also goes to my love Mrs. Mavis Oppong, my little daughter Nhyiraba Akosua Adukra Oppong as well as Nafisa Issahak.



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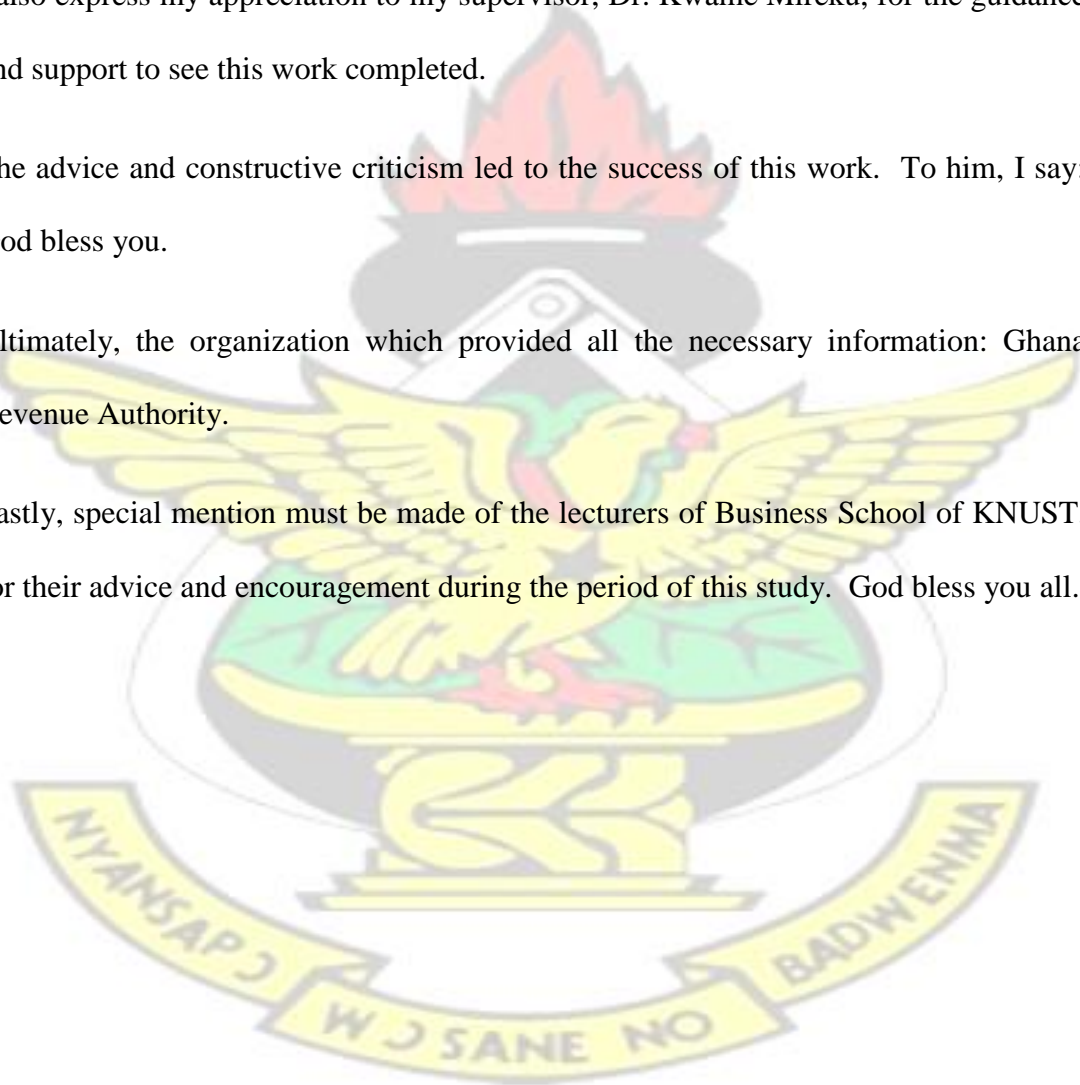
I thank the almighty God for the amazing grace shown to me through guidance, protection and wisdom granted me throughout the study.

I also express my appreciation to my supervisor, Dr. Kwame Mireku, for the guidance and support to see this work completed.

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# CHAPTER ONE

## INTRODUCTION

### 1.0 Background of the study

There are many definitions as far as the informal sector is concerned. According to the International Labour Organization, the informal sector includes all activities of economic nature which is not monitored and is out of the tax net of government (ILO, 1972). It is also defined as all economic activities that are not registered but contributes to the gross national product of a country (Feige, 1989). In very simple terms, Hart (1973) defined it as economic activities which are not regulated.

Farrell et al (2000) have opined two ways or methods which are used to define the informal sector activity. These are by the definitional and the behavioral approaches. While the definitional informal sector includes economic activities which are unregistered in the official statistics such as gross domestic product and or accounts GDP, the behavior approach, defined the informal sector based on whether the activities satisfy conditions under legal, regulatory and institutional frameworks

According to Schneider (2002), in the year 2000, the average size of the informal sector on the Africa continent as a percentage of GDP was 42% and that accounted for 48% of the formal labor market. Countries such as Zimbabwe, Tanzania and Nigeria was by far the biggest of the informal economy with 59.4%, 58.3% and 57.9% respectively while Mozambique, Ivory Coast and Madagascar middle with 40.3%, 39, 9% and 39.6%. At the bottom are Botswana, Cameroon and South Africa with 33.4%, 32.8% and 28.4%. Ghana size of the informal sector is 80% of the total workforce (Hormeku, 1998). According Nyamekey et al. (2009), the size of Ghana's informal sector was twice as large as the formal sector in 1980. But by the 1990s, employment in the informal

sector had five and a half (5.5) times the formal sector (ibid) increases. In 2010, Ghana's informal economy was estimated as accounting for about 85% of employment according to Ministry of Employment and Social Welfare.

As noted by Adu-Amankwah, (1999), the nature of the informal sector in Ghana's economy could be dated back to the establishment of colonial capitalism in the then Gold Coast. The failure of the formal private sector to create more employments for their required amount also pushed many into the informal areas of the economy. For example, while the government continual policy of not hiring in the public sector coupled with the struggle of the private companies means that the contributions of formal sector in terms of employment is likely to reduce to the detriment of all Ghanaians. Thus, in the absence of appropriate mechanisms of social protection such as unemployment benefits, the informal ventures become the last resort for most Ghanaians.

In Ghana, the informal sector comprises the small business owners and the small companies. These are made up of the manufacturers, the wholesalers, the retailers and the consumers. Again, there are also entities serving as suppliers of raw material to producers and manufacturers who by these activities act as middlemen on the supply chain management. Among those found within the informal sector who by nature of the job are self-employed are the farmers, fishermen, traders, food processors, artisans craft workers and other. Really, there are various activities performed under the informal sector industry.

For years, governments have enacted a number of measures to regulate the informal sector. It includes tax stamps, Vehicle Income Tax and VAT flat rate scheme. The objective of the study is on the Vehicle Income Tax. Vehicle Income Tax (VIT) imposed on commercial vehicle operators are by regulation, paid on the quarterly basis.

The VIT system makes it necessary for commercial vehicle operators to buy stickers quarterly from GRA district offices throughout the country. The stickers are supplied in various categories according to car-passenger capability and vehicle type example Taxi, Urvan (Trotro), tipper etc. (IRS Manual 2004).

In order to bring the informal sector into the tax system, an innovative system called Identifiable Grouping Taxation (IGT) was introduced by government which uses associations in the informal sector as agents for the collection of taxes. Within the transportation sector, the Ghana Private Road Transport Union (GPRTU) was the forefront in the collection of the taxes. In 2003, a standard assessment system called the Vehicle Income Tax (VIT) was introduced. The new system requires that commercial vehicle operators purchase VIT sticker every three months.

### **1.1 Problem Statement**

In many African countries south of the Sahara (SSA) tax collection is a problem with the existence of a large and growing informal sector which includes tax evasion and weak tax administration (Tadesse and Dove, 1997). Increasing tax revenues is a major problem for many developing countries. This is because not only the tax revenues at minimal level, but also tax compliance low (Tripp, 2002). Large parts of economic activity in developing countries occur in the informal sector, outside the control of the government (Penalosa 2004). In order to widen the tax net to cover most activities in the informal sector the Ghana Revenue Authority (GRA) has introduced some tax component specifically for the informal sector. These include the IRS Tax Stamp, the VIT and the VAT Flat Rate Scheme

However, since introduction of the Vehicle Income Tax, there is limited documentation on the implementation of the Vehicle Income Tax in Ghana. The study seeks to bridge

this gap. It has therefore become necessary to take a critical look at Vehicle Income Tax in order to maximize revenue collections. Most drivers evade the payment of VIT, others complain about the mode of payment and the turnaround time of obtaining VIT sticker. Therefore the study seeks to assess the effectiveness of the Vehicle Income Tax system in widening the tax net and the perception of drivers and car owners towards the Vehicle Income Tax

## **1.2 Objectives of the Study**

The general objective of this study is to assess the payment of Vehicle Income Tax in the informal sector in Ghana. The specific objectives of this study are as follows:

1. To assess the level of payment of the Vehicle Income Tax by drivers and car owners
2. To assess the process of the Vehicle Income Tax payment
3. To ascertain the perception of drivers and car owners on the Vehicle Income Tax
4. To determine the challenges faced by drivers and car owners in paying the Vehicle Income Tax

## **1.3 Research Questions**

1. What is the level of payment of the Vehicle Income Tax by drivers and car owners?
2. How is the process of the payment of the Vehicle Income Tax?
3. What is the perception of drivers and car owners on the Vehicle Income Tax?
4. What are the challenges faced by drivers and car owners in paying the Vehicle Income Tax?



#### **1.4 The Significance of the study**

The findings of this study would be of prime importance to organizations such as Ghana Revenue Authority (GRA), Trade Union Congress (TUC), Ghana Private Road Transport Union (GPRTU), and The Progressive Transport Owners Association (PROTOA). The study will assist the GRA to assess the level of payment of the Vehicle Income Tax by drivers and car owners will also afford the GRA to ascertain the difficulties faced by drivers and car owners in their quest to pay the Vehicle Income Tax. All these will go a long way to make the payment of Vehicle Income Tax very convenient since convenience is one the canons of taxation propounded by Adam Smith. The study will also help the leadership of the GPRTU to make proposals to government to reduce the hardship drivers' encounter in their compliance with the payment of the Vehicle Income Tax.

#### **1.6 Scope of the Study**

This research is conducted on Small and Medium Enterprises in Kumasi, which is the capital city of Ashanti Region. This study focuses on Vehicle Income Tax by drivers and car owners. To this end, the required information is gathered only from the drivers of commercial vehicles, owners of commercial vehicles and officials from Ghana Revenue Authority, Ghana Private Road Transport Union (GPRTU), and The Progressive Transport Owners Association (PROTOA).

#### **1.8 Organization of the Study**

The study has been segmented into five chapters. The first chapter focuses on the study background, the problem statement, the research objectives and the research questions as well as the significance of the study. Chapter two reviews related literature pertaining to tax compliance, the Vehicle Income Tax and the informal sector. The third chapter highlights the research methodology adopted for this particular study. The chapter three



centers on the research design, the population and the sampling, the instruments used to gather the primary data and then how the gathered data was analyzed. The fourth chapter is about the analysis and the presentation of the results through the use of bar graphs, pie charts and tables. The last chapter, chapter five, focuses on the summary of the findings, the conclusions and the recommendations.

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## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The chapter reviews literature on the informal sector, that is, taxation in general but much emphasis is laid on the Vehicle Income Tax in Ghana and the perception of people on taxation. The literature is reviewed under the following subheadings: the concept of tax, the informal sector, the Vehicle Income Tax in Ghana and the perception of tax payers towards payment of tax.

#### **2.1 The concept of tax**

Taxation plays a significant role in the economic development of every nation through the financing of social and infrastructural projects. It also helps in the distribution of resources, sharing of revenue and correcting negative externalities such as the protection of domestic industry by limiting imports. The provision of public services and infrastructure funded by tax revenues is a key factor for economic growth and development. But many developing countries are not able to generate the needed tax revenue for national development (Fuest and Riedel, 2009; Adamopoulos, 2010). Moving nation with scarce financial resources is similar to the use of a car and a little oil. Taxes are the lifeblood of any economy, no taxes no nation exists (Ankrah, 2014).

#### **2.2 The informal sector in Ghana**

##### **2.2.1. History and recent expansion**

In Ghana, the nature and the history of the informal sector in Ghana's economy could be dated back to the establishment of the colonial capitalism in the then Gold Coast. The main features of the colonial economy include the production of primary products for foreign export, mining investment, transport and its associated services, infrastructure and public works, and community development. There were also small

scale business in the fields of mining, transportation, infrastructure, business and social services. Again, the extraction of raw materials to the production of goods for exports and the importation of finished products for the local business led to an increase in the large number of workers in both agriculture and retail sector. Ghana's informal sector is mainly made up of small farmers and farm workers, distributors, buyers, owners of transport services and their workers, mechanics, masons, workshops, porters etc. Thus the informal sector in Ghana is categorized into all business owners and small companies. It consists of manufacturers, wholesalers, retailers and consumers. Those largely seen within the informal sectors that are selfemployed are the farmers, fishermen, the traders, food processors and other skilled workers. The informal sector comprises of many different activities that are undertaken at a different level. While most activities that take place in the informal sector within the rural areas in Ghana are largely in the form of agriculture and its agriculture-based processing products and also fishing and fish processing (GSS, 2008), the informal sector consisting of 43% in the urban areas is mainly in nonagricultural activities.

An estimated 80 to 90 % of the populace in the third world countries has made little or no access to financing and thus they normally rely on family members, and acquaintances or unofficial money lenders. The absence of knowledge and technology in the formal sector has led to the reduction in the level of production. Usually the outdated techniques and the manual production are employed in the informal sector leading to long hours of work but little fruitful production. Workers within the informal sector are either unmindful of security issues in their field of work, or they basically can't manage the cost of defensive devices. Many of these workers within this particular sector work in poor ecological conditions which are dangerous to their health.

**Table 1: Characteristics of informal sector**

Economic units	Owners	Workers	Locations
Labour-intensive, Poor infrastructure Simple production Technology /technique Small scale Low access to credit Low documentation	Sole ownership Family business Poor management capacity Partnerships / cooperatives Low formal education Easy entry and exit	Family members Apprentices Low level of Organization /little voice/bargaining power Paid casual workers Paid workers Poor terms and conditions	Home-based Street vending Multi-site Itinerant Ubiquitously located Formal sector sites

Source: Akorsu (2010)

It is estimated that more than 86 percent of the workforce earns their living from the informal sector (GSS, 2008). According to reports by the Ghana Statistical Service (2008), it is estimated that about 60% of all persons working are self-employed while 20% are engaged in family businesses. A further 18% are paid employees. This places the informal economy operators, especially those in the manufacturing and trade sector, as the second highest informal sector contributors to GDP in terms of employment, household income, provision of affordable services to households, and contribution to export earnings. The growth of the informal economy in Ghana became obvious during and after Ghana's Structural Adjustment Programme (SAP), with its retrenchment exercise in the 1980s (Sowa, Baah-Nuakoh, Tutu & Osei, 1992). According to



Nyamekey et al. (2009) the span of the informal ventures in the business environment in the 1980s was twice that of the formal business sectors, but has now been increased to five and half times that of the formal sector. However, the continuous growth of the informal economy has been partly explained by low levels of educational attainment (Baah, 2007). For instance, approximately 20% of Ghanaians within the age brackets of 15 years and above are deemed to have never attended school. Generally, 55.7% of Ghanaians have achieved only primary education and 13.6% of the populace has attained secondary or higher education according to the GSS, (2008) report.

The GTUC leadership group survey conducted in 1995 brought out a spectacular view of informal sector activities in Ghana. In rural areas, the following were identified:

- i. Agricultural activities: These are predominantly farming units dependent on family labor and are made up of a large number of small farmers in rural and semi-urban areas. Most farmers are illiterate or semi-illiterate. Agricultural skills are acquired through teaching.
- ii. Fishing and fish processing operations: These are mostly found along the coastline of Ghana and are especially married men between 18 and 40 years. These workers, mostly illiterate, have acquired their swimming skills through experience from their early childhood. Their value-added processing activities include smoking and marketing of fish is carried out mainly by women.
- iii. Rural agro-based processing activities: These include the processing of cassava in car, cassava flour, palm kernel oil, groundnut and copra oil, palm wine tapping, local gin distillery, liquor path inside, and traditional soapmaking. These activities are headed by married workers, mostly over 30 and most of them cannot read and write.



In Ghana, the urban informal sector, as elsewhere in Africa (ILO, 1997), is noted significantly for its diversity. It's made from a range of activities that can be divided into the following categories:

- i. Services: service sector includes businesses such as refuse collectors, wholesalers, bakers, food vendors (both cooked and uncooked), retailers of the various raw and finished products, bakers, caterers, traditional healers and caregivers in private health facilities and midwives.
- ii. Construction: These are made up of skill workers who are mostly artisans within the industry. They are usually men between the ages of 18-40 years and are usually drop out of school. Apart from electricians who may have some basic school training in their trade, the others normally go through years of apprenticeship under master craftsmen or tradesmen to become qualified practitioners. Ghana's current housing deficit stands well over one million creating the need for 150,000 housing units per year for the next 20 years. The private formal sector is able to deliver only forty thousand housing units (40, 000) annually whilst government has not succeeded in any residential housing deal since 2000. Considering the fact that a lot of works on major constructions such as bridges, roads and commercial properties are sub \_contracted to small enterprises, arguably, informal construction commands well over 70% of employment in the construction industry.
- iii. Manufacturing: About 80% of manufacturing in Ghana is provided by the informal economy (Barwa, 1995). Manufacturing predominantly covers a host of activities ranging from carpentry and metal works to textile and garment production. The textile and garments sector appear to have almost a balanced representation of both sexes.

## **2.3 Trade union organization in the informal sector**

All classes of workers in Ghana have the privilege to group themselves into unions as enshrined in the Article 21 of the Ghana 1992 Constitution. Generally, the principle of freedom allows every person or groups of persons to affiliate, form or join a national trade unions and international or any other party for the sake of protecting their interests. It was found that workers within the informal part of the economy organized themselves to do away with some of the challenges such as high cost of inputs, lower costs for manufactured goods, problems in accessing finance and other services and the threats of ousting by the municipal government (ILO, 1997). In Ghana, the nature of the union development in organization is established in the informal sector.

(AduAmankwah, 1998). However, when it gets to be established in Ghana, most individuals were from the formal sector. However, an auxiliary of the Ghana Trades Union Congress (GTUC) and Ghana Private Road Transport Union (GPRTU) is a complete informal sector union.

### **2.3.1. Ghana Private Road Transport Union (GPRTU)**

GPRTU is made up of vehicle operators, drivers and owner-drivers. The Union structure operates at the branch, the regional and the national level. The national and the regional administrations are predominantly the vehicle owners while that of the branches are dominated by owner-drivers. The drivers employed together with their apprentices constitute the major portions of the union members. With government assistance, the Union acquired vehicles for its members in the form of loans. This development has assisted and enhanced the earning potential and financial security of some of the union members. The association also serves as a framework for determining private road transport tariffs. The union also provides a framework for resolving problems between hired drivers and owners of vehicles. The main problem facing the Union are the

absence of government managed savings assurance for drivers, professional stability, social insurance offices and advance wellbeing and security, protection against loss of income in case of illness, annual leave, minimum wage among others are a major hurdle for GPRTU. GPRTU is affiliated to the Union of West African Road Transport and the International Transport Workers Federation (ITF).

## **2.4 The process of VIT payment**

The collection of tax on vehicles has travelled through a journey since its inception. It began with a standard assessment for both formal and informal sector, it changed to the Identifiable Grouping Taxation and currently a modified version of the standard assessment system is being practice.

### **2.4.1 Standard Assessment**

In the past, governments have made several attempts to tax the informal sector. In 1963, Standard Assessments Act, 1963, Act 205 was enacted to tax formalize the informal sector. This law has gone through numerous changes over the years and enhanced in the Internal Revenue Act, 592, 2000. Standard Assessments Act requires that a fixed flat tax on individuals and businesses, according to the activity which the person is engaged. In other words, standard assessments were standard payments on account actually charged against the amount of income tax payable. The main advantage of the system is that it ensured vertical equity (World Bank, 2002). Despite the benefits, the program encountered some challenges that prevented it from achieving the objectives for which it was set. The major setbacks cited in the article titled Tax Compliance and Informal Sector in Ghana by the World Bank has the following:

- a. Weak authoritative limit of the tax administration not to allow effective monitoring of the system. (Bank World, 2002),

- b. Annual lump sum payments from very poor informal sector were seen as being too high. Tax evasion was very common in the informal sector as business did not require permit to set up their business (World Bank, 2002)
- c. Regulation violates the principle of vertical equity, to the extent that it imposed a similar tax on the income of the top and low earners. Therefore, this discouraged low-income professionals from complying with the law (World Bank, 2002).

#### **2.4.2 Occupational (identifiable) grouping taxation**

The problems associated with the standard assessment system resulted in a change of the collection system. A new system was introduced which became known as Identifiable Grouping Taxation. By this, system association within the informal sector became the agents for the collection of the taxes. One reason behind was that, the association knows all its members and such evasion of taxes will be minimal. In relation to the transport sector, the GPRTU became the main body responsible for the collection of taxes on behalf of the government. The agents were given a 2% commission of the total taxes they collect. In the view of the government, the cost of collecting the taxes is fixed on the 2% commission paid to the association while the burden of locating taxpayers falls on the association

#### **2.4.3 Current tax regime for informal sector**

Since 2004, a modified version of the standard assessment is being practice. Instead of the annual lump sum, the VIT is paid by the Commercial Vehicle Operators on the quarterly basis. The VIT system makes it mandatory for commercial Vehicle Operators to buy stickers on quarterly basis from the various districts offices of the IRS nationwide. The stickers are issued in various classes based on the vehiclepassenger



capacity and type of vehicle such as taxis, urvan (trotro) and tipper trucks, etc. (IRS Hand Book 2004)

Salient issues of Second Amendment included:

- VIT Stickers were made mandatory for all commercial road vehicles.
- Stickers purchased were to be displayed on the windscreens of all commercial vehicles.
- VIT Stickers are to be purchased at the various IRS District Offices nationwide or quarterly basis.
- VIT Sticker system shall be enforced by the police and monitored by IRS monitoring teams in collaboration with the police.
- Taxpayers are required to file their tax returns at the end of each year since the payment of VIT Stickers is only payments on accounts.
- Specified rates are provided for various classes of commercial vehicles.

Failure to purchase VIT Stickers attract payment of fine of not less than 25 penalty units and not more than 50 penalty units or to a term of imprisonment of not less than 2 months and not more. (Internal Revenue Regulations L.I 1727)

### **2.5 Perception of tax payers towards payment of taxes**

Individual uses the five senses to experience the environment, sight, touch, hearing, taste and smell. Organization of information from the environment to make meaning out of it is perception. Perception is a cognitive process (Robbins, 2001). Thus it means that perception helps individuals to make meaning of objects they come into contact with. Because every individual respond differently to stimuli, different individual see the same thing in different ways. Since the perception includes knowledge, it contains the interpretation of objects, symbols and people in the light of relevant experience (Robbins, 2001).



Perception is a process by which people organize and give meaning to objects in their environment (Robbins, 2000). Research shows consistently that different people can contribute to the same thing, yet perceive it differently. The fact is that none of us sees reality. We interpret what we see and call it reality (Robbins, 2000). The key to understanding perception is to recognize that it is to a unique interpretation of the situation, not an exact recording. To put in other words, the perception of how we choose to organize, interpret and retrieve information from the environment is different. By perception, people process information input into decisions and actions. The quality and accuracy of the perception of a person, therefore, has a major impact on the quality of their decisions or actions in a particular situation.

People respond to situations in terms of their perceptions, and the perceptions can be long standing (Wood 2001).

Our perceptions depend on our values, needs, interests, past experiences, and a variety of other factors. Because each person is unique in this regard, we cannot always predict an individual's perception and subsequent behavior in any particular situation.

We can say with reasonable certainty that people will behave in ways that are consistent with their values, attitudes, and perceptions (McAfee 1987).

Perception of the taxpayer towards his or her legal obligation to pay tax to the government is important due to the complexity of the relationship between the tax payer and government (Feld and Dan Frey, 2002). Feld and Frey (2002) opined that the link between the taxpayer and the tax administration is a contract that includes mind boggling collaboration between the taxpayer and the government to establish a reasonable common ground. The vitality of the contract between the taxpayer and the government is dependent on the perception of the taxpayer on the government (Damayanti and danSupramono, 2012). In the event of assessments by the taxpayers on

the effective role being given by the public service to the taxpayers are deemed to be fair and reasonable, the taxpayers are prone to agree to the tax laws, and this has the ability to increase the compliance rate (Feldand Dan Frey, 2002; Torgler, Demir, Macintyre, danSchaffner, 2008).

The Fiscal Psychology Theory stipulates the importance of taxpayer's perception towards government. The theory argues that the willingness of taxpayers to pay their taxes is likely to be low if they do not clearly see the real benefits of their tax payment. Thus if the government uses the taxes collected judiciously to provide benefits for the taxpayers then taxpayers will also reciprocate by paying their taxes without any thought of evasion. However where the government is perceived as being corrupt and misuse tax revenue then taxpayers will be unwilling to pay their tax because they believe that it will not be used for their benefit. (Hasseldine and

Bebbington, 1991).

Psychology theory tax is a blend of financial and mental methodology, which is another alternative that is best to explain the tax compliance (Hasseldine and Bebbington, 1991). This methodology stresses on the significance of positive arrangements created by the government to enhance collaboration between the taxpayer and the government (Lewis, 1982). Lewis (1982) additionally said that the singular view held by the taxpayers is a critical piece of this collaboration. This achievement has demonstrated that the level of tax compliance is more affected by the taxpayer's confidence in the government, specifically against the assessment framework. What is more, the model known as Sliperry Slope proposed by Muehlbacher and Kirchler (2010), clarifies that compliance mostly depends on the taxpayer's impression about the government.

The communication that exists between the taxpayers and the government go a long way to have a positive effect on the spirit of the tax (Hart and Frey, 1994). According

to Lewis (1982), the views of the individual taxpayers are a vital facet of the individual's willingness to cooperate with the tax laws. Kogleret *al.*, (2013) and Turner (2005) argues that the willingness of individuals to comply with tax obligations is very much dependent on their level of confidence in the government as well as the whole tax foundation.

Thus taxpayers are likely to evade taxes if they hold the assumption that the tax system is not fair (Richardson, 2007). Razak and Adafula (2013) researched into the tax system in Ghana and have concluded that, the views of the taxpayer on the government mostly influence he taxpayers' intention to comply with the tax regulation.

The extent to which taxpayers know the tax system to be fair influenced their attitude and their taxes to be paid (Coskun, 2009). Richardson (2006) also showed that in situation where taxpayers perceived the tax system to be fair, the level of noncompliance is likely to be minimal compared to situations where taxpayers perceived the tax system to be unfair. Roth et al. (1989) and Jackson and Milliron (1986) found that taxpayers grievances towards the unfairness of tax system is linked to their attitude towards compliance. Therefore, to understand the behavior of a particular individual taxpayer it is important to identify the determining variable of behavioral intentions (Hanno and Violette, 1996). (Keenan & Dean, 1980) conducted a study on the possible justification for non-compliance suggested that tax evasion is justified by the common people. They believed that, the rich and famous defraud the government. Others feel that it is morally right, at least legally wrong not to pay taxes when tax monies have been wasted unethically or illegal.

## 2.6 Facts affecting the amount of overall tax payments

IRS penalizes taxpayers who fail to comply with tax laws. Chau and Leung (2009) claims that the tax penalty is the most important factor affecting the implementation of the tax character and the authors suggested that fear of sanctions would prevent non-compliance trends. Witte and Woodbury (1985) also found an important links between the severity of criminal penalties and the taxpayer's willingness to comply. Similar results were obtained by field and Frey (2006). Other factors affecting the structure of the tax system such as the tax rate and the complexity of the tax system also affects taxpayers' compliance (Fischer, 1992 et al.).

The financial situation of an individual can influence positively or negatively on the relationship between his / her behavior and compliance behavior. Torgler (2003) stated that the financial situation of individuals can cause some difficulties for the taxpayer. Likewise Bloomquist (2003) shows the financial burden is one of the sources of stress that taxpayers go through.

Ritsema and Thomas (2003) showed income levels positively related to tax payment. Likewise Manaf, Hasseldine, & Hodges (2005) found that middle-income taxpayers are tax compliant. In terms of source of income, Fjeldstad and Semboja (2001) also observed that workers who pay their taxes through withholding tax system do not have the opportunity to evade tax. In another study, Richardson (2006) found that the source of income is clearly related to tax evasion. On the other hand Manaf et al. (2005) showed, sole traders are likely to be more compliant.

In addition, the attitude of people towards tax also influences their willingness to evade tax or not .A taxable person who has a positive attitude to tax is less likely to evade tax. However if an individual has a negative attitude towards tax, then the probability that



the person will evade tax is very high and such a person might not even see anything wrong with it.(Kirchler, Hoelzl & Wahl, 2008).Eriksen and Fallan (1996) also argues that the attitude of taxpayers goes a long way to influence their desire to either evade tax or comply with tax laws. Other studies reported similar findings on the relationship between taxpayer's attitude and compliance behavior (Chan et al., 2000; Oriviska & Hudson, 2002; Trivedi, Shehata & Mestelman, 2005).

### **2.6.1 Gender**

Torgler and Valev (2007), explored whether gender issues play a role in the conduct of illegal activities including tax non-compliance. They found that women were significantly less engaged in corruption and fraud with the results indicating that, most of the women significantly agreed that such behavior are not justified. Similar results were obtained with respect to many of the respondents of Richardson and Sawyer (2001) and Jackson and Milliron (1986) who agreed that taxpayer who are females were more compliant than their male counterparts. In particular, a comprehensive study of Oxley (1993) conducted in New Zealand, reported that women are more tax compliant as compared to men who were found to evade taxes.

There are two main theories to explain the gender differences in respect to tax compliance. These according to Torgler, Valinas and Macintyre (2008) are the realities theory and the opportunity theory. In accordance with the realities theory the gender differences in relation to tax compliance can be attributed to differences in biological, psychological and experience, resulting in different approaches to issues and problems. On the other hand, opportunity theory moves closer to traditional economic environment, suggesting that men and women may not reflect the different motivations. Instead, gender differences can be explained external obstacles and opportunities face

by both men and women. To Richardson and Sawyer (2001), the compliance gap between men and women seems to be closing due to the emergence of an independent, non-traditional generation of women. A survey conducted by Hite (1997) on American taxpayers, focused on the relationship between gender and education. He found out that Female respondents who are university graduates tend to accept tax non-compliance than women without a university degree.

### **2.6.2 Age**

According to a research by Jackson and Milliron (1986), investigating the relationship between age and taxpayers, the authors observed that, old self-employed are more compliant than boys. This was later confirmed by Richardson and Sawyer (2001), who found out those taxpayers who usually comply with their tax obligations were older people and not younger people. Devos (2005) and Ritsema, Thomas and Ferrier (2003) examined the relationship between age and taxpayers also concluded that age plays an important role in compliance with young taxpayers evading tax unlike the older generation. The researchers of the study identify themselves with the results of this study. This is because the old taxpayers would have acquired enough wealth and are stable and financially independent, and as such their willingness to pay tax is very high unlike the younger people who are now acquiring wealth and may see tax payment as an obstacle to achieve their goal. Hence their willingness to evade tax is high. But researchers like Mason and Calvin (1978),

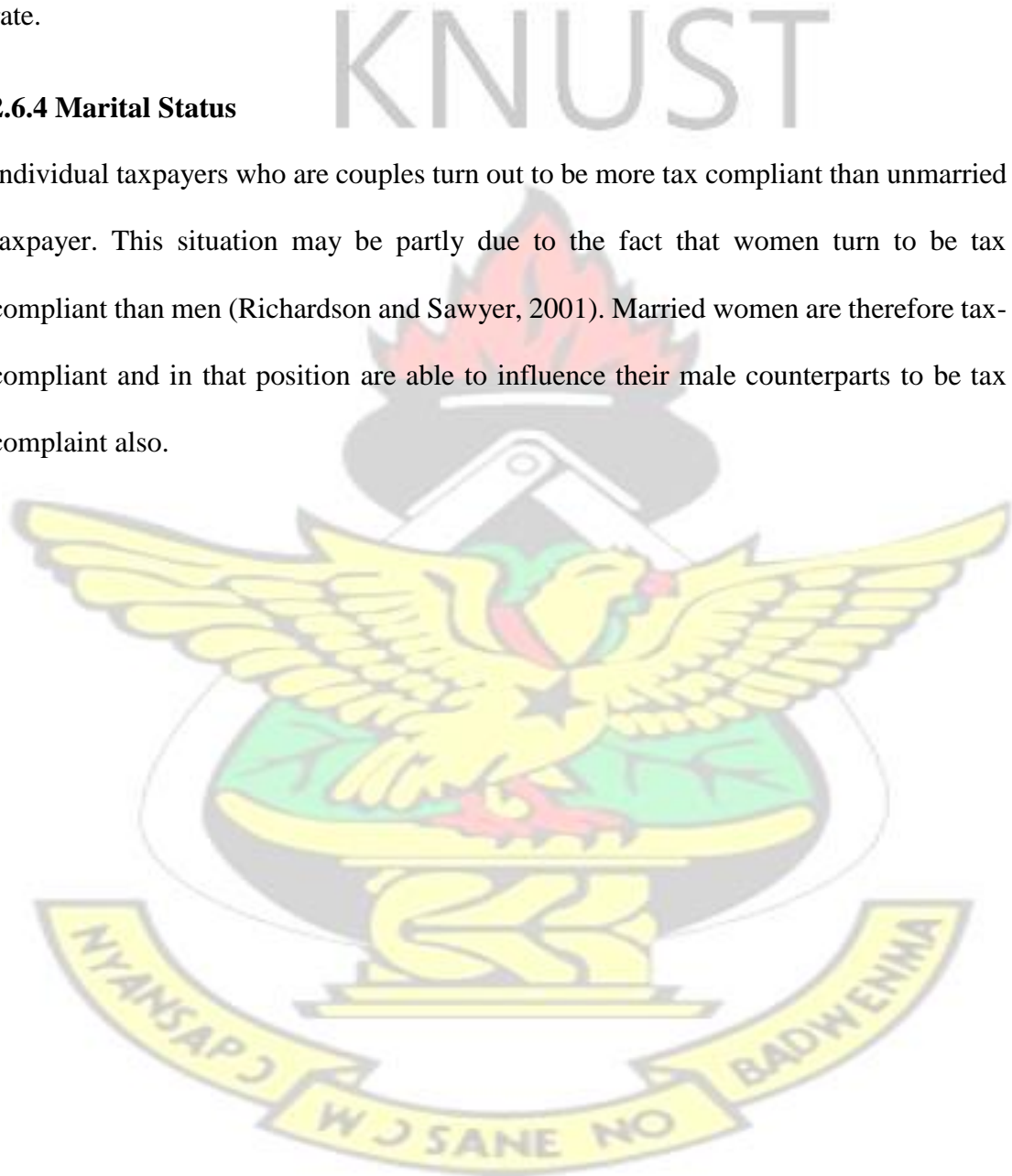
Dubin and Wilde (1988) found a negative correlation between age and noncompliance, where young taxpayers were more tax compliant than the older generation. Results of other studies have also found no connection at all between age and compliance (Porcano 1988 Feinstein, 1991).The conclusion of these researchers is that age plays a neutral role in relation to the taxpayer willingness to pay tax.

### 2.6.3 Education

The effect of education of the taxpayer compliance is not perfect by far. Both positive and negative relationship between education and non-compliance has been achieved. Wallschutzky (1984) suggests that education is the capacity to increase the compliance rate.

### 2.6.4 Marital Status

Individual taxpayers who are couples turn out to be more tax compliant than unmarried taxpayer. This situation may be partly due to the fact that women turn to be tax compliant than men (Richardson and Sawyer, 2001). Married women are therefore tax-compliant and in that position are able to influence their male counterparts to be tax complaint also.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

The chapter three of this study highlights the methodology adopted to gather the required data for this study. It focus on issues such as the research strategy, study design, description of the population and the study area, sampling procedures and techniques, sources of data, instruments of data collection, presentation and analysis of data.

#### **3.1 Research Design**

According to Collis and Hussey (2003), the study design is the science or the art of the processes or plans that ensure that the studies obtain more valid results. Cooper and Schindler (2001) argued that research design is a blueprint for fulfilling the goals and answer questions. According to Ghauri and Grønhaug (2005) there are two main approaches in conducting research; qualitatively or quantitatively. Through the use of qualitative methods, researchers do not take into consideration numerical data (Shiu et al., 2009).

However in quantitative research much of the emphasis is on numerical or quantitative data so they can be investigated as possible without bias (1997 Mason et al.). The research employed both quantitative and qualitative methods. There are three types of design research, exploratory research, descriptive research and causal research (Burns and Bush, 1999). Descriptive research tries to give a picture of the various characteristics of the phenomenon and sometimes an extension of the exploratory research (Saunders and others, 2003). Burns & Grove (1997) provides that the details of the study design are to get adequate information on one or more properties in a specific area of study. This work seeks to assess the level payment and the process



involved in the payment of VIT as well as the challenges facing tax authorities. These are all descriptive in nature and as a result the descriptive study design was chosen

### **3.2 Population**

In the view of Mason et al. (1997), the population of the study is a collection of all kinds of people, objects or measurements of importance to the researcher. For this study, the population is made up of commercial drivers in the Kumasi Metropolis.

### **3.3 Sampling.**

Polit & Beck (2006) explains the samples as the practice of selecting a part that denotes the overall study population. Within this study, the quota, purposive and convenience sampling approaches were adopted for the collection of data from respondents. Convenience sampling, a non-probability sampling, which include samples of part of the population which is near, researcher used convenience samples to select drivers that researcher can easily reach and used for this research, purposive sampling permits the participant selected for the study to be chosen with the view that they possess the ability to give specific responses to survey on the basis of the thesis (Twumasi, 2001). Since there are many drivers of commercial vehicles and it is a requirement for all of them to pay the Vehicle Income Tax, the researcher chose to select drivers who could easily be reached out to be used for the study. The Vehicle Income Tax is managed by officials and thus they were purposively selected as they are the appropriate respondents to provide answers to achieve the objectives of this study

The table shown below is about the distribution of the sample size in the range of subsamples, methods of sampling and procedure for the data collection.

**Table 3.1: Summary of sampling and data collection procedures**

<b>Sub Sample</b>	<b>Sample size</b>	<b>Method of sampling</b>	<b>Method of data collection</b>
Taxi Driver	100	Quota/Convenience	Questionnaire
Trotro	70	Quota/Convenience	Questionnaire
Others (Bus, heavy duty cars, etc)	30	Quota/Convenience	Questionnaire
Assistant Commissioner and District Managers	5	Purposive	Semi-structure interview
<b>TOTAL</b>	<b>205</b>		

### **3.4 Data collection**

According to Gillis & Jackson (2002), data collection is the practice of collecting information from respondents selected. Data of primary and secondary sources were used for this study. Primary sources related data sources that previously recorded information concerning problems in the research study collected identified. Primary data sources include diagnostic, experimental, social surveys such as questions and interviews. While secondary data sources, are information gathered from others. Secondary data include books, magazines, articles, and Web-based data on a specific subject (Ghauri and Grønhaug, 2005). As indicated by table 1, questionnaires were used to gather primary data from commercial drivers. The questionnaires were self-administered to the respondents.

### 3.5 Data Analysis

The data gathered was subjected to critical reviews and analysis. The questionnaires were all coded into the SPSS software after which the analysis was undertaken. The study utilized the descriptive techniques such as frequencies and percentages to examine the data and then bar graphs, tables and pie diagram used in presenting them.



## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSIONS

#### 4.0 Introduction

This chapter discusses the findings and results of the study on the payment of the Vehicle Income Tax (VIT) by drivers and car owners in the Kumasi Metropolitan Assembly. The findings are analysed under obviously depicted headings in relation to the objective of the thesis.

#### 4.1 Demographics

The demographic features of the respondents were very essential in this study as these could have an impact on the individual's conduct and accordingly explain his or her perspective and suppositions on issues and his or her lifestyle. The demographic features adopted as part of this study and which were observed to be significant for the analysis include sex, marital status, age, highest level of education, and the type of car driven.

**Table 4.1 Demographic Characteristics**

	Frequency	Percentage
<b>Gender</b>		
Male	159	(98.1)
Female	3	(1.9)
<b>Age range</b>		
20-29 yrs	28	(17.3)
30-39 yrs	84	(51.9)
40-49 yrs	31	(19.1)
50-59 yrs	15	(9.3)
Above 60 yrs	4	(2.5)
<b>Educational Background</b>		
Junior High School	92	(57.1)
Senior High School	42	(26.1)



HND graduate	15	(9.3)
First Degree	1	(.6)
Postgraduate	0	(.0)
Others	11	(6.8)
<b><i>Type of Vehicle Used</i></b>		
Taxi	83	(51.2)
Urban/ Trotro	61	(37.7)
Others(Bus, Heavy Duty cars	18	(11.1)
<b><i>Marital Status</i></b>		
Single	22	(13.6)
Married	124	(76.5)
Divorced	12	(7.4)
Widowed	4	(2.5)

**Source: Field Survey, 2015**

#### **4.1.1 Gender of respondents**

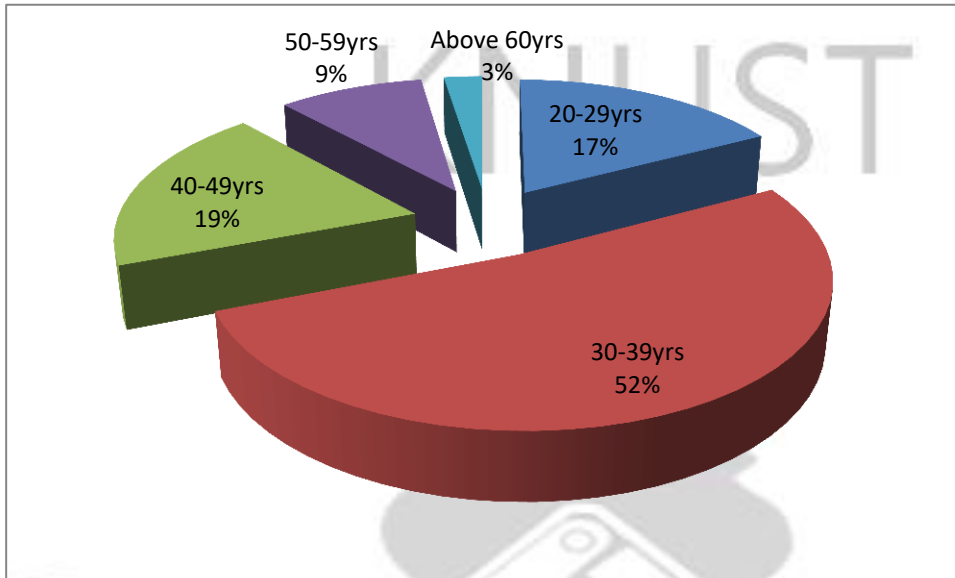
The gender representation of the respondents as delineated in the table above shows that 159 of respondents depicting 98.1% were males while 1.9% were females. The outcomes show that there are more male drivers and or cars proprietors than the female's counterpart as far as this study is concerned. And so it can be concluded that transportation sector is male dominated. In Ghana most commercial vehicles are driven by men.

#### **4.1.2 Age of Respondents**

As shown in the Table 4.1, 17% of those who answered the questionnaire were within the ages range of 20-29 years whilst 84 representing 52% of the respondents were within the age range of 30-39 years. A further 31 of the respondents within the age range of 40 to 49 years while 9% also falls within the age group of 50-59 years. Lastly, 4 of the respondents were above the 60 years. This really indicates that most of the respondents fall within the usually perceived productive age bracket where they are deemed to be in

their prime years in terms of job performance. This implies that most of the respondents are in their youthful stage, thus making the sustenance of the industry certain.

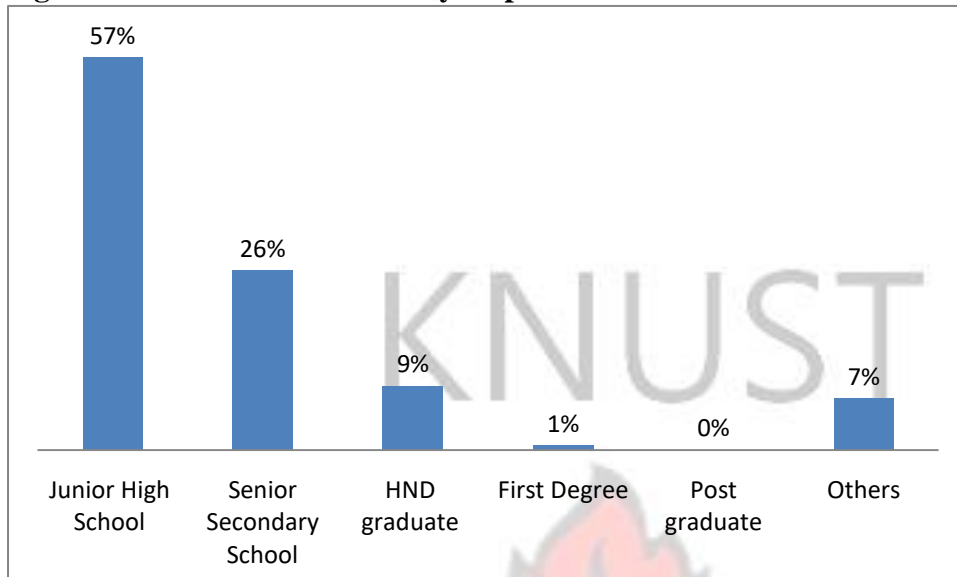
**Figure 4.1:Age distribution of Respondents**



#### **4.1.3 Highest Educational Level of Respondents**

The results in Table 4.1 shows that majority of the respondents representing 57% had attended Junior High School whiles 26% had also attended Senior High School. A further 9% and 1% of the respondents had Higher National Diploma (HND) and Bachelor's degree respectively. This implies that even though their educational level is not so high, most of the respondents have basic education. With this education the respondents were able to answer the questionnaires in an objective manner.

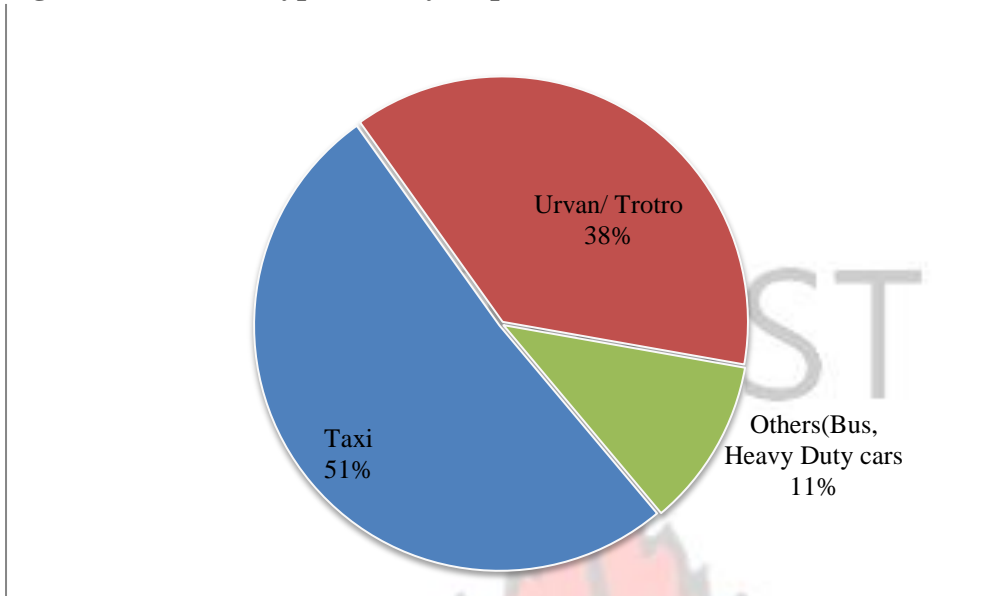
**Figure 4.2: Level of education by respondents**



#### **4.1.4 Type of Vehicle Used**

It is revealed that 51% of respondents were either Taxi drivers and/or owners while 38% went for urvan or trotro. Also, 11% of respondents were reported for those who own and/or drive other vehicles like buses or heavy duty cars. This implies that the bulk of vehicles in the transportation sector are the taxi cars and trotro cars. Thus the bulk of the VIT revenue to government comes from the taxi cars and trotro cars.

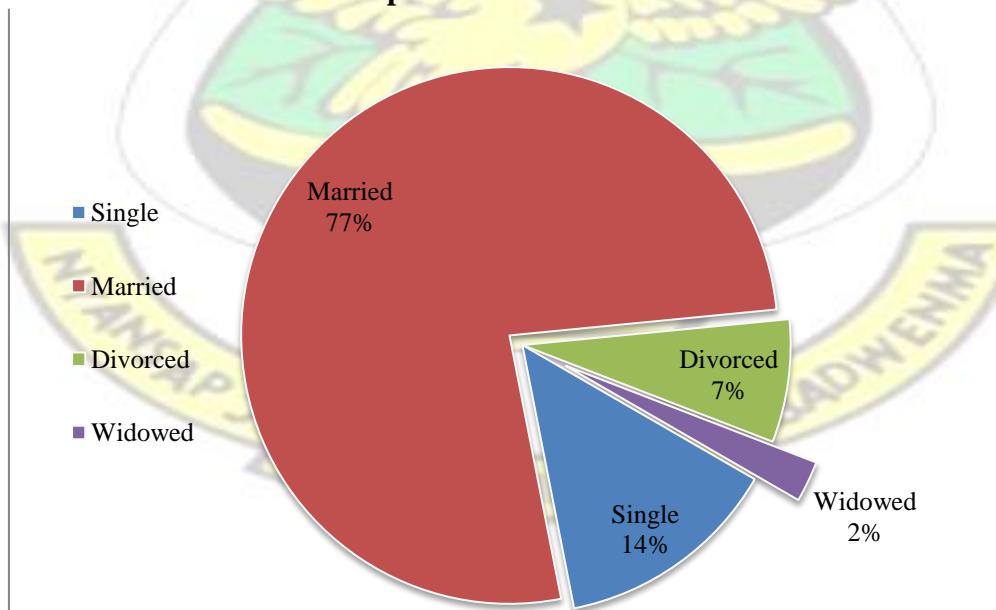
**Figure 4.3: Vehicle type used by respondents**



#### 4.1.5 Marital Status

As shown in the table 4.1, respondents constituting 77% were married while 14% were single. A further 7% were or divorced and only 2% were widowed.

**Figure 4.4: Marital status of respondents**



#### 4.2 The Level of Payment the Vehicle Income Tax by Drivers and Car Owners



**Table 4.2 Level of Payment the Vehicle Income Tax**

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree	
	n	%	N	%	n	%	n	%	n	%
<i>I have never defaulted VIT</i>	0	(.0)	0	(.0)	0	(.0)	58	(35.8)	104	(64.2)
<i>I buy the VIT stickers on time</i>	0	(.0)	0	(.0)	0	(.0)	78	(48.1)	84	(51.9)
<i>I know some drivers who evade the VIT stickers</i>	85	(52.5)	52	(32.1)	2 5	(15.4)	0	(.0)	0	(.0)
<i>It is possible to use a commercial car without a VIT sticker</i>	73	(45.1)	79	(48.8)	1 0	(6.2)	0	(.0)	0	(.0)

Source: Field Survey, 2015

In finding the level of payment of the Vehicle income tax, the research used a likertscale response type which was set on six parameters to assess how well the survey participants were involved in payment of VIT as depicted in the Table 4.2.

The study revealed that respondents were of the view that they have never defaulted VIT. This is reported in the table with 64.2% who strongly agree and 35.8% who agree indicating a cumulative agreement by all respondents to never have defaulted the VIT. Similarly, all respondents, 51.9% for ‘Strongly Agree’ and 48.1% for ‘Agree’ claim they buy the stickers on time. On the contrary, majority respondents denied knowing drivers who evade the VIT stickers. This is reported as the 52.5% who strongly disagree and 32.1% who disagree. Likewise, majority of respondents, 48.8% and 45.1% respectively disagree and strongly disagreed the possibility of using a commercial vehicle car without a VIT sticker.

The high level of payment among the respondents is very encouraging as majority of the respondents claimed that they have never defaulted and also they buy the stickers on time. This high level of payment of Vehicle Income Tax in Ghana is largely due to

the strict implementation and monitoring by MTTU unit of the Ghana Police Service. The constant presence of the police during the day and night checking the compliance of the VIT sticker forces drivers and car owners to buy the stickers on time. There is also swift punishment for drivers and car owners who failed to buy the stickers. Thus it suggest that when there is strict implementation and monitoring of any tax system, the level of compliance is likely to be very high.

#### 4.3 The Process of Vehicle Income Tax Payment

**Table 4.3 Payment Process of Vehicle Income Tax (Duration and Location)**

		Frequency	Percentage
<b><i>When do you pay your VIT?</i></b>			
	Monthly	0	(.0%)
	Quarterly	162	(100.0%)
	Half yearly	0	(.0%)
	Annually	0	(.0%)
<b><i>Do you know the time and month that you have to pay VIT?</i></b>			
	Yes	162	(100.0%)
	No	0	(.0%)
<b><i>Can you buy VIT at any GRA district office?</i></b>			
	Yes	162	(100.0%)
	No	0	(.0%)

Source: Field Survey, 2015

This section reports the analysis of the payment process of the vehicle income tax. From the above table it is indicated that all respondents who took part in the survey made payment of their VIT on quarterly bases and know the exact time to pay. It is also shown that all the sampled population of drivers and car owners believe they can buy VIT at any GRA district office. This implied the process of payment of VIT was simple.

According to the GRA officials interviewed the VIT is a tax deposit payable by commercial vehicle owners. They explain that it is a tax deposit because it is a tax payment on account for the year of assessment. They further explain that the VIT is

paid quarterly and the amount paid depends on the type of commercial vehicle. The views of the GRA officials thus corroborates the assertions made by the drivers as captured in Table 4.3.

The GRA officials were further asked about the process that drivers and vehicle owners go through in buying the VIT stickers. They explained that the commercial vehicle user calls at the office of the GRA office with the particulars of the vehicle to help determine the payment category. After the inspection of the vehicle particulars, the driver or the vehicle owner is given a chit to make payment at the cash office. The cashier issues receipt to the Vehicle Income taxpayer after which the driver or car owner presents the receipt for the collection of the sticker. The officials also emphasized that the commercial driver is obliged to display the sticker on the windscreen for easy identification by the police.

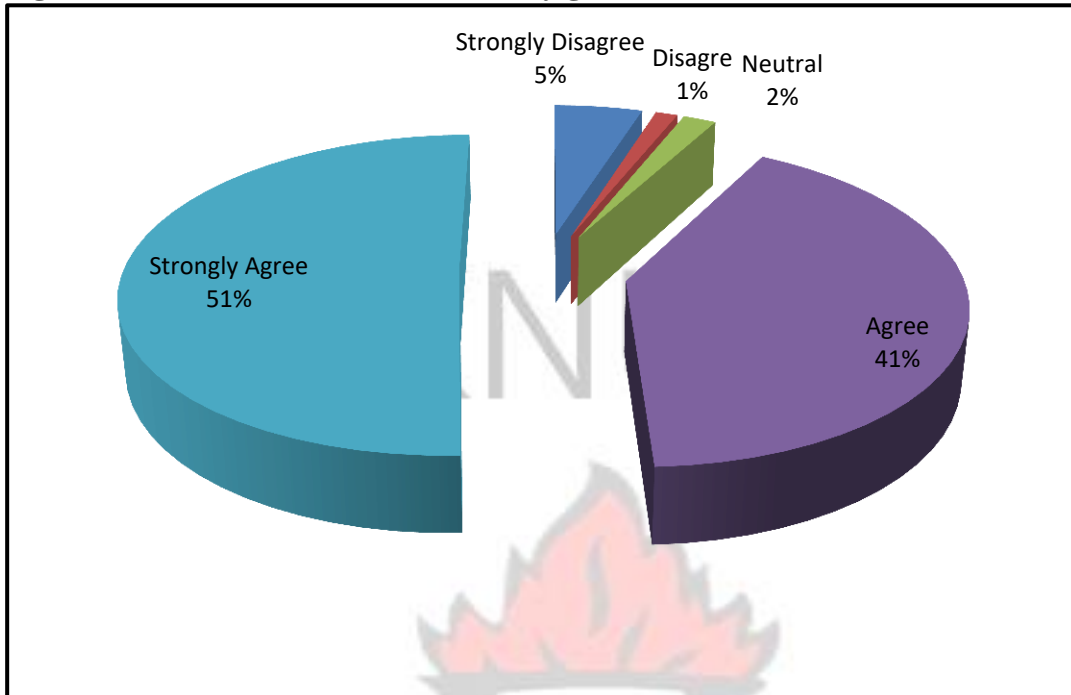
#### **4.4 The Perception of Drivers and Car owners on the Vehicle Income Tax**

In an attempt to determine the critical factors associated with successful completion of questionnaires, the likert scale, a type of questionnaire use to elicit response from respondents was set to measure the agreement levels of the responses to 12-point factors listed. The result is presented in the chart 4.5 below.

##### **4.4.1 Misuse of tax revenue by government**

As indicated by the figure below, 92% of the respondents cumulatively agreed that the government misuse the taxpayers money which is the Vehicle Income Tax (VIT) while only 6% of the respondents disagreed to the statement that the government misuse the taxpayer's money (VIT). Again 2% of the respondents were neutral.

**Figure 4.5: The misuse of tax revenue by government**



Source: Field Survey, 2015

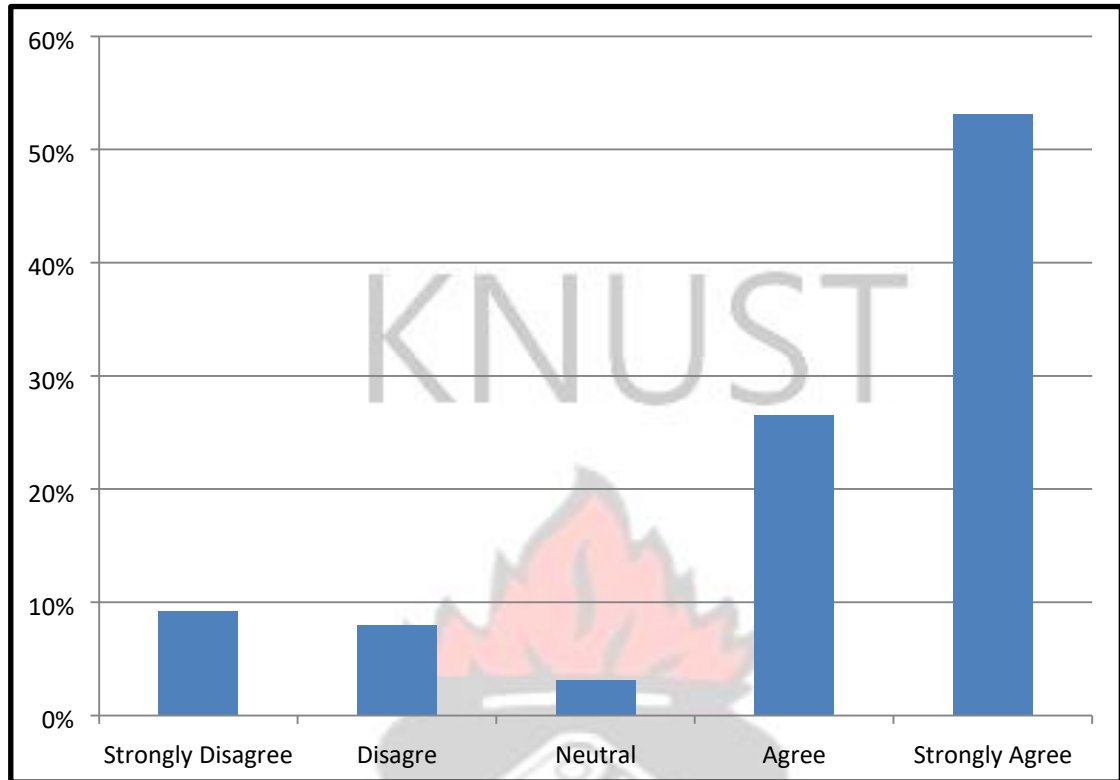
#### **4.4.2: The level of waste and corruption in government with respect to tax revenue**

The figure below indicates that 80% of the respondents cumulatively perceived that the level of waste and corruption in government with respect to tax revenue is so high that it is not necessary to pay the Vehicle Income Tax while only 17% disagreed to the assertion that the level of waste and corruption in government with respect to tax revenue is high. A further 3% of the respondents were neutral.

**Figure 4.6: The level of waste and corruption in government with respect to tax**



revenue

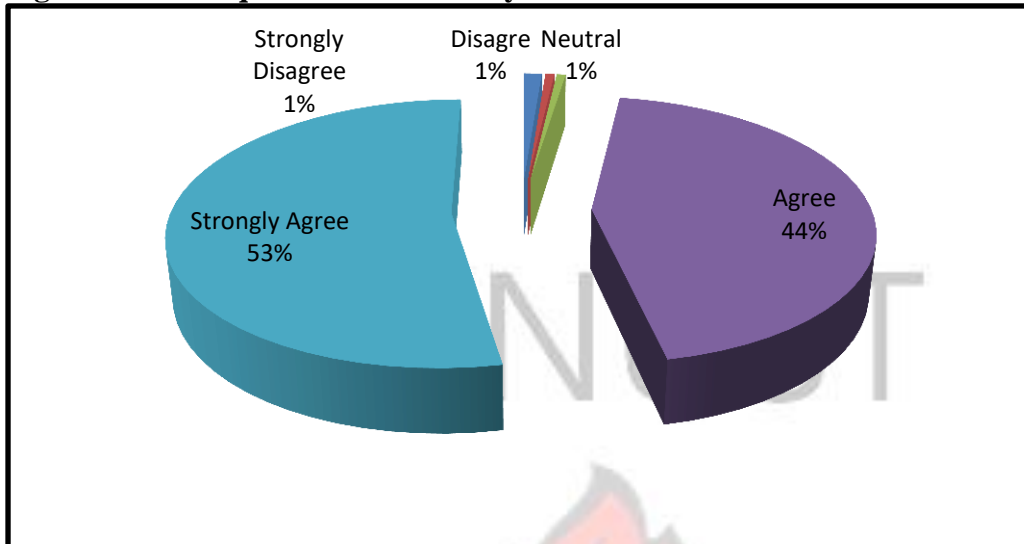


Source: Field Survey, 2015

#### 4.4.3: Inadequate information by Government

As indicated by the figure below, 53% of the respondents stated that the government does not provide holistic information about how taxes paid by the citizens (VIT). Thus they perceived that government is not transparent in relation to the usage of the Vehicle Income Tax collected.

**Figure 4.7 Inadequate information by Government**

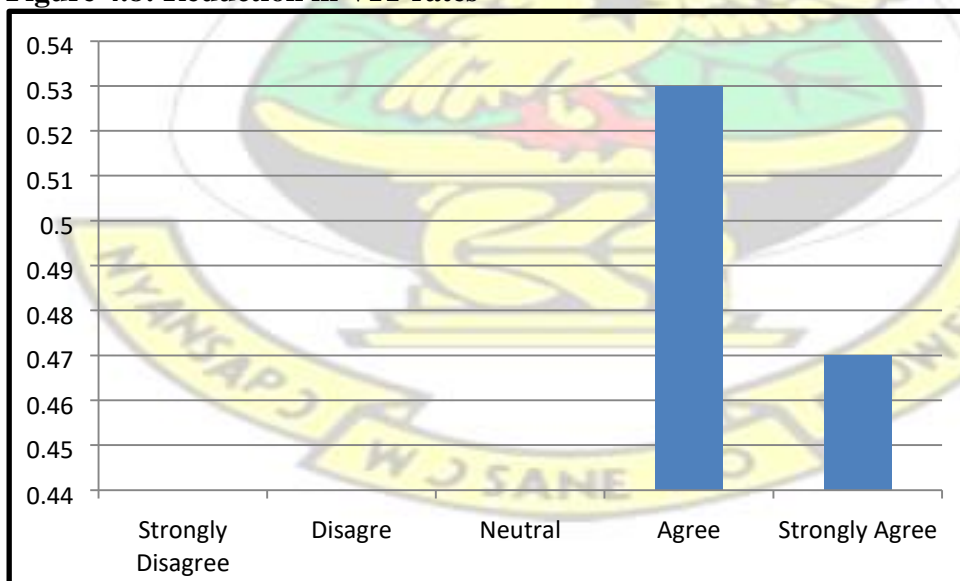


Source: Field Survey, 2015

**4.4.4: Reduction in VIT rates**

The chart 4.8 below indicates that all the respondents did indicate that the Vehicle Income Tax rate must be reduced. They perceived it to be very high for them to pay. This might be coming from the respondents who were mainly drivers due to some negative perceptions they have about the payment of the VIT.

**Figure 4.8: Reduction in VIT rates**

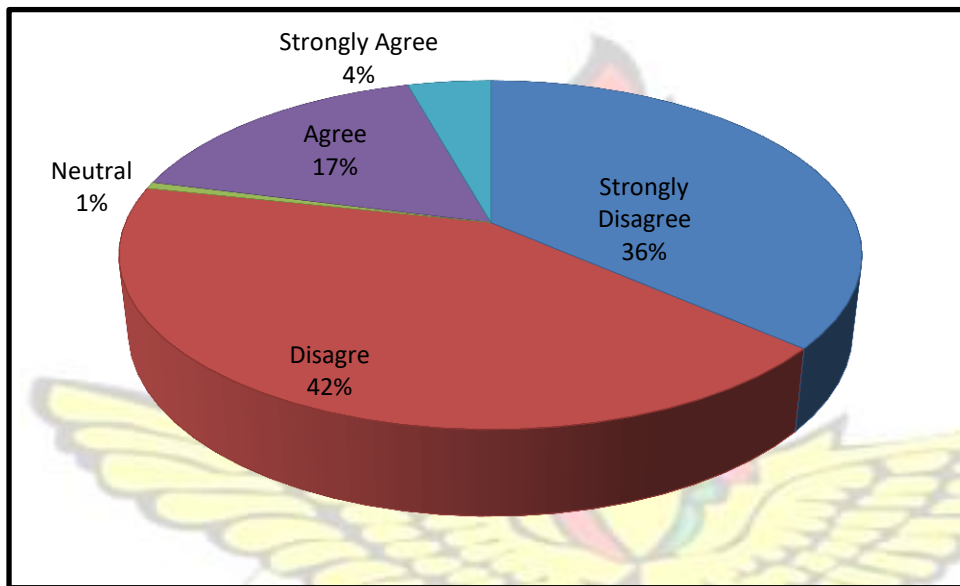


Source: Field Survey, 2015

#### 4.4.5: Unfairness in paying VIT

As shown by the figure below, 42 % of the total respondents cumulatively disagreed to the notion that it is unfair to pay the VIT. Thus 17% of the respondents think it is very unfair to pay Vehicle Income Tax while 4% strongly agree to the unfair payment of the VIT. However 36 % disagreed strongly to the assertion that it is unfair to pay the VIT.

**Figure 4.9: Unfairness in paying VIT**



Source: Field Survey, 2015

**Table 4.10 Perception of Drivers and Car owners on the Vehicle Income Tax**

	Mean	Standard Deviation	
A large proportion of the taxes are used by the government for unnecessary projects	4.31	.96	3
<i>It is unfair to pay VIT</i>	2.10	1.19	8
The VIT rate rates must be reduced	4.47	.50	2
The VIT rate should be the same no matter the type of the commercial vehicle	1.45	.54	11
I do not know why I should pay VIT	1.43	.78	12
Waste and corruption in government is high so there is no need to pay VIT	4.06	1.31	4
Rich people should pay VIT at a higher rate	2.48	1.41	6
<i>The VIT is very complicated – I do not know how to calculate my own tax liability</i>	3.13	1.37	5
The amount of VIT I have to pay is reasonable considering the benefits received	1.93	.99	9
<i>The government does not provide enough information about how they use taxpayers' money(VIT)</i>	4.48	.67	1
Government receives enough tax so it does not matter if some people evade VIT	1.72	1.09	10
<i>I work hard for the income I receive so I should be allowed to keep it all for myself</i>	2.46	1.45	7

**Source: Field Survey, 2015**

The Table 4.10 above describes statistics of the perception of drivers and car owners on the VIT. According to the table, '*The government does not provide enough information about how revenue from the tax collection are deployed*' was the highest ranked in their perception of the tax, with a mean of 4.48 (SD .67).

Similarly '*the VIT rates must be reduced*', '*a large proportion of taxes is used by the government for unnecessary projects*' and '*waste and corruption in government is high*



*so there is no need to pay VIT* all had means of 4.47 (SD .50), 4.31 (SD .96) and 4.06 (SD 1.31) respectively which were ranked as the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> perceptions critical to the respondents.

In contrast, *“I don’t know why I have to pay” VIT* with a mean of 1.43 (SD .78); *“The Vehicle Income Tax rate should be the same regardless of the type of commercial vehicle”* with mean of 1.45 (SD 1.19); and *“Government receives enough tax so it does not matter if some people evade” VIT* with mean of 1.72 (SD 1.09), were met with disagreement from the respondents. Likewise *“the amount of VIT I have to pay is reasonable considering the benefits received”*, with mean of 1.93 (SD .99); *“It is unfair to pay VIT”*, with mean of 2.10 (SD 1.19); and *“I work hard for the income I receive so I should be allowed to keep it all for myself”*, with mean of 2.46 (SD 1.45) had respondents disagreeing in general. Also, they disagreed with the statement that rich people should pay VIT at higher rates. This implied that respondents’ perceptions were contrasting with the assertions made. This, as a result, meant they believed VIT rate should not be the same regardless of the type of commercial vehicle, that it does matter that people evaded VIT, though government receives so much tax, and that the amount of tax an individual had to pay is not understandable in view of the benefits received. By the same token, respondents’ disagreement indicated that it is rather fair to pay VIT and that working hard for the income they received does not mean they should be allowed not to pay VIT.

Meanwhile, *‘The VIT is very complicated and therefore I do not know how to calculate my own tax liability’* received responses from both sides of the spectrum indicating an indifference towards assertion. This meant that some respondents believe the VIT is truly complicated while others think otherwise and as such no clear cut decision as to

whether VIT is very complicated. From the outcomes above, it is clear that the perception that the government does not give enough information about how the tax revenue are utilize as well as the knowledge that a very large portion of this revenue is utilized by the government for for some unworthy purposes and in addition to the issues of waste and corruption in government is high so there is no need to pay VIT attained the highest mean. Thus most of the respondents believe that the government hardly gives sufficient information about how they use taxpayers' money (VIT). This perception of the respondents is likely to affect their willingness to voluntary pay their taxes. This confirms the Sliperry Slope theory of Muehlbacher and Kirchler (2010) that says that compliance relies on taxpayer's perception of the government. In applying the Sliperry Slope to the above findings, it stipulates that situations where people have t the perception that the government does not provide enough information about how they use taxpayers' money(VIT) and the fact that a large proportion of taxes is used by the government for meaningless purposes as well as the issues of waste and corruption in government is high then their level of tax payment is likely to be low. The above findings corroborate Richardson (2007) who said that taxpayers tend to avoid paying taxes if they perceive that the tax system is unfair.

Again Saad (2009) have said that against the background of the tax rate, the taxpayers' view will influence tax compliance. Kogler et al., (2013) and Turner (2005) demonstrated that the level of deliberate compliance is more impacted by the taxpayers confidence level in the government, particularly in lieu of the tax framework. Razak and Adafula (2013) research in Ghana demonstrated that the taxpayers' view on the government impact on their willingness to consent.

The perception that the VIT rate must be reduced also had a high mean of 4.7. This in accordance with Fiscal Psychology Theory that emphasized that motivation is low for

the taxpayer to honour the tax obligation since there is an absence of importance of the value for the tax payments (Hasseldine and Bebbington, 1991). Since there is no real advantage of tax payments by the respondents, they will always wish that there is a reduction in the tax rate.

Even though majority of the respondents perceived that the VIT rates must be reduced, majority disagreed to the notion that it is unfair to pay VIT. The perception that it is unfair to pay VIT had a mean of 2.19 which is skewed towards disagreement.

This suggest that majority of the respondents perceived that it is fair to pay taxes.

#### **4.5 The Challenges Faced by Drivers and Car Owners in Paying the Vehicle**

##### **Income Tax**

This section is intended to analyze the challenges perceived to be faced by drivers and car owners in the payment of their vehicle income taxes. The results of analysis of each challenge is reported first with a table then followed by interpretation and discussion of the result.

**Table 4.4 The Procedure is Cumbersome**

	Frequency	Percentage
Strongly Disagree	24	(14.8)
Disagree	37	(22.8)
Neutral	3	(1.9)
Agree	51	(31.5)
Strongly Agree	47	(29.0)
<b>Total</b>	<b>162</b>	<b>(100.0)</b>

Source: Field Survey, 2015

As shown in the table above, 31.5% of the respondents agreed to the challenge of the procedure being cumbersome while 29% are also of the view that the procedure is cumbersome when making payment of the Vehicle Income Tax. Meanwhile, 22.8% and 14.8% represented percentage of respondents who respectively disagreed and strongly disagreed. Only 3 (1.9%) respondents were indifferent about the payment being a burden. This suggests that drivers and car owners do not see the payment process as something done simply but rather they go through trouble to make payment.

**Table 4.5 The GRA staff are not friendly**

	Frequency	Percentage
Strongly Disagree	77	(47.5)
Disagree	34	(21.0)
Neutral	4	(2.5)
Agree	29	(17.9)
Strongly Agree	18	(11.1)
<b>Total</b>	<b>162</b>	<b>(100.0)</b>

Source: Field Survey, 2015

With regards to GRA staff not being friendly, respondents recommend the staff for their friendly appearance and treatment; with 47.5% of the respondents strongly disagreeing and 21% disagreeing. However, 17.9% and 11.1% of the respondents did indicate that they agree with the fact that GRA staff members are not friendly. This finding goes to confirm that drivers and car owners consider the staff of GRA to be friendly and as such payment of VIT could not be hindered. This will perhaps rather make payment to the authority really easy, hence cannot be a challenge.

**Table 4.6 There are long queues in buying the VIT stickers**



	Frequency	Percentage
Strongly Disagree	22	(13.6)
Disagree	21	(13.0)
Neutral	2	(1.2)
Agree	68	(42.0)
Strongly Agree	49	(30.2)
<b>Total</b>	<b>162</b>	<b>(100.0)</b>

Source: Field Survey, 2015

The above table indicates that 42% of those who answered the questionnaires believe that there are long queues in buying VIT stickers as well as the 30.2% who strongly agreed to that assertion. This outright suggests the struggle respondents go through just to get VIT stickers. As such long queues become a put-off in purchasing VIT stickers. However a cumulative 26.6% of the respondents stated that there are no long queues. Only two respondents (1.2%) remained neutral.

**Table 4.7 One has to travel a long distance to buy the VIT sticker**

	Frequency	Percentage
Strongly Disagree	53	(32.7)
Disagree	29	(17.9)
Neutral	7	(4.3)
Agree	47	(29.0)
Strongly Agree	26	(16.0)
<b>Total</b>	<b>162</b>	<b>(100.0)</b>

Source: Field Survey, 2015

As shown above in relation to the answers to whether the respondents travel long distances to purchase VIT stickers, 32.7% and 17.9% respectively 'strongly disagree'

and 'disagree'. Meanwhile, 29% and 16% were in agreement irrespective, of the fact that they travel distances to purchase VIT stickers were long. Clearly, it is indicated by majority of respondents that they travel distance to purchase a VIT sticker was not a challenge.

**Table 4.8 Sometimes there are shortages of the VIT sticker**

	Frequency	Percentage
Strongly Disagree	12	(7.4)
Disagree	16	(9.9)
Neutral	3	(1.9)
Agree	55	(34.0)
Strongly Agree	76	(46.9)
<b>Total</b>	<b>162</b>	<b>(100.0)</b>

Source: Field Survey, 2015

To the question of whether sometimes there are shortages of the VIT stickers, 34% and 46.9% of the respondents attest to the fact that there are times when there were sticker shortage for that matter a challenge in paying VIT. Only, 7.4% and 9.9% respectively 'strongly disagree' and 'disagree' to the assertion while 1.9% remained neutral.

**Table 4.9 I waste precious time in buying the VIT sticker**

	Frequency	Percentage
Strongly Disagree	14	(8.6)
Disagree	19	(11.7)
Neutral	5	(3.1)
Agree	91	(56.2)
Strongly Agree	33	(20.4)
<b>Total</b>	<b>162</b>	<b>(100.0)</b>

Source: Field Survey, 2015 As shown in the table 4.9 above, most respondents comprising 56.2% of the 162 respondents feel that they waste precious time in buying the VIT stickers and could have used the time in doing something meaningful. This is confirmed by 20.4% of respondents who strongly agree to the claim. However 11.7% and 8.6% of the respondents are of the view that time spent in buying VIT stickers was time well spent.

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**Table 4.10 Shortages of VIT sticker**

	Frequency	Percentage
Strongly Disagree	77	(23.5)
Disagree	34	(14.8)
Neutral	4	(1.2)
Agree	29	(19.1)
Strongly Agree	18	(41.4)
<b>Total</b>	<b>162</b>	<b>(100.0)</b>

Source: Field Survey, 2015

As shown in the table 4.10 above, respondents comprising 60.5% of the total respondents strongly agreed that there are frequent shortages of the VIT sticker which is a major challenge for the VIT system. However 38.3% of the respondents disagreed to the assertion that there are frequent shortages of the VIT sticker. In the course of the interview, the GRA officials interviewed admitted that at times there is shortages of the VIT sticker. They explained that the shortage is due to the fact that the stickers are not printed by GRA but are printed by the Controller and Accountant General. According to them, these bureaucracies makes it difficult to get the VIT sticker printed on time. Thus this challenge is shared by both the drivers and the GRA officials as well.

## CHAPTER FIVE

### FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

The chapter five of the study presents the summary of the study, the conclusions and recommendation based on the objective set for this thesis.

#### 5.2 Summary of the findings

The study revealed that in relation to the level of payment of the Vehicle Income Tax, there is a high level of payment among drivers and car owners. Most of the respondents indicated strongly that they hardly default in the payment of the Vehicle Income Tax and that they buy the VIT stickers on time. Most of the respondents also stated that evasion of VIT is not common among their fellow drivers. Again it came out through the study that it is nearly impossible to drive on the roads of Ghana without the VIT sticker. The high level of VIT payment was linked to the strict implementation and monitoring by the MTTU unit of the Ghana Police Service.

In relation to the process involved in the Vehicle Income Tax Payment, the study revealed that the VIT stickers are purchased by drivers and car owners on quarterly basis. All that drivers have to do is to go any office of the Ghana Revenue Authority and buy the sticker. After the purchase the drivers are required to place the stickers on the screen of the vehicle identifiable by MTTU personnel on the road.

The study also revealed that all the respondents were fully aware of the due times by which they are required to purchase the VIT stickers.

In spite of the high level of payment of the VIT, the study revealed some pertinent challenges faced by driver and car owners in their quest to comply with the tax regulations of the Vehicle Income Tax. Most of the respondents indicated that the whole



process is very cumbersome because they have to lose a day's job just to comply with the law. To the question of unfriendliness of the staff at Ghana Revenue Authority, majority of the respondents disagreed even though some suggested that some staff at the GRA offices are unfriendly. The study revealed that the occurrence of long queues at GRA offices is a challenge for most drivers. This leads to another problem of time wastage by drivers and car owners in purchasing the stickers. It is not uncommon for drivers to waste a whole day just to buy the sticker. Thus a day's earnings is sacrificed to buy the VIT sticker.

Finally in relation to the perception of respondents towards the payment of the Vehicle Income Tax, most of the respondents believed enough information are not given by the government about how they use the revenue from the tax payment and that a large portion of revenue generated through taxation are misapplied and misappropriated for unnecessary projects as well as the issues of waste and corruption in government is high so there is no need to pay VIT. Even though majority of the respondents perceived that the VIT rate must be reduced, majority disagreed to the notion that it is unfair to pay VIT.

### **5.3 Conclusion**

Based on the findings from the study, conclusion could be drawn that the level of Vehicle Income Tax payment is very high among drivers even though the payment process is besieged with some pertinent challenges. The high level of payment can be attributed to the strict implementation and monitoring by the MTTU unit of the Ghana Police Service. Even though the process of the VIT payment seems simpler, drivers have some issues with the time waste and long queues involved in the whole process. The perception of drivers towards the Vehicle Income Tax is not encouraging. They perceived that enough information are not given by the government about how they use

the revenue from the tax payment and that a large portion of revenue generated through taxation are misapplied and misappropriated for unnecessary projects as well as the issues of waste and corruption in government is high so there is no need to pay VIT.

#### **5.4 Recommendation**

It is highly recommended that the Ghana Revenue Authority should embark on a strategic educational campaign to erode the negative perception that tax payers have on the whole system of taxation in Ghana. The educational campaign should target both the formal and the informal sector. However much of the campaign should target the informal sector where many people are still outside the tax bracket. The campaign should be strategically structure to achieve its purpose. Various mediums such as radio, television, SMS and information vans should be used.

It is highly recommended that the printing of the VIT stickers should be vested in the hands of Ghana Revenue Authority. The current situation whereby the stickers are printed by the Controller and Accountant General's Department and given to the GRA is not the best as it involves some level of bureaucracies. These bureaucracies often lead to shortages of the VIT sticker.

The monitoring of the VIT compliance should not be left in the hands of the MTTU alone. The GRA should increase its field officers to comprehensively monitor the drivers especially those in the rural and remote parts of the country to ensure that they all comply with the VIT system. The monitoring team of the GRA must be resourced logistically to improve the monitoring exercise.

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**APPENDICE**  
**QUESTIONNAIRE**

**Dear respondent**

My name is ..... and I'm a student of KNUST SCHOOL OF BUSINESS, Ghana. The researcher is conducting a study on **ASSESSING THE VEHICLE INCOME TAX PAYMENT WITHIN THE INFORMAL SECTOR: A CASE STUDY OF KUMASI METROPOLIS**. The information required from you is for academic and research purposes. All information provided will be treated as confidential as possible. Please be as objective and brief as possible. I am looking forward to your kind cooperation.

Thank you very much.

**SECTION A: Demographics**

1. Sex    a) Female ( )    b) Male ( )
  
2. Age Range  
a) 20-29 years ( )    b) 30-39 years ( )    c) 40-49 years ( )  
d) 50-59 years ( )    e) 60 years and above ( )
  
3. What is your educational background?  
a. Junior High School ( )    b. Senior Secondary School ( )    c. HND graduate ( )    d. First Degree ( )  
e. Post graduate ( )    f. Others.....
  
4. Indicate the type of Vehicle you drive.  
a) Taxi ( )  
b) Urvan / Trotro ( )  
c) Others (Bus, heavy duty cars, etc) ( )
  
5. Marital Status  
(a) Married ( )    (b) Single ( )    (c) Divorced





**SECTION C: The challenges faced by drivers and car owners in paying the**

**Vehicle Income Tax**

Indicate your level of Agreement on the following statements by ticking the appropriate number using the key given below: 5 = strongly agree 4= Agree 3=Neutral 2 = Disagree 1= strongly Disagree

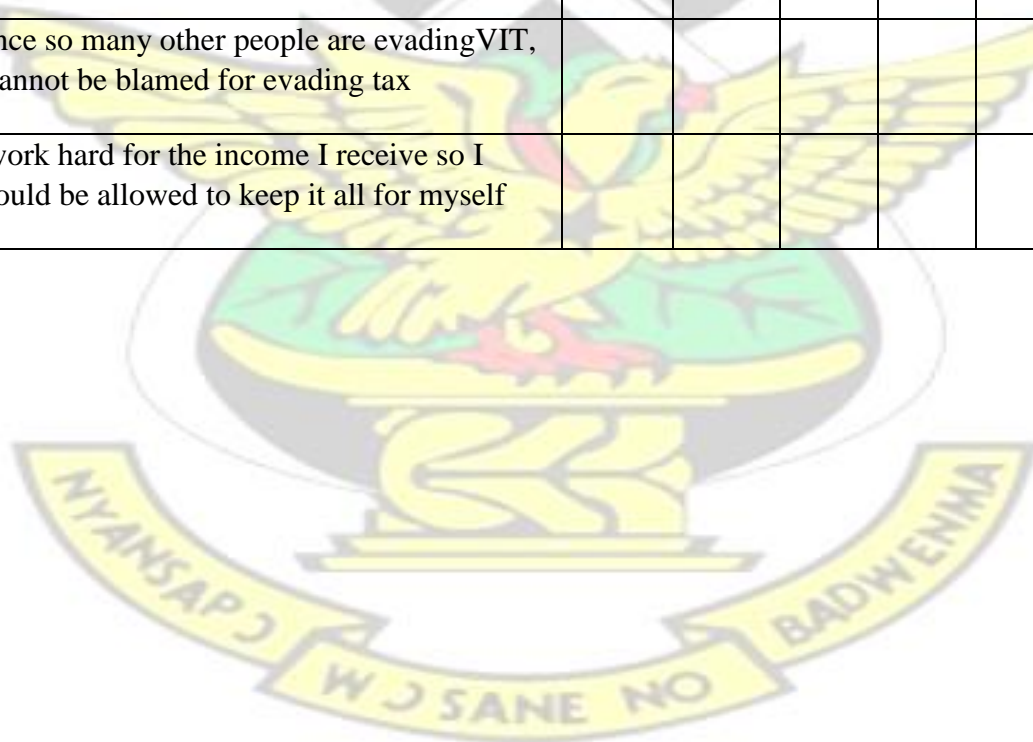
STATEMENT	SD	D	N	A	SA
The procedure is cumbersome					
The GRA staff are not friendly					
There are long queues in buying the VIT stickers					
One has to travel a long distance to buy the VIT sticker					
Sometimes there are shortages of the VIT sticker					
I waste precious time in buying the VIT sticker					

**SECTION D: The perception of drivers and car owners on the Vehicle Income Tax**

Indicate your level of Agreement on the following statements by ticking the appropriate number using the key given below: 5 = strongly agree 4= Agree 3=Neutral 2 = Disagree 1= strongly Disagree

STATEMENT	SD	D	N	A	SA
A large proportion of taxes is used by the government for meaningless purposes					
It is unfair to pay VIT					
The VIT rate rates must be reduced					
The VIT rate must be reduced					
The Vehicle Income Tax rate should be the same regardless of the type of commercial vehicle					
I don't know why I have to pay VIT					

Waste and corruption in government is high					
Rich people should pay VIT at a higher rate					
The Vehicle Income Tax is very complicated – I do not know how to calculate my own tax liability					
The amount of VIT I have to pay is reasonable considering the benefits received					
The government does not provide enough information about how they use taxpayers' money(VIT)					
Government receives enough tax so it does not matter if some people evade VIT					
The burden of tax is so heavy that many people are forced to evade VIT in order to survive					
Since so many other people are evading VIT, I cannot be blamed for evading tax					
I work hard for the income I receive so I should be allowed to keep it all for myself					



**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY  
INSTITUTE OF DISTANCE LEARNING**

**ASSESSING THE VEHICLE INCOME TAX PAYMENT WITHIN THE  
INFORMAL SECTOR: A CASE STUDY OF KUMASI METROPOLIS.**

**Interview Guide for Assistant Commissioner and District Managers**

1. What are the processes involve in the payment of VIT?
2. Do you think GRA is maximizing VIT in Ashanti Region?
3. What is the level of payment of the Vehicle Income Tax by drivers and car owners?
4. What are the challenges you face in administering VIT?
5. What can be done to improve VIT collection in Ashanti Region?