

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
INSTITUTE OF DISTANCE LEARNING

THE ROLE OF VALUE ADDED TAX IN THE ECONOMIC DEVELOPMENT OF
GHANA - A CASE STUDY OF VAT SERVICE, HO MUNICIPALITY

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CERTIFICATION

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

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Certified By
.....
Head of Department Signature Date

DEDICATION

I dedicate this work to my intimate friend
Mr. Hopeson Kodzovi Amewode-Bosso,
my sweet and lovely wife Comfort Morny and
my so caring mum, Elizabeth Tenge and the entire family.

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ABSTRACT

One of the most difficult things to understand is the concept of Taxation. But understand we must, because it is a critical part of how government affects lives of Ghanaians.

Unfortunately, though, when tax return enters the political domain, the subtleties of the key issues are usually lost in the mist of self-serving arguments and misleading implications.

Taxation is not just a means of transferring money to the government, to spend as it thinks fit, but also has a tendency to reflect prevailing social values and priorities. In this respect, it would be argued that a system of taxation is a socio-economic model, representing society's social, Political and economic need, at any one times; changes in these needs often being reflected by changes to the system of taxation.

The main objective of this study is to know whether the imposition of VAT has had any effect on the Ghanaian economy. The study examined the previous sales tax regimes as against the new VAT regime. This was done through collection of data from various stakeholders including Retailers, Wholesalers, Manufacturers, Service Providers, and Consumers.

Analysis of data collected revealed that, there has been a consistent increase in tax revenue in the VAT regime as compared to the previous sales tax regime. Also Corporate Institutions improved their liquidity as a result of VAT refunds.

Similarly, there has been a tremendous improvement in the Utilization of VAT revenue in Education and the Health sector such as Ghana Educational Trust Fund

(GETFund) and National Health Insurance Scheme (NHIS) which affect every Ghanaian life.

In contrast, consumers also believe that the introduction of VAT was rather a curse than blessing since it increase consumer price index.

However, the outcome of the study revealed to the researcher that, the VAT regime has positively affected the Ghanaian economy.



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May the Almighty God richly bless you all.

Patrick Larry-Stone Quarshie

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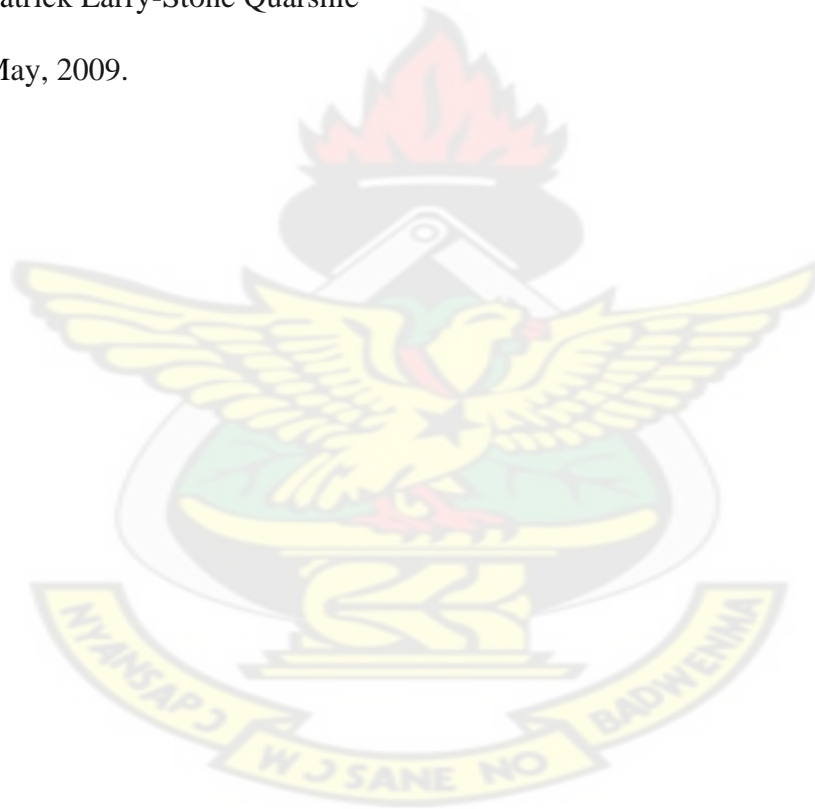


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ABBREVIATIONS/ACRONYMS

ERP	Economic Recovery Programme
VAT	Value Added Tax
IMF	International Monetary Fund
WB	World Bank
CEPS	Customs Excise and Preventive Services
IRS	Internal Revenue Service
USA	United States of America
SI	Sales Invoice
PI	Purchase Invoice
DD	Delivery Document
SIC	State Insurance Company
PS	Purposive Sampling
SPSS	Statistical Package for Social Sciences
GDP	Gross Domestic Product
GET Fund	Ghana Education Trust Fund
NHIS	National Health Insurance Scheme

CHAPTER ONE

INTRODUCTION

1.1 Background Statement

It has become increasingly demanding for governments all over the globe to devise appropriate means of generating adequate revenue to finance government expenditure which continue to soar as a result of growth in population with its attendant demand for infrastructure and other social and economic investment. It is against this reason that taxation has become legally accepted all over the world as one of the most suitable means of generating revenue. There are different kinds of taxes available for governments to raise revenue.

Again, Taxation is said to date back to biblical times where subjects or citizens were made to pay tax in time and wealth towards the building of Babel tower and Jerusalem Temple. Even Jesus was asked to pay tax.

Modern Government forms a unique part of every nation. They have the responsibility to protect the nation against internal disorder and external aggression. They engage a large number of people (judges, civil and public servant, law and order enforcers, health officials, etc) in order to keep the nation running. Despite the general trend especially in the twentieth century towards privatization, the maintenance of the state machinery, production capacity, infrastructure of health, education, housing, roads and railways, to a large extent depend on governments.

Governments however, do not earn any income on their own. They must therefore devise the means to generate revenue to undertake their responsibilities. Historically, this has been done through the levying of various forms of taxes. In pre-modern times, taxation was viewed as a direct exchange of bargain in which the taxing authorities on one hand, and the taxpayer on the other hand, each expected to receive equal benefit in relation to what it gave out. Taxes were looked upon as the wages paid to government for its services, the chief among them being security. This concept became known as the “bargain theory”. The common view was that each one was to provide all his needs otherwise he paid the government authorities to do that for him. It is interesting to note that during the pre-Revolutionary times in France, the wealthy and privileged classes were largely exempted from taxation simply because they could hire and pay for the services they needed. With these ideas about taxation during those times, it is not surprising that it was defined as follows:

“The imposition on the people by sovereign powers is nothing else but the wages due to them that hold the sword to defend private men in the exercise of their several trades and calling” (Kaldor, 1955)

Kaldor (1963) again pointed out that, “The revenues of the state are a part of his property which the citizen gives in order to be sure of other part or to enjoy comfort”

“The subject, when properly taxed, contributes only some of his property in order to enjoy the rest” (Otiek, 1992).

The modern view of taxation stems from the common premises that no one can be an island for himself. The fight against poverty, crime, economic stagnation, etc., requires the concerted effort of all and thus all must pay for it. Thus in modern times taxation is defined as follows:

“Taxation is the process whereby a state or government exacts contributions from its citizens or from the residents of its territory for the maintenance of the state machinery (Goldsmith, 1951).

According to Hicks 1965, “A tax is a compulsory contribution from the person to government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.” Quickly he added that “A tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public powers”

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

In the time of Julius Caesar, Roman citizens did not pay tax. All the revenue required by the empire, including the cost of the military operations, was requisitioned from the people who lived in territories which had been occupied by the Romans. Only indirect taxes were raised in Rome itself because direct taxes were seen to be humiliating and undignified.

Indirect taxes, such as customs duties, are paid by an individual through purchasing goods and services, and are not directly related to the personal circumstances of the taxpayer. On the other hand, direct taxes, such as income tax, can directly reduce the taxpayer's income and can be directly related to the taxpayer's personal circumstances. Romans resisted direct taxes, not so much because of an unwillingness to pay them, but because of the loss of privacy which taxes necessitated.

Requisitioning required every citizen to assist the Roman state with his labour and property. The system has a number of serious disadvantages, principally its lack of certainty. This led to tax demands being levied in an unpredictable and arbitrary way.

Thinking about the system of tax which operates in the UK today, Employers are required to collect the taxes due from their employees. If they don't comply they are potentially liable with fines and interest on tax unpaid.

Some commentators have also argued that there is a lack of certainty about the tax liability, which a transaction may attract because, until recently,

the Inland Revenue refuses to advise taxpayers of their attitude towards activities in advance of submitting accounts or computations.

According to Terkper, (1998), the introduction of Value Added Tax in Ghana was in-line with the policy of the Economic Recovery Programm (ERP) which was launched in 1983 and which sought among other things to rationalize the tax system. Following the decline in revenue from exports as a result of dividing world market price for primary goods including Cocoa and gold. Tax revenue from various sources started declining and this has put severe strains on the capacity of government to increase revenue to meet expansion in recurrent and development expenditure. For example, the share of sales tax, total revenue dropped from 8.5% in 1990 to 7.7% in 1991. And 1992, Cocoa export duty also dropped from approximately 16% to 5.3% over the same period. These poor performance have the government to increase the petroleum taxes considerably especially over the year 1992 and 1993.

The low performance of these revenue sources explain why Ghana tax ratio continues to fall below the average of 17% of total revenue in Sub-Saharan Africa. The need therefore, to improve the tax system led to the commissioning of feasibility study in 1991, conducted jointly by the Harvard Institute of International Development (USA) and the Crown Agent of the U.K.

Among their term of reference was to study into the present tax system and suggest ways of improving it. Their recommendation therefore led to the introduction of VAT in March 1995. Unfortunately, the tax burden

on the majority of Ghanaians was increased by the introduction of the Value Added Tax (VAT), in 1995 and later in 1998. In 1995, the government proposed a VAT of 17.5% on goods and services, irrespective of public dissatisfaction and anxieties about inflationary impact, ignorance about how to calculate and handle the new tax, the government still impose it partly to satisfy a trigger condition of the International Monetary Fund (IMF) and the World Bank.

This sparked off public riots in the major cities leading to the shooting to death of some civilians. The anti-VAT demonstration dubbed “kumi-preko” (meaning kill me completely) stands in Ghana’s calendar as a major citizen protest action against imposed policies. Whilst the government announced publicly that the tax was being withdrawn, the sales and services taxes it sought to replace were reinstated. Other goods and services that were not covered by these taxes were brought into the tax net. Following a much wider public consultation, the government proposed and received parliamentary approval for a lower VAT rate of 10% in 1998.

The Value Added Tax levied at the rate of 10% on the cost or price of imports, locally manufactured goods and services. It is levied at each stage that there is value added tax.

Thus the importer, manufacturer, wholesaler and retailer all pay VAT. All these are absorbed by the final consumer in the form of high price on the item. The importer, manufacturer and the retailer do not incorporate the VAT

paid into their pricing because they get credit for what they pay at VAT. However, the final consumer picks the VAT at each stage of the production and distribution process in addition to the profit and so the price becomes unbearable. The majority of citizens are worse off than before the introduction of VAT. (Boadu-Ayeboafah, 1997)

1.2 Statement of the Problem

The introduction of VAT in 1995 was not well received by the Ghanaian population, as a result, it led to demonstrations by various groups of people; this was known as ‘kumi preko’ [meaning kill me completely] demonstration in which some civilians lost their lives. VAT therefore was suspended, but in 1998, it was re-introduced and has been operating since then.

The research work therefore seeks to find out whether Ghanaians have come to believe or accept the fact that VAT really came in to help and improve the collection of taxes and also develop the country.

1.3 Research Objectives

The main objective of the study is to know whether the imposition of VAT has had a positive impact on the Ghanaian economy.

Specifically, the study attempt to:

1. Determine the extent to which the payment of VAT has improved the prospective businesses, firms, organizations and industries as a whole.
2. Evaluating the positive extent to which the imposition of VAT has helped the Country to improve its economic fortune as a whole.

3. Assessing the mechanism used in the collection of VAT in Ghana.
4. Establish a clear distinction between the VAT methodology and what was actually used previously in collection of government revenue.

1.4 Research Questions

It would be of interest to look at VAT implementation, especially in other developing countries, In Ghana For instance, which introduced the tax a few years back, the political fallout has been deep. The sharp decline in aid since the early 1990s compelled Ghana to explore alternative sources of revenue and the search culminated in the adoption of the VAT in March 1995.

Hence, the following are the research questions of the study,

- i. To what extent does the VAT impacted on the Ghanaian economy?
- ii. What method if any improves the collection of VAT in Ghana?
- iii. To what extent do companies, firms, consumers accepts the VAT in Ghana?

1.5 Significance of the Study

This project work is intended to provide immense benefit to VAT administration in Ghana and also seeks among other things to establish the extent to which the payment of VAT has improved the prospective business, firms and organization.

Again, knowing the positive extent to which the imposition of VAT has helped and the purpose of which VAT has been introduced help in planning the country's economy. Mechanism used in the collection of VAT

in Ghana gives a clear distinction of VAT methodology and other taxes that are of great important to the researcher.

1.6 Limitations

The researcher encounters the following problems.

1. Financial Constraint:

Due to the scattered nature of businesses in the municipality , the researcher spend a lot of money on travelling, thus move from one place to another to gather more information.

2. Unwillingness to give adequate information:

Most tax payers were reluctant in giving information about the study since most believed that tax payment was something very confidential and therefore did not open up to the researcher.

3. Inadequate record keeping (Book-Keeping):

Some respondents were not keeping proper records of their business activities and as such could not give adequate and correct information on the effect of VAT on their businesses rippling on the economy of Ghana.

1.7 Delimitation

The collection of data was restricted to the VAT office, businesses and consumers in the Ho municipality, hence the findings of the study was generalized to cover VAT activities in the Ho municipality and the VAT office.

The generalization of the result of this study to other categories of revenue collectors in the country with similar characteristics should be done with caution and extensive analysis and comparison.

1.8 Organization of the Study

The project work is categorized into five main chapters. Chapter one focuses on the background to the study, problem statement, objectives, significant of the study, research methodology, limitations and delimitations.

Chapter two is devoted to systematic review of existing literature with emphasis on history and Introduction of VAT in Ghana, increasing effect of VAT on the economy of Ghana, benefits derived on the imposition of VAT, keeping of proper financial records and accounts.

The third Chapter deals with research methodology including population, sampling techniques, methods of Data Collection and the research instruments employed.

Chapter four is also made up of detailed analysis of data collected and presentation of information with the aid of quantitative and statistical models. The fifth chapter covers the summary, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This Chapter covers a conceptual framework on the role of VAT on the economy of Ghana. In order to provide suitable theories on the topic under investigation, the researcher has reviewed a number of existing literatures; this will help to explain some key terms, which are relevant to the study.

2.2 Conceptual Framework

Clifford (1962), the VAT was recommended for member countries by the (Newmark) Committee of the Europeans Economics Community (EEC) and was later approved by the Europeans Economics Committee Council of ministers. The EEC then directed all its members to replace the sales tax with VAT.

Denmark, though not a member of the EEC, was the first European Country to Extend the VAT to the retail sector followed by France and Germany. Several developing countries have since then given increasing attention to VAT as a means of rationalizing the system of taxation. Among them are: Nigeria, Senegal, and Cote D'Ivoire, Morocco, Tunisia, etc. VAT is levied on almost all business transactions in over 130 countries around the world because it is intended to impose a neutral effect on business. VAT is often recoverable for companies doing business in a foreign jurisdiction. For most companies, returns are primary available for member states of the EU, Canada, as well as some additional countries that charge VAT.

According to Henderson and Poole (1985), VAT is defined as a tax rate applied to each stage of production equal the retail price so that the tax may be shown in the same retail or sales tax of the same rate. Clifford, (1965)

Also Peggy, (1985) state that a properly implemented VAT equivalent to a corresponding single state tax. He said, under the expenditure tax, the VAT is not genuinely a new form of taxation but a merely sales tax administered in different form. Any form of taxation can be used to discourage consumption of commodities yielding negative externalities so as to stabilize national income and to redistribute income.

The term “value added” According to Value Added Tax Act 1994 – Act 486 refers to increase in value of goods and services at each stage of production or transfer of goods and services. Thus Value Added Tax is basically a tax to levy on the value added by an organization at each stage of production of goods or rendering of services.

The VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer although it is collected at every stage of production or distribution and a tax credit is granted at every stage for tax paid at the earlier stage in the chain of transfer/sale of goods and services till it reaches the final consumer.

2.3 Sources of Revenue

The income of government is mainly from taxes, rates, fees and fines, special assessments and revenue from government owned enterprises. The bulk of

government income in developing countries like Ghana and Nigeria is principally derived from indirect taxation; while in the developed countries, like the USA, the bulk of government revenue is rather derived from direct taxation.

Borrowing becomes necessary when income from regular sources is not sufficient to take care of expenditures. The money borrowed must be repaid with some interest out of regular current income or by additional borrowing. But the practice of borrowing cannot be regular feature in government administration, hence the need for revenue collection agencies in developing countries to maximize revenue collection.

2.4 Definition of Taxation

Taxation is often defined as “the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities”. No specific reward is gained by the tax payer. The money collected is used for the common good of the citizenry – for the production of certain services, as aforesaid, which are considered to be more efficiently provided by the State rather than by individuals e.g. maintenance of law and order at home, and defense against external enemies, etc.

2.5 Purpose of Taxation

The definition of taxation given above underlines the main purpose of taxation, that is, to raise revenue to defray the cost of services provided by the State. Other purpose of taxation are to reduce inequalities arising from the

distribution of wealth; to restrain certain types of consumption e.g. alcoholic beverages and cigarettes; to protect home industries and to control certain aspects of the country's economy e.g. balance of payment, employment saving, investment and productivity.

2.6 Cannons of Taxation

Adam Smith (1778) one time famous British economist annunciated four cannons of taxation (in his book "The Wealth of Nations"). These principles are very significant, and they are as true today as in his days they are:

- **Equity:** - The subjects of every state ought to contribute towards the support of the government in equal proportions to their respective abilities. A system of taxation therefore, ought to distribute the tax burden on the community as equitable as possible.
- **Certainty:** - The tax which each individual is bound to pay ought to be certain and not arbitrary. That is, the tax collector is not squeeze out more than necessary from the tax-payer (Luke 3: 13). The time of payment, the mode of payment, the actual amount to be paid, ought all to be clear and plain to the contributor and to every other person.
- **Convenience:** - Every tax ought to be levied at the time or in a manner in which it is most likely to be convenient for the contributor. For example, where the Customs considers the traders declaration to be incorrect, the verification of essential facts for the determination of correct liability should be speedy and accurate. A tax should therefore, as far as possible be levied at a time and in a manner most convenient to its payment and should be brought as near as possible to the point of

consumption to meet the convenience of the owner of the goods; hence as one of the numerous indulgence, the Customs allows goods to be warehoused so that the trader clears his goods in bits at his own volition.

- **Economy:** - Every tax ought to be so contrived to take account of the ability of the persons who are charged with the taxes to pay. The cost of collection should also be very low so that the tax payer may not think that tax administrators exact taxes for their comfort and not for the benefit of the citizenry. The cost of collection for a tax administration of a developed country should therefore, not exceeds 0.2% of the total collected.

2.7 Other Principles

Other principles of taxation include:

Simplicity, A system of taxation ought to be simple and plain.

Elasticity, A system of taxation ought to respond automatically to changes in the community's wealth, population and other needs.

Productivity, A system of taxation ought to produce enough net yield or revenue but not so high as to damage the source of that revenue.

2.8 Impact, Incidence and Taxable Capacity

- a. The impact of a tax is the pinch of payment and this is on the person who pays the tax initially.

- b. The incidence of a tax is the money burden and this is on the person who finally pays the tax. The term thus indicates the “final resting place” of the tax.
- c. In Income Tax administration, the person who pays the tax bears both the impact and the incidence, whilst in commodity taxes some or all of the taxes which are paid by traders are passed on to the consumers by way of increased prices.
- d. The taxable capacity of a country is the limit of a country’s capacity to accept and absorb taxation and this is determined to a large extent on
- The country’s real wealth.
 - The attitude of the population to taxation in general.
 - The type of taxes levied.
 - The possibilities of tax evasion.
 - The level beyond which any increase in taxation might lead to reduction in the national income (e.g. the effect of taxes on incentive, wage demands, price increase).

2.9 Faculty Theory of Taxation

The faculty theory of taxation seeks to establish the principle that tax payers should contribute towards the revenue of the state in some direct relation to their capacity to do so. The theory is simply that the rich should be taxed more heavily than the poor because their ability to pay is greater. For example, persons whose incomes are up to ₦10,000,000.00 a year might pay ₦300,000 tax while those whose incomes are between ₦10, 000, 000, 00 and ₦20,000,000 a year might pay ₦600,000 and so on; (i.e. Progressive Taxation).

2.10 Regressive Taxation

This is the kind of taxation which tends to increase the burden as income grows smaller. It poses a situation, which militates against the fundamental rule of taxation, that is, equity.

Kind of Taxes

Taxes are commonly described as “Direct” or “Indirect”. This distinction is from administrative point of view convenient although it may not always be correct.

2.11 Direct Taxes

These are paid by persons or organizations on their incomes, profits, consumptions, etc and the impact and incidence are on the same persons or organizations, e. g. income tax or entertainment tax. The administering authority is the Internal Revenue Service (IRS).

Advantages of Direct Taxation

The advantages of this form of taxation are:

- Incidence and yield are easy to determine.
- The taxpayer knows with certainty what he is expected to pay.
- Yield increase automatically as wealth and population increase.
- Direct taxes are in general progressive.

Disadvantages of Direct Taxation

Direct taxes have the following disadvantages:

- The cost of administration involved is very heavy.
- The effect on incentive, enterprise and saving in case of those with large incomes may be considerable.

2.12 Indirect Taxes

These are levied on persons in the expectation that the taxes will be shifted or passed on to others. Here the impact and incidence are on different persons. They are called Indirect Taxes because the administering authorities the Customs and Excise Service, which levy the taxes on goods, do not collect the taxes from the consumer but indirectly through importers, manufacturers or other intermediaries. The shifting or passing on is effected by embodying the amount paid in taxes in the selling price of the commodities taxed to the consumer.

Advantages of Indirect Taxation

The advantages of this form of tax are:

- Payment and collection of the taxes are easy and convenient
- In general, yield is elastic.
- Evasion is difficult as compared with direct taxation.
- Restriction of harmful consumption, as a government policy is possible.
- Incentives for enterprise are not harmed, as in the case of direct taxes

Disadvantages of Indirect Taxation

Disadvantages of indirect Taxation are:

- They are often regressive.
- Revenue may be uncertain where the demand for the taxed goods is elastic.
- Incidence is not easy to determine.
- They are not always equitable.

2.13 Type of Indirect Taxes

Indirect taxes in Ghana fall into the following groups:

- Customs duties on goods imported from foreign countries.
- Excise duties on home-produced goods.
- Value Added Tax on home-made goods.
- Export duties on cocoa sold within Ghana, etc

2.13 Basis of Indirect Taxes

Indirect taxes may take the following forms:

Ad valorem Duty this is where the rate of duty is a percentage of the value of the goods e.g. wrist watches, 20% ad valorem.

Specific Duty this is where the rate of duty is based on some physical attribute or a combination of physical attributes of the commodity being taxed e.g. weight, gallonage. Wheat flour at ₵0.20 per kilo.

Alternative Duty this is where the rates are both ad valorem and specific, the rate which provides the higher or lower amount of duty as demanded by law, being applied.

Sliding Scale this is where the ad valorem or specific rate varies according to the unit price of the commodity. For example, Excise duty on cigarettes, where the weight of 1000 cigarettes does not exceed 2.075 lb – 55% of the selling price; and where the weight of 1000 cigarettes exceeds 2.075 lb but does not exceed 2.5 lb – 60% of the selling price.

2.14 Value Added Tax (VAT) in Ghana

Ghana is probably the only exception to the observation that, aside from a short-lived Value Added Tax in Vietnam in the early 1970s, no country has ever repealed VAT legislation. In October 1992, the government of Ghana established a project office responsible for the design and implementation of a tax to replace the sales tax regime that had been in existence since 1965. After two years of careful planning by a technical committee, a supervisory body to this committee and consultants from Crown Agents (UK), Parliament passed the Value Added Tax (VAT) Act, 1994 (Act, 486) in November 1994. The VAT Regulations (Legislative Instrument No.1598) were subsequently passed by the House in February 1995. The instruments actually became effective in March 1995 after a 21-day statutory notification period.

Although the VAT Act became effective on January 1, 1995, actual collection of the tax commenced on March 1, 1995. In May 1995, Parliament moved with dispatch to re-open debate on the fate of what had become

Ghana's first real effort at implementing a comprehensive domestic indirect tax regime. This move by Parliament became necessary following the demonstration by the public as a result of price hikes that the country experienced after the introduction of VAT. The decision eventually taken by the House to repeal the laws clearly contradicted the current trend in global tax reforms, and appears to have taken many informed technical advisers by surprise. Two separate laws, the Customs, Excise and Preventive Service Management (amendment) (No. 2) Act 1995 (Act 500) and the Service Tax Act 1995 (Act 501) were passed to replace the VAT Law and regulations. These two laws effectively restored the previous sales and other indirect tax regimes to their original status. In 1998 the Value Added Tax Act 1998 (Act 546) reintroduced the Value Added Tax Systems to replace the then existing Sales and Service Taxes. The distinctive feature about the two tax systems was that the VAT System was to be charged at 10% whereas the sales and service was at 15%.

2.16 Structure and Functions of the VAT Service

The highest decision making body of the VAT service is the Revenue Agencies Governing Board. The Board has the following responsibilities:

- To ensure the effective, efficient and optimum collection of all taxes penalties and interest due to the state.
- To control the management of the Service.
- To recommend to the Minister of Finance policies for the effective management of VAT as well as any exemptions required.
- To pay amount collected by the service into the consolidated fund.

- Appoint, promote and discipline employees of the Service.
- Prescribe the terms and conditions of service of employees.

2.17 Reasons for Introducing VAT in Ghana

There are several reasons for introducing the VAT to replace the sales and service taxes.

The main reasons for introducing VAT include:

- Adopting a uniform basis for collecting the general consumption taxes (GCT).
- Expanding and diversifying the tax base and
- Improving the efficiency and equity of revenue collection.

2.18 Features of VAT

VAT is a multi-point sales tax with a set off on purchases. The following are its features as stipulated in the Value Added Tax Act 1994- Act 486:

- **Registration**

In every State, there is a threshold limit for all dealers. Voluntary registration is permissible.

- **Incidence, Levy and Collection of Tax**

Every registered dealer liable for registration is required to pay tax under the VAT Act on sale of goods. A registered trader is also liable to pay for VAT goods purchased by him from an unregistered dealer.

Every registered dealer effecting sales of taxable goods is required to collect taxes collected separately in the Tax invoice and reflect such taxes collected separately in the books of accounts.

- **Input Tax Credit**

Input tax is the tax paid by the Dealer on purchase from a VAT-registered dealer in the same state. The input tax credit will be available for set-off on tax payable against local sales. Input tax paid on goods that are exported will be eligible for refund.

Input tax paid on purchase of notified capital goods used in the business is eligible for set-off in the manner as prescribed by various states.

In respect of goods that are manufactured and stock outside the state, input tax paid will be eligible for set-off in excess of 4%.

The net tax payable is to be remitted each month after the appropriate set-off. However where the Input tax exceeds Output tax, the dealer will be entitled to a refund or carry forward as prescribed. William, (1996)

2.19 Composite Dealers

These are registered dealers under VAT who have opted to pay tax on sales at a flat rate as provided in respective state of VAT legislation, provided that their turnover does not exceed certain limit. They do not have to issue Tax Invoice or avail tax credit. (Value Added Tax Act 1998 – Act 546)

2.20 Tax invoice and Debit/Credit Notes.

Again the Act states that VAT Invoices form the cornerstone for administration in a VAT regime and is issued by a registered dealer in respect of taxable sales in the same State.

VAT rate and VAT amount is to be mandatorily specified in such Tax Invoice.

A VAT dealer is required to issue a credit/debit note drawing nexus to a sale or purchase in case of return by a customer on return to a supplier, additional discount, change in prices etc. The contents of a credit/debit note are similar to that of Tax Invoice.

2.21 Books and Records

Every registered dealer is required to maintain true and correct accounts for a period of 5 years after the end of the year to which they relate. He shall also maintain commodity-wise stock; purchase or sales accounts and production records. In case the dealer maintains his account electronically, he must retain such documents and records in an electronically readable format. (Public Notice P.N.4 “VAT Keeping Records and Accounts)

2.22 Returns and Assessments

Every VAT dealer is required to file a monthly return under the VAT Act in the prescribed manner and in the prescribed form for the prescribed period. Such returns shall be accompanied with the tax challans for tax paid after taking rebate/set-off as provided in the Act. All the States have provided for payment of interest on short payment of taxes under specific circumstances.

2.23 Rationale in Introducing VAT

In the existing structure, before a commodity is produced, inputs are first taxed, and then after the commodity is produced with input tax load, output is taxed again. This causes an unfair double taxation with cascading effects. In the VAT, a set-off is given for input tax as well as tax paid on previous purchases.

Also, there is a multiplicity of taxes in several states, and such taxes include turnover tax, surcharge, etc. With the introduction of VAT these other taxes will be abolished. As a result, Overall tax burden will be rationalized and the prices in general will tend to fall.

The trading community in India had exploited the Government by misutilising the existing sales tax system in adopting loopholes in the system administered. If a well-administered system comes in, it will close avenues for traders and businessmen to evade taxes. They will also be compelled to keep proper records of their sales and purchases. (Value Added Tax Act 1998 – Act 546)

2.24 Advantages of VAT

It is explicitly stated in the Value Added Tax Act 1998 – Act 546 that, VAT has a number of benefits and chiefly among them are:

- i. Uniform rates of VAT will boost trade activities and will create a favorable atmosphere for the economic expansion.

- ii. Helps amassing tax revenues to finance the fund necessary for socio-economic growth of the economy. It has the in-built capacity to raise more tax revenues without distorting the existing tax structure and is yet able to widen the tax base.
- iii. Since VAT is mostly based on 100% self-assessment, it will reduce the taxpayers' hazards to visit tax offices frequently and lead to better tax compliance.
- iv. With 0% VAT on exports and availability of credit on input tax, it will foster export promotion and help amass foreign exchange wealth.
- v. Since there is no tax on tax, price escalation is avoided and will make prices more competitive with their counterparts. This matter is very important in present era of globalization and economic liberalization.
- vi. The VAT will therefore help common people, traders, industrialists and also the Government. It is indeed a move towards efficiency, healthy competition and fairness in the tax system.

2.25 Opposition to VAT

Ayeboafah, (1997) said the possibility of harassment by the tax inspectors is the outward reason for opposition by the trading community. Also proper records are required to be maintained which is very cumbersome job. Some people also argue that VAT would lead to price rise and as such it is unconstitutional to replace it with the existing sales tax. However the real reason is different. There is less scope of tax evasion under VAT and there will be stricter compliance. The trading community wants to retain the scope of tax evasion, as it existed under the sales tax structure.

2.26 Tax Incidence

Tax incidence is said to “fall” upon the group that, at the end of the day, bears the burden of the tax. The key concept is that the tax incidence or tax burden does not depend on where the revenue is collected, but on the price elasticity of demand and price elasticity of supply. For example, a tax on apple farmers might actually be paid by owners of agricultural land or consumers of apples.

The theory of tax incidence has a number of practical results. For example, United States Social Security payroll taxes are paid half by the employee and half by the employer. However, economists think that the worker is bearing almost the entire burden of the tax because the employer passes the tax on in the form of lower wages. The incidence falls on the employee. (<http://web.singnet.com>)

2.27 Tax Avoidance and Tax Evasion

Tax avoidance is the legal utilization of the tax regime to one’s own advantage, in order to reduce the amount of tax that is payable by means that are within the law. In contrast, tax evasion is the general term for efforts to not pay taxes by illegal means. The term tax mitigation is a synonym for tax avoidance. Its original use was by tax advisors as an alternative to the term tax avoidance.

Some of those attempting not to pay tax believe that they have discovered interpretations of the law that shows that they are not subject to being taxed: these individuals and groups are sometimes called tax protesters.

An unsuccessful tax protestor has being attempting openly to evade tax, while a successful one avoids tax. Tax resistance is the declared refusal to pay a tax for conscientious reasons (because the resistor does not want to support the government or some of its activities). Tax resistors typically do not take the position that the tax laws are themselves illegal or do not apply to them (as tax protestors do) and they are more concerned with not paying for particular government policies that they opposed. (<http://web.singnet.com>)

2.28 Tax Evasion

Tax evasion on the other hand is the general term for efforts by individual firms, trust and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned). (<http://web.singnet.com>)

2.29 Registration of VAT

In the Public Notice (P.N.2) the total value of taxable supplies made by a business is referred to as its taxable turnover or sales. All goods and services are taxable except those exempted by law. In principle, all individuals or businesses making taxable supply must register for VAT. They are called Taxable persons under the law.

However, the VAT law makes an exception for retailers of goods, hence the criteria for registration under the law is summarized as follows:

All individuals and businesses that are eligible to register under the current sales and services tax collected by the Custom Excise and Preventive Services (CEPS) and Internal Revenue Services (IRS) respectively must apply for registration. This category covers mainly manufacturers and services providers.

Again all retailers of goods who make taxable sales or turnover above GH¢20,000.00 a year must apply for registration.

Strictly speaking, manufacturers, service providers and wholesale businesses are not subject to the turnover limitation, which is commonly referred to as the VAT Registration threshold. In practice however, artisans and small business operators (Example Fitters, Repairs, hairdresser, “Chop Bar” operators etc.) in the informal sector will not be registered to charge VAT.

The definition of a taxable person includes a Sole Proprietor, Partnership (including husband and wife partnership), limited liability companies, government institutions and non-profit organizations.

Each registration covers all the business activities of the registered person. It may therefore include subsidiaries, divisions and branches of the same business. The law has other provisions regarding registration.

First, a retailer of goods may apply to be voluntarily registered, if they so wish, even when their annual taxable turnover falls below the registration threshold. This is usually done to enable such businesses to take advantage of the benefit of the input tax Credit. Secondly, the VAT Commissioner has been given power to compulsorily eligible firms that may be attempting to avoid or evade registration even though their registration is at hand or their supplies exceed the turnover

2.30 Imposition of VAT

As pointed out by Tia A. (1995) the basic requirement of the VAT law is that any supplier of goods and services will attract the tax, unless specifically excluded from the tax base by law. The word “supply” is the expression “taxable supply” and it is used to distinguish between the goods and services which attract the tax and those which do not.

VAT is payable if supplies of taxable goods and services are made:

- a. An import to Ghana.
- b. By a taxable person.

2.31 How VAT Works

A registered person or an enterprise making taxable supplies accounts for VAT for an accounting period which is usually one calendar month. The amount paid to the tax authorities is the difference between the total VAT collected from customers on sales (output VAT) and total VAT paid on purchases and expenses (input VAT). The rationale for allowing registered enterprises to recover the Input VAT is simple. For as long as goods and

services change hands between registered businesses, the output tax charged by others who buy from them.

Registered tax payers are allowed the Input Tax credit to prevent the tax “cascading” or increasing the cost of product and or distribution unnecessarily. However, a registered enterprise or business must be in possession of a tax invoice before it can claim the Input tax credit.

In the case of imports, the business must be in possession of a Customs Entry or other approved evidence of tax payment approved by CEPS.

At the end of the calendar month, all taxable persons must total their Output Tax and use these to complete the VAT returns. The amount due to government is therefore the difference between the output tax charged on taxable sales and the Input Tax paid on taxable purchases and expenses. (Public Notice P.N.7)

2.32 Supplies

Supply is used to “taxable supplies” refer to supply of both goods and services whether taxable or exempt. And it cover the following examples of transactions.

- a. The sale, supply, or delivery of taxable goods to another person including imports.

- b. The appropriation by the registered person of taxable goods for his personal use or for use by others.
- c. The making of a gift of any taxable goods or taxable services in the course of business.
- d. The letting of goods on hire, leasing or other transfers.
- e. The acceptance of wager or stake in any form of gambling including lotteries or gaming machines.
- f. The processing of data or supply of information or similar service.
- g. The supply of staff.
- h. The sales, transfer, assignment or licensing of patent, copyright, trademarks, computer software and other proprietary information.
- i. Any other disposal of taxable goods or provision of taxable services.

(VAT News, July, 2000)

2.33 Exempt Supplies

A summary of the goods and services exempted from VAT under the VAT law. (S15/Schedule). This classification should, however, be distinguished from zero-rated supplies.

A summary of the goods and services which are exempt from VAT includes:

- Animals, livestock and poultry: The classification includes all live animals.
- Goods for the disabled: Articles designed exclusively for the use by the disabled. The exemption includes imported newspapers, plans and

drawing, scientific and technical work periodicals, magazines, price lists, greeting cards, almanacs, calendars and stationary.

- Educational Items or services: The supply of educational services at any level by an educational establishments approved by the ministry of Education.
- Medical Supplies, Services and Pharmaceutical or Medical Supplies and essential drugs placed on a list determined by the Ministry of Health and approved by parliament.
- Transportation: Includes transportation by bus and similar vehicles, train, boat and air.
- Machinery: Machinery, apparatus and parts thereof, designed for the use in; agriculture, veterinary, fishing and horticulture; industry mining and dredging and raising and tramway.
- Crude oil and hydrocarbon products: Petrol, Diesel, Liquefied petroleum gas, Kerosene and residual oil.
- Land, building and construction: Land and building, the granting, assignment or surrender of an interest in land and building, the right to occupy land or building, civil engineering works service supply in the course of construction , alteration and maintenance to building or other works under the classification above.
- Financial Services: Provision of insurance, issue, transfer, receipt of or dealing with money, (including foreign exchange} or any note or order of payment of money, provision of credit, operation of any bank {or similar institution) account.

- Animal livestock and poultry imported for breeding purposes. Live asses, mules and hinnies, live bovine animals, live swine, live sheep and goats, live poultry.
- Animal product in its raw state produced in Ghana. Edible meat and offal of the animal, livestock and poultry, provided any processing is restricted to salting, smoking or similar process. This exemption excludes pate, fatty, livers of geese and ducks and similar products (i.e. these are taxable).
- Agriculture and aquatic food products in its raw state produced in Ghana. Fish, crustaceans and molasses. Vegetable, fruits, cocoa, shea butter, maize, sorghum, millet, tubers, guinea corn and rice. These exemptions excluded ornamental fishes.
- Seeds, Bulbs, rooting and their forms of propagation. Edible fruits, nuts and vegetables.
- Agriculture Input: Chemical including all forms of fertilizers, acaroid's fungicides, infanticides, growth regulators, pesticides, veterinary drugs and vaccines and feed and feed ingredients.
- Fishing Equipment: Boats, nets, floats, twines, hooks and other fishing gear.
- Water: Supply of water. The exemption excludes bottled and distilled water.
- Electricity: Domestic use of electricity up to a specified consumption level prescribed in regulation by the minister (i.e. all commercial use of electricity and domestic consumption above the limit specified will be taxable).

- Printed matter (book and newspapers): These must be fully printed or produced by any duplicating process.
- Transfer of a going concern: The supply of goods as part of the transfer of a business as a going concern by one taxable person to another person.
- Postal Services: Supply of postal agencies is taxable. VAT is not charged on the sales of exempt supplies but no credit may be allowed to the business making exempt sales for the VAT paid on purchases or expenses (S29)1/3). The businesses can however recover these input distributions. This means that businesses which make only exempt supplies cannot register for VAT. (VAT News, July,2000)

2.34 Keeping Records and Accounts

Bertnam, et al (1987) pointed out in their book “Comprehensive aspect of Taxation” that all registered traders must keep records and accounts of taxable goods and services received or supplied in the course of doing any business including zero rated supplies made or received. In addition, the trader should keep a summary of the totals of input and output tax for each calendar month. This is called VAT Account.

All these records must be kept up to date and in sufficient detail to enable the tax payer calculate correctly the amount of VAT to be paid to the VAT Authorities. It is also to provide evidence of claims for input tax credit. The records must be kept properly and made readily available to enable the

VAT officer check figures used to file the VAT returns. The principal records which registered persons must keep for VAT include:

Sales Invoice: Copies of all invoices issued in serial number order showing details of the amount of tax charged on each supply made.

Purchases Invoice: All purchases invoice copies of custom entries receipt for the payment of duty or tax.

Debit and Credit Notes: Copies of all debit and credit notes issued.

VAT Account: Totals of output and input tax each period and the net amount payable or the excess tax carried forward at the end of each month.

Delivery Document: Details of each supply of goods and services from the business premises unless each details are available at the time of supply on invoice issue at or before the time.

2.35 Examination of VAT Records

The records of all business, including those not specifically registered for VAT may be subjected to independent examination by the VAT authorities. The examination or audit may cover the VAT account and other records relating to VAT. All records should be made readily available to the authorities on request and should be kept at the principal place of business specifically permitted to keep them elsewhere. As noted earlier, the records should be kept for a period of six years before they can be destroyed, unless otherwise directed by the commissioner.

2.36 VAT Returns

A VAT registered person is required to file monthly returns showing details of VAT transactions for each calendar month (S28). The records for each month must be submitted not later than the last working day of the month immediately following the month to which it relates. The return must show details of the sales and purchases made during the month immediately preceding that in which the return is being filed and the related VAT on these values. The return must show details of the sales and purchases made during the month immediately preceding that in which the return is being filed and the related VAT on these values. It must be in the form prescribed in form – REG.29.

Each return will include the following particulars:

- b. Sales-for each rate of tax (i.e. standard and zero-rate)
 - Total Value of Supplies made
 - Tax Rate
 - Amount of output tax payable
- c. value of exempt supplies
- d. purchase/expenses-for rate of tax (i.e. standard and zero-rated)
 - Total value of supplies received.
 - Tax rate.
 - Amount of input tax paid.

The amount of input tax deductible (and upon apportionment where applicable).

- e. The net amount of tax either payable to tax authorities or repayable by them. A late return or one without the required amount of tax will

attract penalties under the law. If no taxable suppliers are made or received during the preceding month, a “nil” returns should be submitted by the registered trader. It is necessary for the registered trader to keep copies of all VAT services rendered on the business premises.

The accurate completion and prompt submission of VAT returns and payment are the way of avoiding penalties under the law. If a registered person fails to file a VAT Returns or submits an inaccurate Return at the end of the month, the Act gives powers to commissioner to raise an assessment and in addition impose penalties and interest charges, where appropriate (S30).

The monthly VAT payments should be made at the same time as the filing of a return, either in cash or cheque. All cheques be crossed and marked “account payee only” remember that it is an offence to bounce a cheque.

CHAPTER THREE

METHODOLOGY AND SCOPE OF THE STUDY

3.1 Introduction

This chapter deals with the sources of data collected, the research population, sampling techniques employed and the sample size. Besides, the research instrument used in the data collection, the data collection procedure and tools for data analysis were also discussed.

3.2 Study Area

The study was undertaken at Ho-municipality, the administrative capital of the Volta Region of Ghana in general and VAT office in particular.

The Ho municipality covers an area of about 45km radius and has dispersed VAT traders all over the municipality.

The VAT office occupies the floor of the former co-operative bank under the roof of the State Insurance Company (SIC) near Goil Filling Station on the main Ho-Accra trunk road.

The main activities performed in the municipal VAT office include:

Opening of files for taxable traders, issuance of VAT certificate, provision of VAT (20) return forms, provision VAT education, invigilation, control and verification of VAT custom documentations, prosecution of tax evaders and recalcitrant traders and taking distress actions as well as sealing off customer's premises.

The choice of Ho- Municipality in general and VAT office in particular was painstakingly considered owing to its representation, accessibility and limited time constraints as well as financial difficulties to enable this research cover the whole VAT fraternity in Ghana.

3.3 Sources of Data Collection

Data was gathered from primary and secondary sources. Under primary data the researcher targeted all staffs of the VAT Service office in Ho, wholesalers, Retailers, Service providers and a section of the consuming public in the municipality. Questionnaire was the main tool used to elicit majority of the information, open-ended, close-ended and multiple-choice questions were combined in the questionnaire designed for the research work.

Secondary data were extracted from selected books, journals, internet, and pamphlets on the project topic under study. Other revenue agencies were also consulted for their views on the role of VAT on the economy of Ghana.

Both qualitative and quantitative methods were employed to gather the essential data for the study to be undertaken successfully.

The choice of data collection methods was informed by the general objectives of the project work, the effect of VAT on the economy of Ghana.

Questions were carefully set to elicit all information necessary to achieve the research objectives.

In drawing up the research questionnaire, special attention was attached to the number of questions and their relevance to the objective.

The questionnaires cover issues like: personal background, meaning and perception of VAT, and the role of VAT on the economy of Ghana etc.

Observations were made by the researcher whilst on visit to some of the shops in the municipality both retail and wholesale to solicit divergence views. Interesting revelations were made. These revelations were discussed in detail in the next chapter.

In spite of the exacting response from the research questionnaires, it became necessary to use check list to elicit additional information and in some cases explanations that were deemed necessary.

3.4 Target Population/Research Population

Population is the entire aggregation of items from which samples can be drawn. This research is focused on the VAT office and the Ho municipality.

All categories of staffs of the VAT office Ho, Retailers, Wholesaler, Service Providers and a section of the consuming public constituted the population of interest. Besides, the various revenue agencies that collect VAT on behalf of the government were covered in the study.

3.5 Sample Size and Sample Frame

The researcher chooses all categories of groups or strata in the Ho municipality for investigation. This includes:

- 15 staffs of the VAT office, Ho
- 5 Wholesalers
- 10 Retailers
- 8 Service Providers
- 2 Manufactures and
- 60 Consumers of goods and services.

In all, a sample size of 100 people was considered appropriate, considering the financial and time constrains of the researcher.

3.6 Sampling Techniques

Sampling is the process of selecting a part of a population to represent a whole. The researcher used Purposive sampling (PS) in the selection of samples in the study area. The research was conducted on the basis of giving equal right to selected males and females in the strata. This enables the researcher to sample the view of all the groups under investigation on the role of VAT on the economy of Ghana.

Questionnaires were administered to all members of the strata. Again simple random sampling was employed in selecting respondents to the items in the questionnaire.

In all 100 questionnaire were issued out and all questionnaires were retrieved (100%), the final sample size of the study was 100.

3.7 Data Collection Methods/Techniques

The data collection methods or techniques formed an important part of my research.

In this regard, the researcher used Two (2) different methods of gathering required data. These are questionnaires and published materials.

3.8 Data Analysis and Interpretation

Both quantitative and qualitative methods were employed in the data analysis. For the quantitative aspect, Statistical Package for Social Sciences (SPSS) and excel were used. Frequency distributions, Percentages, and Descriptive Analysis of assessing the effect of VAT on the economy of Ghana. Data collected were collated and analyzed using various quantitative statistical models such as bar chart and pie chart.

Each datum was examined and analyzed on its own merit and grouped into the various aspects of information requirement for the purposes of this project work.

The findings were critically examined again to make sure that they were not incongruous with the research objective and hypotheses. The findings which were discussed in the next chapter are presented in statistical form.

CHAPTER FOUR

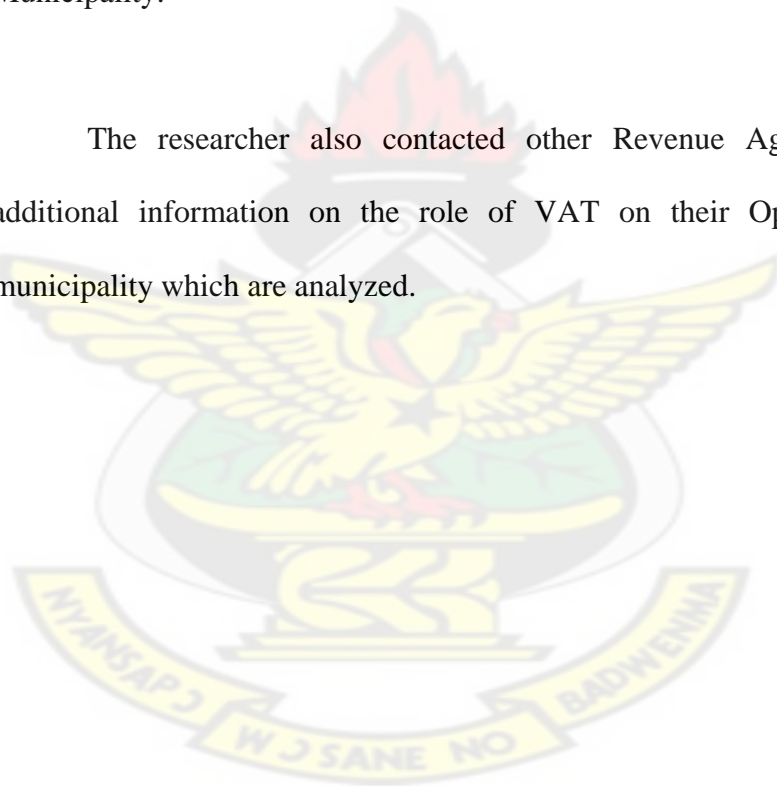
DATA ANALYSIS AND FINDINGS

4.1 Introduction

The focus of this chapter is on the analysis of the data collected from the field of study according to the response given by the respondents.

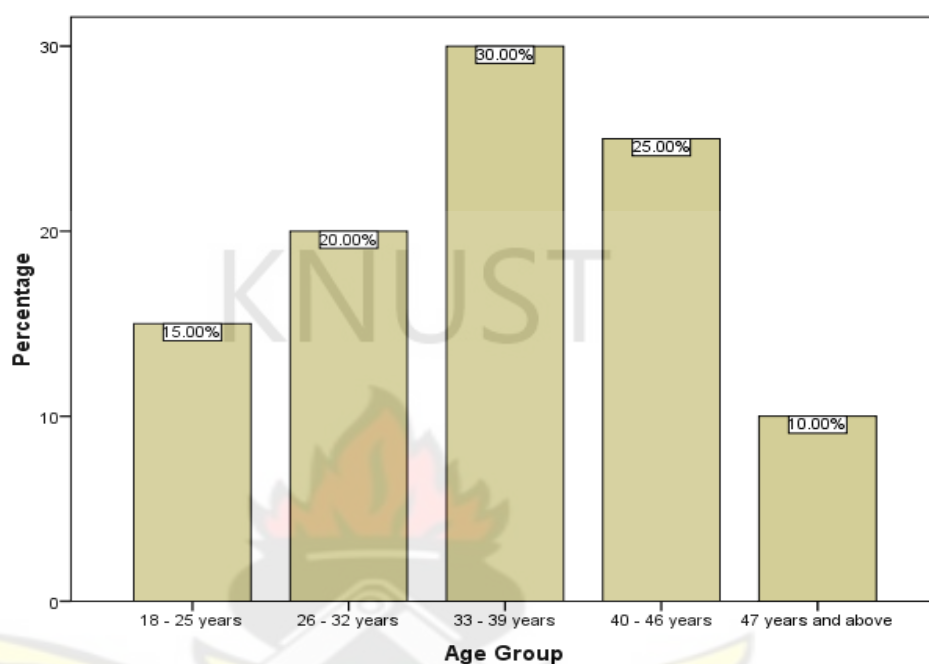
In all, One Hundred (100) questionnaires were distributed among VAT Office staffs, Wholesalers, Retailers and Consumers in the Ho Municipality.

The researcher also contacted other Revenue Agencies to have additional information on the role of VAT on their Operations in the municipality which are analyzed.



4.2 Age of Respondents

Fig 1 Age Distribution of Respondents

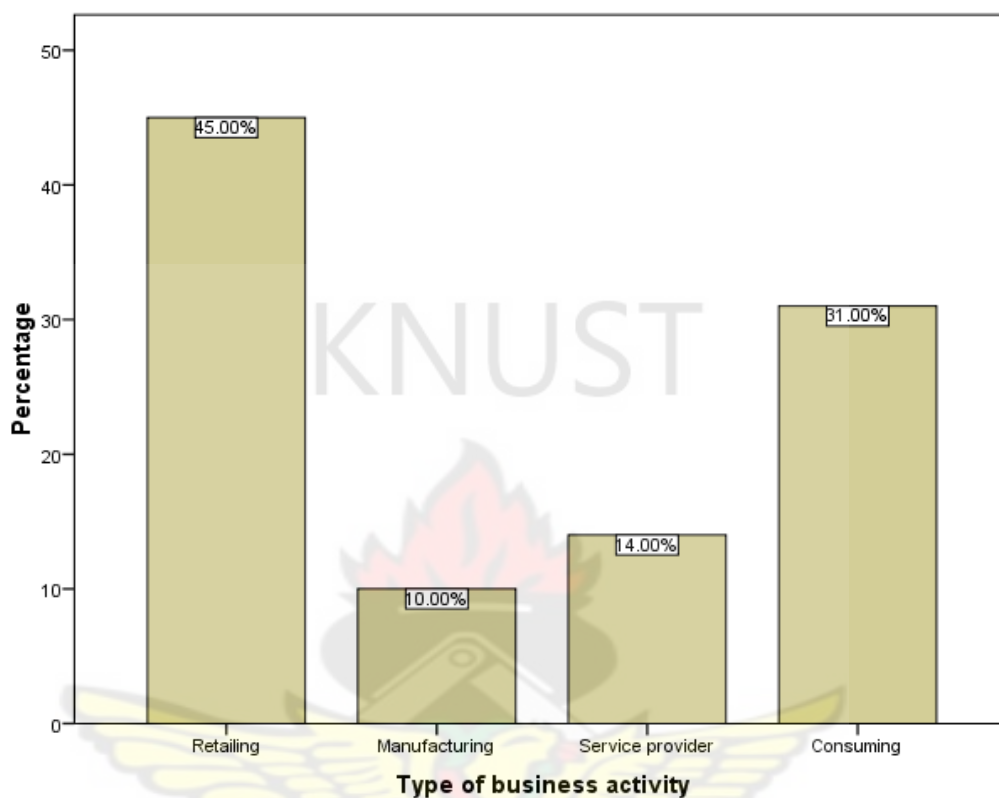


Source: Field Survey Data, 2009

According to the figure 4.1 above, 30 percent of the respondents fall between the age group of 33 – 39 years while 25 percent fall between 40 – 46 years. Also 20 percent, 25 percent and 10 percent of the respondents fall between the ages of 26 – 32 years, 18 – 25 years and 47 years and above respectively. It was realized that the adult class in the economy is well represented, showing their interest in knowing the impact VAT is making on the development of the economy of Ghana.

4.3 Business Activities

Fig.2 Type of Business Activities

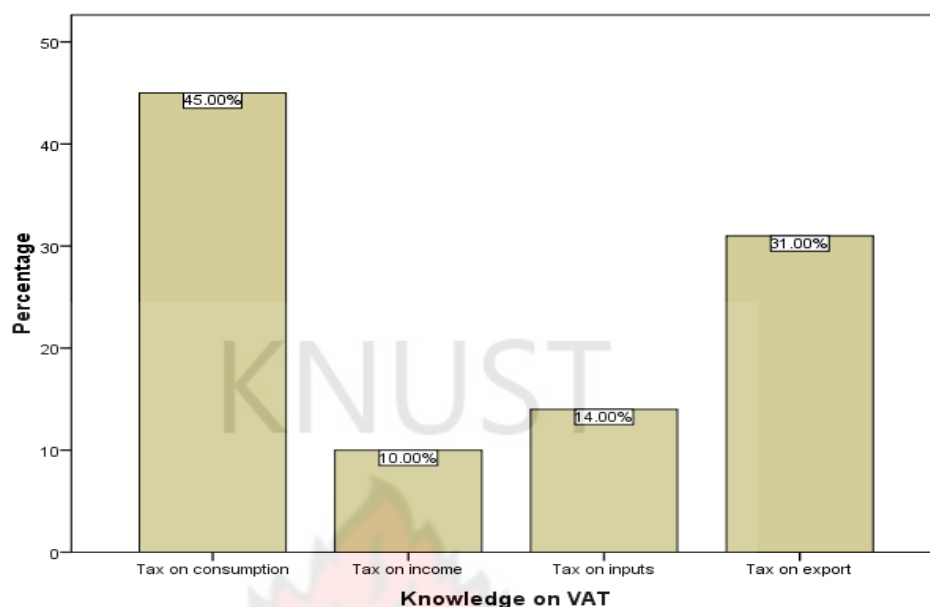


Source: Field Survey Data, 2009

The business sector in the economy is largely constituted by retailers and a consuming public who collect and pay VAT on goods and services respectively. From the figure above, majority of the respondents, representing 45 percent are in the retailing business while 31 percent represents the consumers. Service providers and those in the manufacturing sub sector account for 14 percent and 10 percent respectively; hence VAT affects the retailers and consumers mostly.

4.4 Knowledge on VAT

Fig 3 Knowledge on VAT

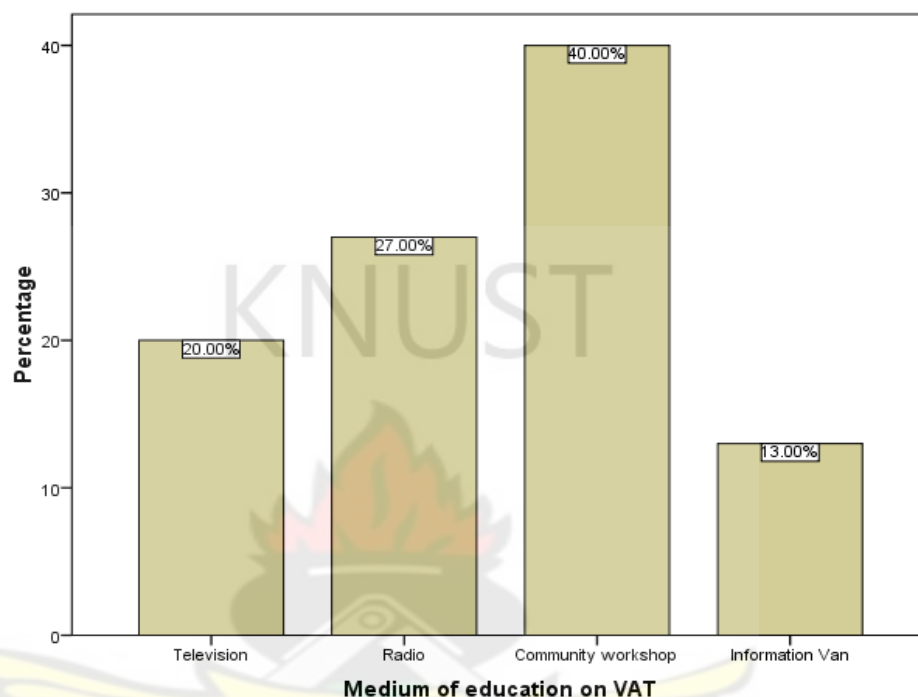


Source: Field Survey Data, 2009

From figure 4 above, majority of the respondents classified VAT as tax on consumption and this can be attributed to the knowledge gained by payers who are issued with VAT invoices on whatever they buy. They are represented by 45 percent while 31 percent of the respondents classified VAT as tax on export. Other classifications of VAT identified by the respondents are tax on income and tax on import which are represented by 14 percent and 10 percent of the respondent's views. This implies that the level of education and level of knowledge gained cannot be reconciled.

4.5 Medium of Education on VAT

Fig 4 Medium of Education on VAT

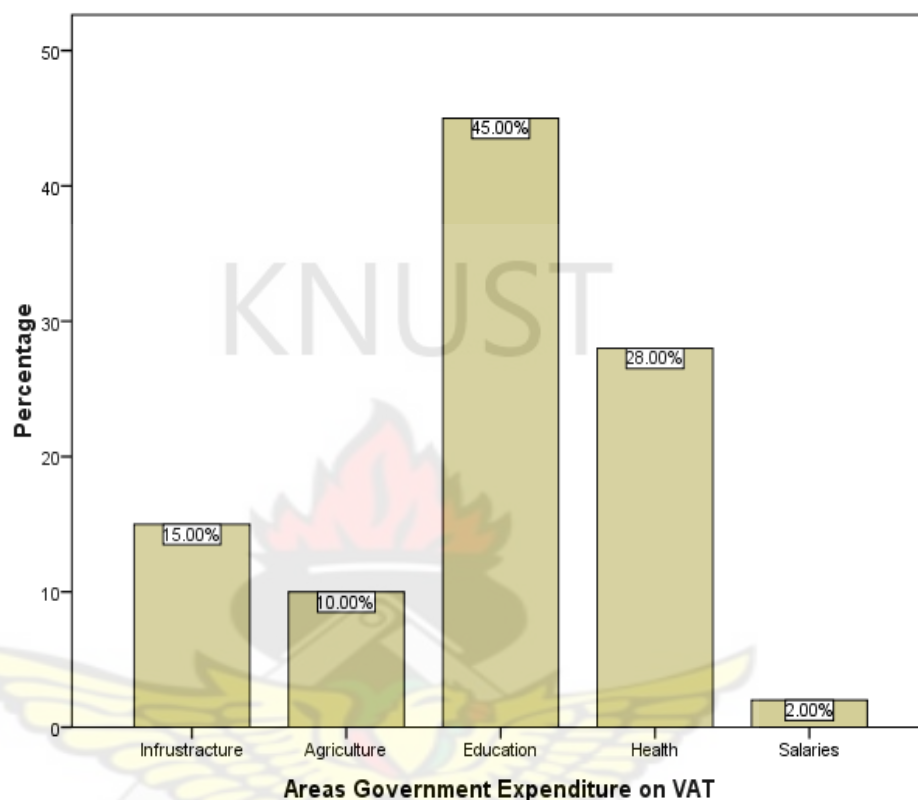


Source: Field Survey Data, 2009

The Ghanaian economy is predominantly dominated by the informal sector which mostly has access to radios and community workshops. This has been established by the figure above. Most of the respondents identified community workshops as the most appropriate medium for educating people on VAT. This is represented by 40 percent of their views. The radio was also identified by 27 percent of the respondents' whiles Television and the Information van have also been identified by 20 percent and 13 percent of the respondents as the media for educating people on VAT.

4.6 Expenditure on VAT

Fig 5 How Government Spend VAT Revenue

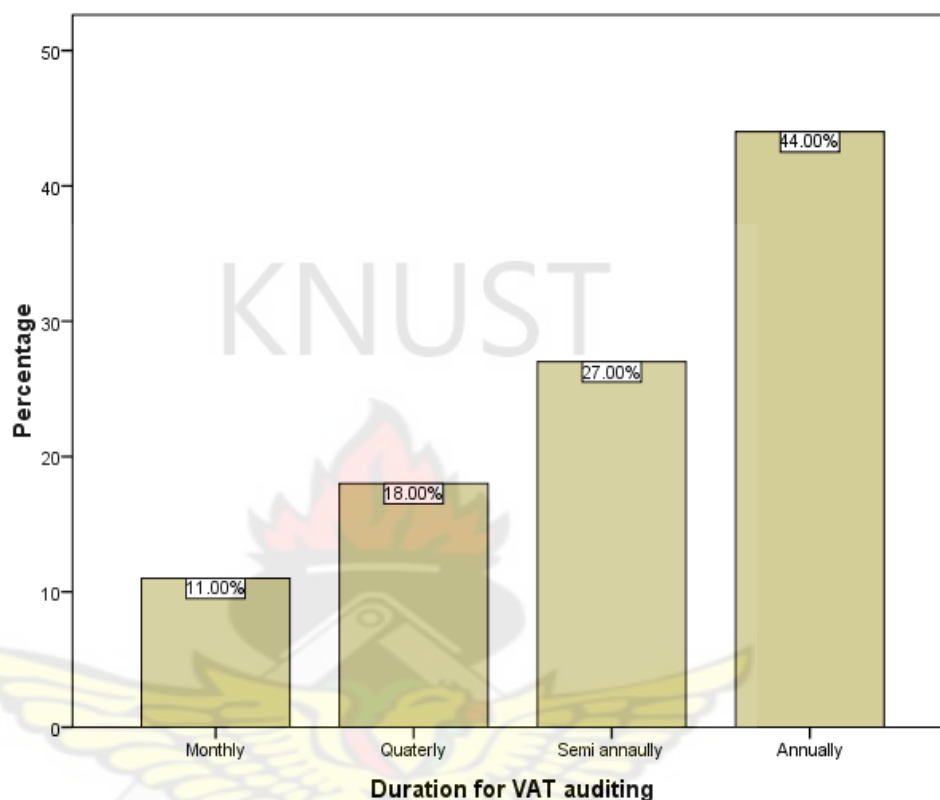


Source: Field Survey Data, 2009

From the opinion of respondents, the economy of Ghana has to be improved and the educational and health sectors have been the priority. The educational sector has been identified by 45 percent of the respondents as the area of investment of VAT revenue while the Health sector has also been identified as the area of expenditure by 28 percent. Infrastructural development and the agricultural sector have also been identified by 15 percent and 10 percent respectively.

4.7 Auditing of VAT Registered Businesses

Fig 6 Duration for Auditing VAT Registered Businesses

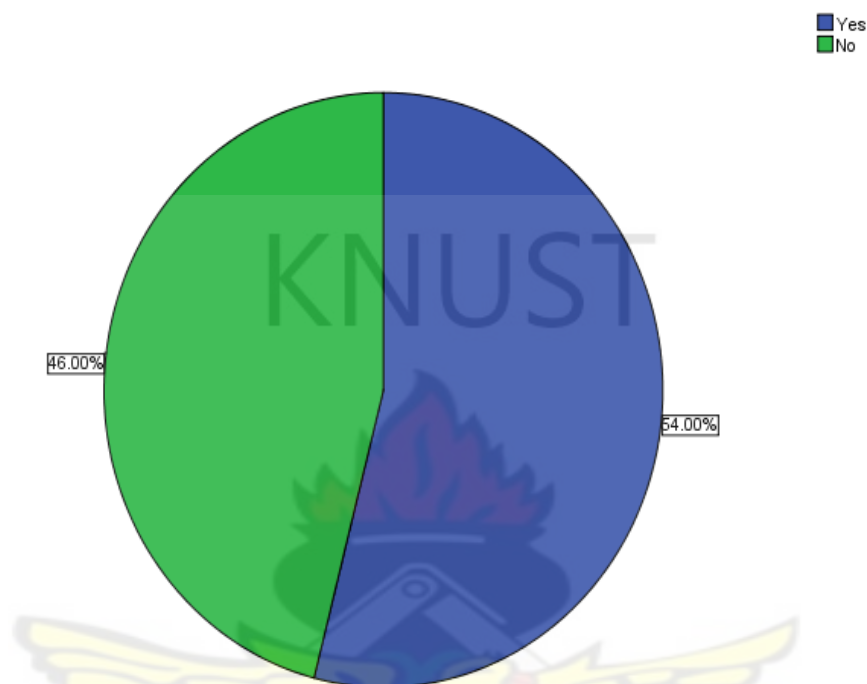


Source: Field Survey Data, 2009

From the above figure, most of the respondents representing 44.00 percent suggested that VAT registered persons should be audited annually. Those who suggested semiannual auditing represents 27 percent while 18% and 11% of the respondents suggested that VAT registration should be audited quarterly and monthly.

4.8 Implementation of VAT

Fig 7 Benefits of Implementation of VAT to the Ghana's Economy

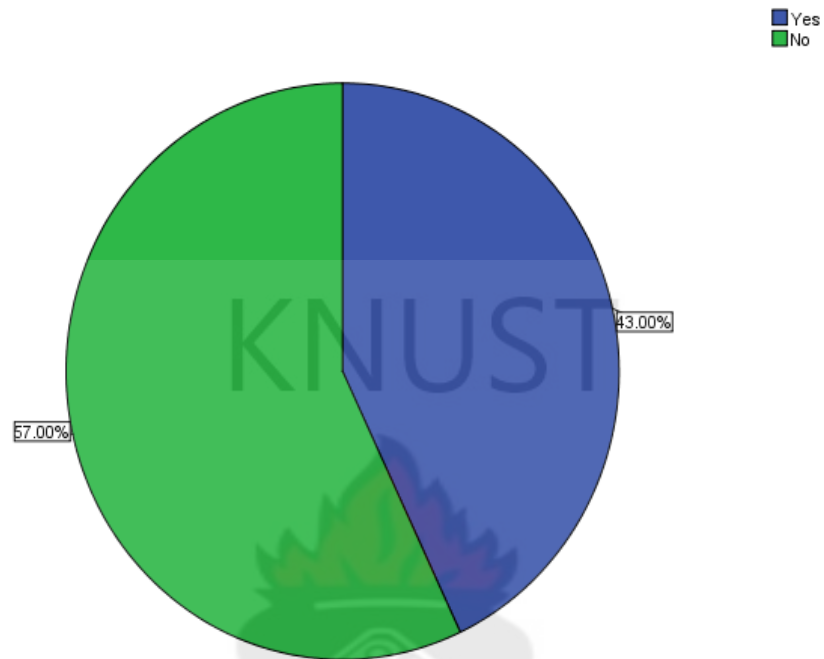


Source: Field Survey Data, 2009

The implementation of VAT to the economy of Ghana was identified by majority of the respondents as worthwhile. This represents 64 percent of respondents views in the chart above. Forty six percent of the respondents however stated that implementation of VAT is not worthwhile to the economy of Ghana.

4.9 VAT collection in Ghana

Fig 8 Mode of VAT Collection in Ghana

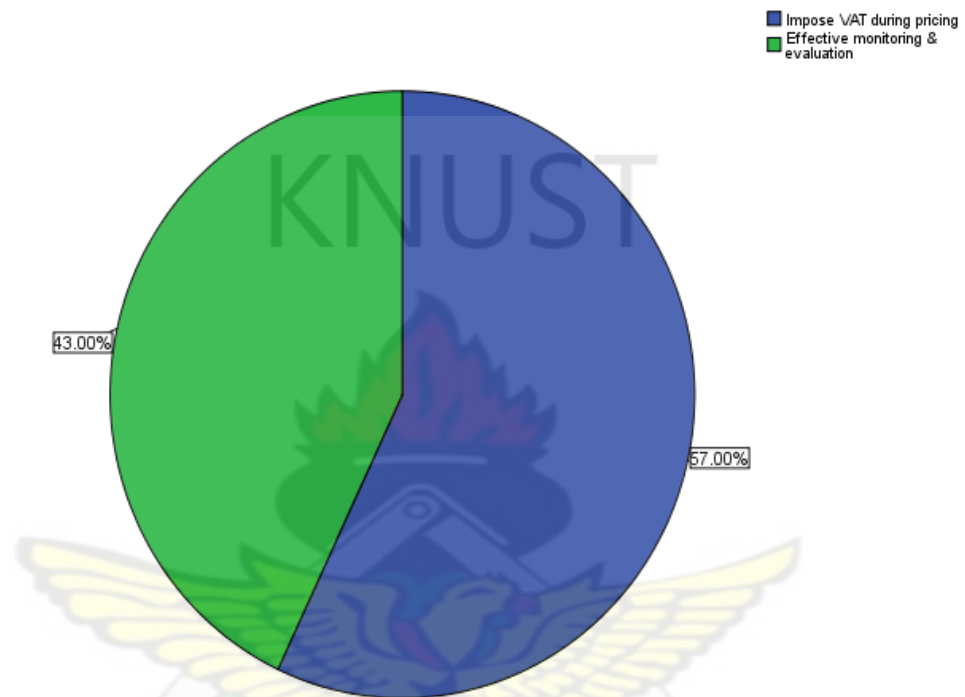


Source: Field Survey Data, 2009

The collection of VAT in Ghana is not efficient. This was stated by 57 percent of the respondents while 43 percent of the respondents stated otherwise. Reasons given for the inefficiency of VAT collection in Ghana are the inadequate education on VAT and the non accounting of VAT revenue due to fraud.

4.10 VAT Recovery

Fig 9 Effective ways to VAT Recovery

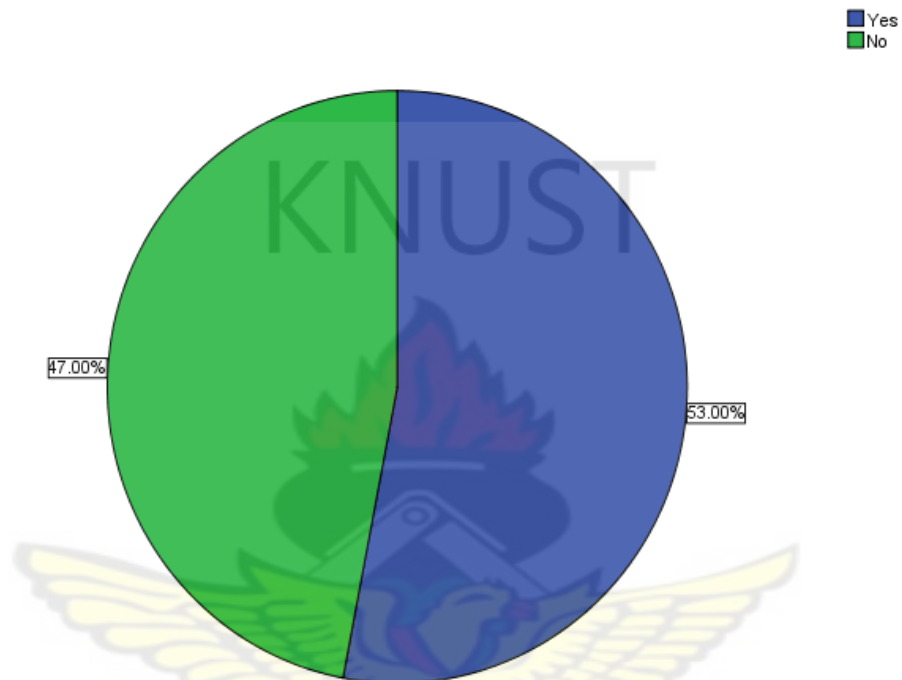


Source: Field Survey Data, 2009

In order to recover revenue generated from VAT, 57 percent of the respondents suggested that the standard rate of tax be imposed in the process of pricing while 43 percent also suggested that this can be done through legislations and effective monitoring and evaluation of the system.

4.11 VAT Return

Fig 10 VAT Return Recovery in Percentage

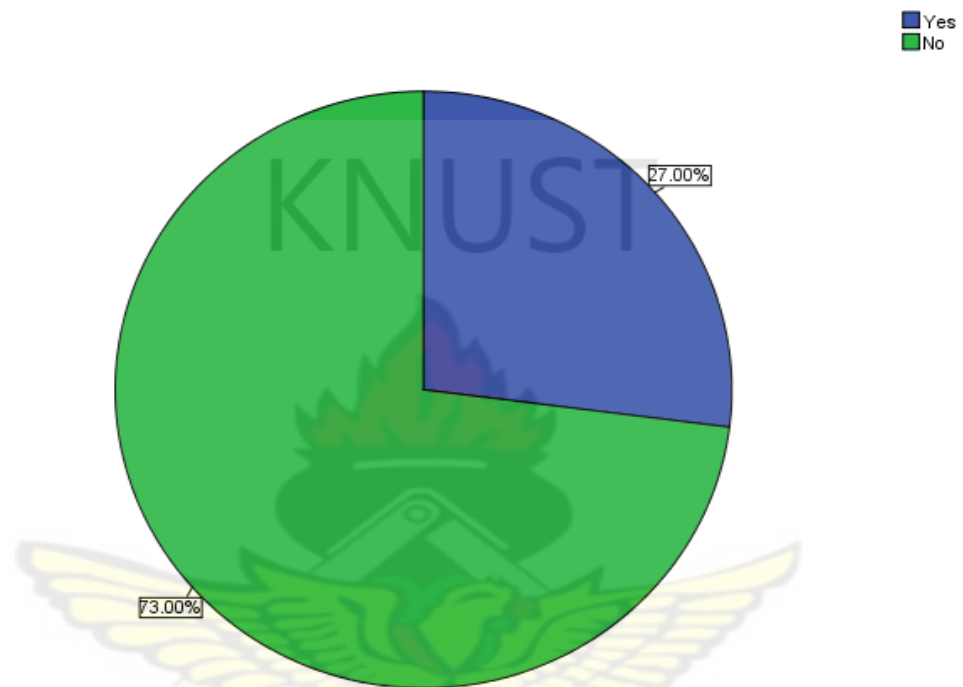


Source: Field Survey Data, 2009

From the figure above, 53% of the respondents said companies are recovering the full percentage of their VAT returns whiles 47% of the respondents stated otherwise.

4.12 Level of Education on VAT

Fig 11 Level of Education on VAT

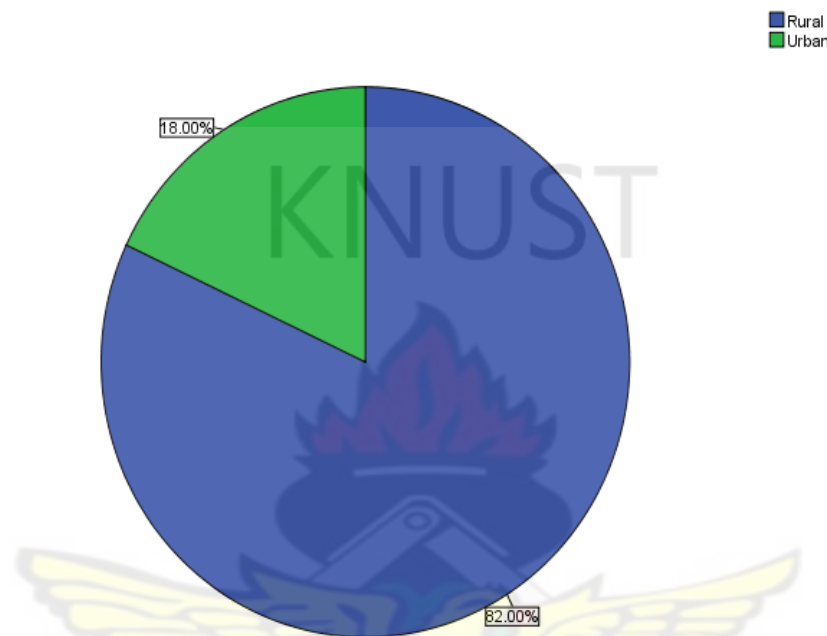


Source: Field Survey Data, 2009

Majority of respondents feel that there is not enough education on VAT to the general public. This is represented by 73 percent of the respondents' views while 27 percent of the respondents feel that the education on VAT to the general public is enough.

4.13 VAT Expenditure areas

Fig 12 Areas of Spending VAT Revenue

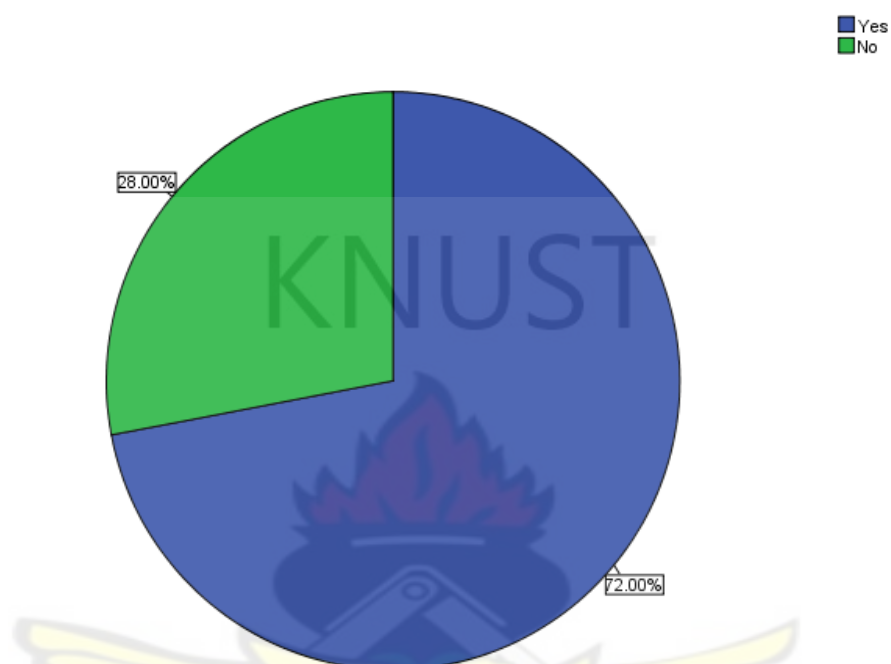


Source: Field Survey Data, 2009

The rural area has been identified by most of the respondents as the area for the spending of the greater part of the revenue generated from VAT, representing 82 percent of the views of respondents. Eighteen percent of them also suggested the urban areas.

4.14 Motivation to VAT Staff

Fig 13 Motivation to VAT Staff

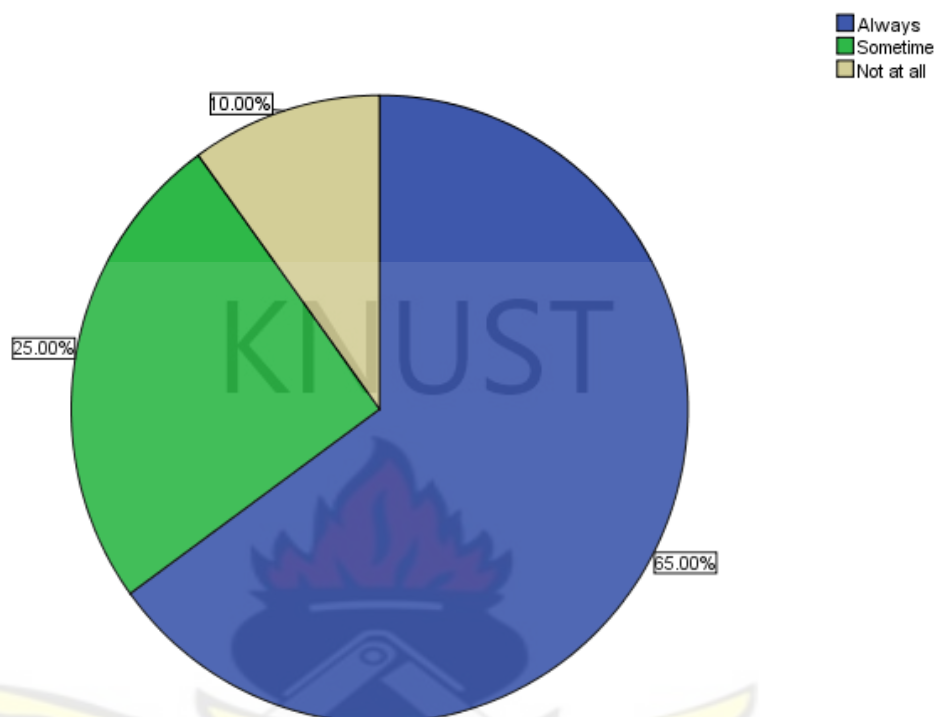


Source: Field Survey Data, 2009

Majority of the respondents feel that the VAT staff are motivated enough to do their work effectively. This according to the chart above represents 72 percent of respondents' views. Twenty eight percent of respondents however feel the VAT staffs are not motivated enough.

4.15 Issue of VAT Invoice

Fig 14 Issuance of VAT Invoice to Customers

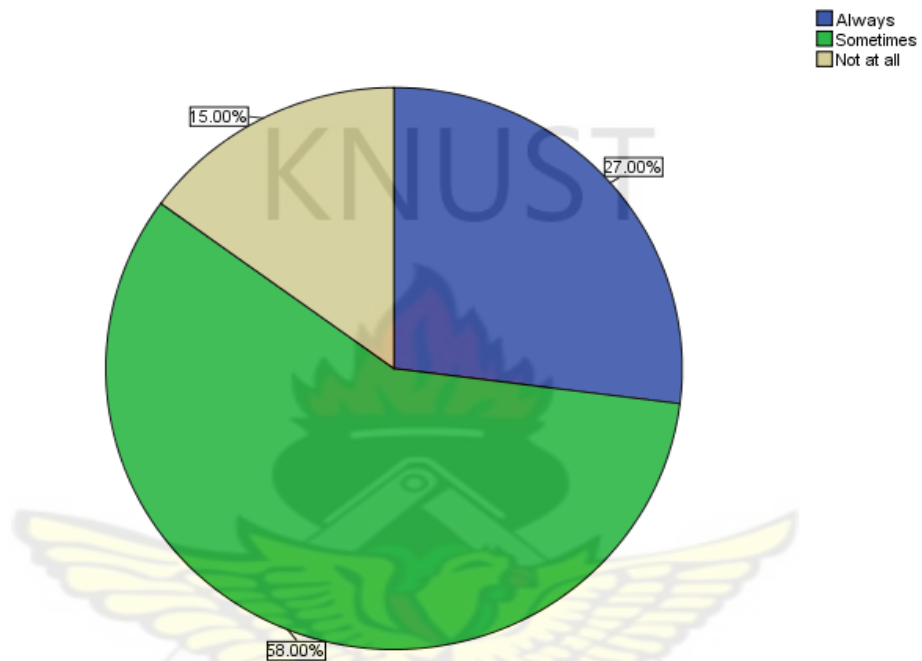


Source: Field Survey Data, 2009

From the figure above, 65 percent of respondents stated that they always issue VAT invoice to customers whiles 25 percent of the respondents stated they sometimes issue VAT invoice to customers. Ten percent of them however stated that they do not issue VAT invoice to their customers.

4.16 Request of VAT Invoice

Fig 15 Rate Request for VAT Invoice

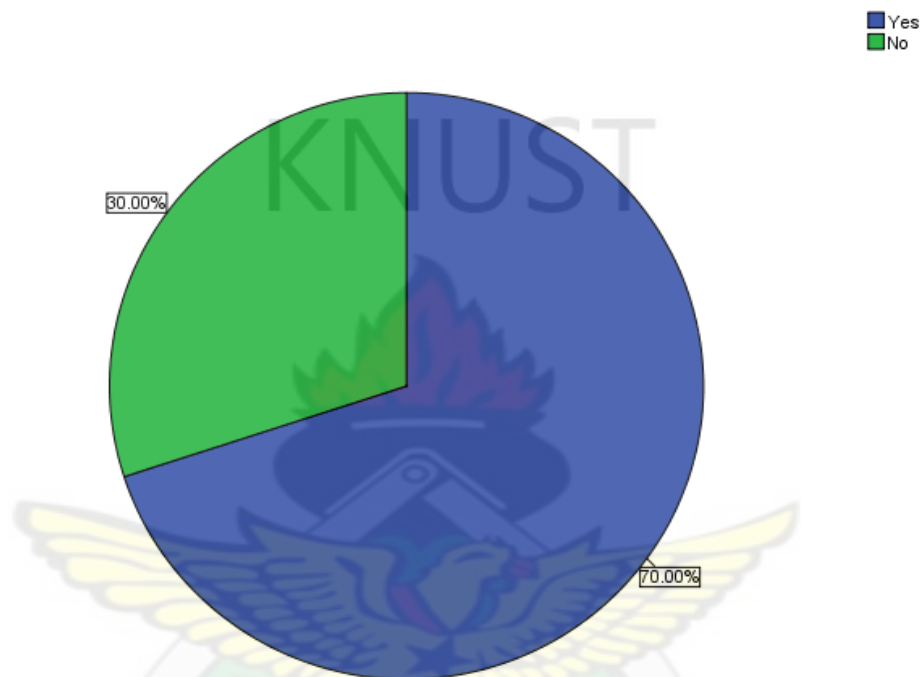


Source: Field Survey Data, 2009

Majority of respondents representing 58 percent of their views stated that they sometimes insist on VAT invoice whiles 27 percent of them stated they always demand VAT invoice. Twenty percent of the respondents however do not insist on VAT invoice at all.

4.17 VAT Collection through VAT Invoice

Fig 16 Issuance of VAT Invoice Enough to Collect Tax

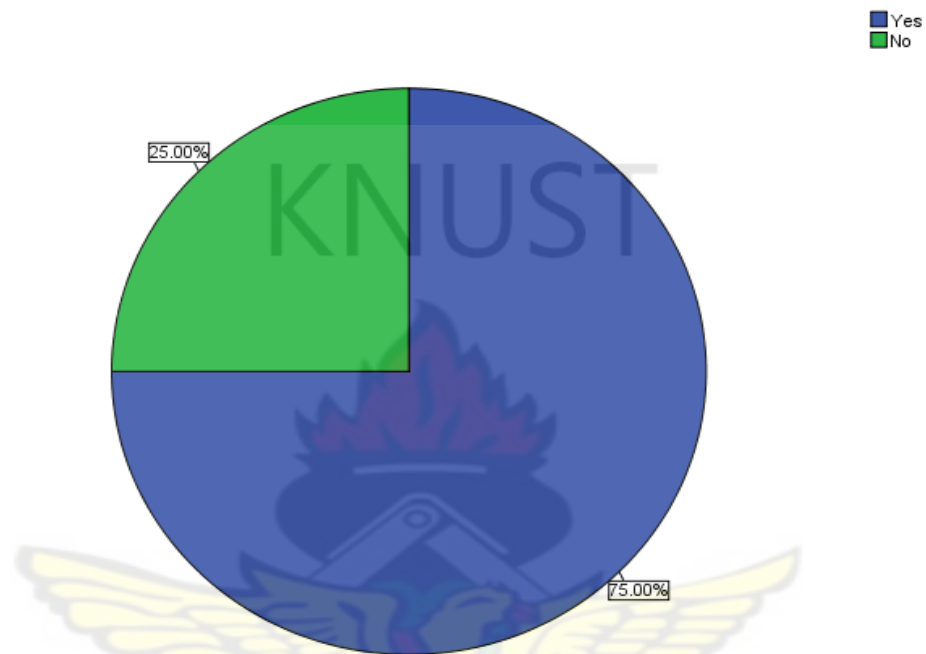


Source: Field Survey Data, 2009

The issuance of VAT invoice has been identified as enough to collect the needed revenues. This represent majority (70 percent) of respondents views. The other 30 percent of the respondents stated that issuance of VAT invoice is not enough.

4.18 Ways of collecting VAT

Fig 17 Effective way to Collect VAT Revenue

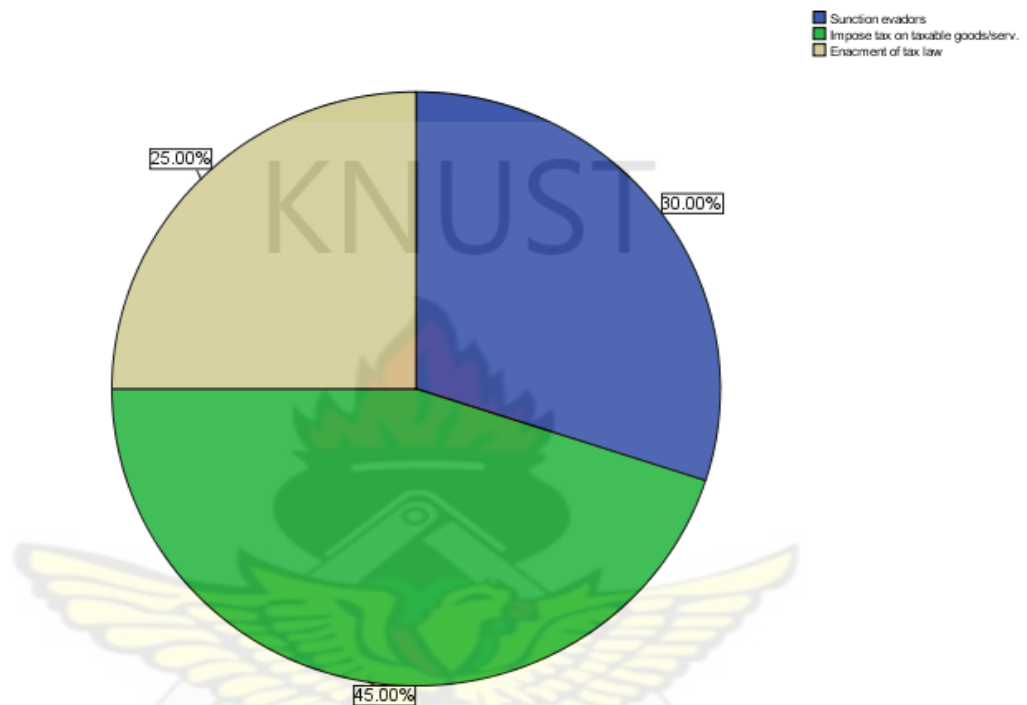


Source: Field Survey Data, 2009

The issuance of VAT invoice has been identified by majority of the respondents as the most efficient and effective way of collecting revenue. This represents 75 percent of their views while 25 percent of them stated otherwise.

4.19 Methods of Evading Tax

Fig 18 Method/Ways of Avoiding Tax Evasion



Source: Field Survey Data, 2009

Imposition of tax on taxable goods and services has been identified by 45 percent of respondent as a way of avoiding tax evasion while 30 percent of the respondent suggested severe sanctioning of tax evaders to serve as deterrent to others. Twenty five percent of the respondent also suggested the enactment of tax law as a way of avoiding tax evasion.

4.20 Physical Evidence of VAT in Ho Municipality

It is obvious in appendix b that, the role of VAT in the Health and Educational Sectors of the Ghanaian economy in general and for Ho Municipality in particular cannot be left out.

Over the last six years, from 2003 to date there had been a tremendous increased in physical infrastructure in the Ho Municipality through the support of Ghana Education Trust Fund (GETFund) of which Ho Polytechnic and Mawuko Girls Senior High School are not left out.

It is also worth mentioning that, the impact of NHIS on the citizenry is of a great importance to the economy where the gap between the rich and the poor is bridged with the 2.5% component of the VAT. The researcher also observed that, infrastructural developments do not only enhance academic performance in these institutions but also increase the enrolment by over 32% in the last three years.

4.21 Contribution of VAT to NHIS

Obviously, the 2.5% element of the VAT attributable to the NHIS continues to make a giant stride in the municipality.

Records show that, a total of one hundred and twenty one thousand, nine hundred and sixty eight (121968) people were covered as at May 2009.

Below is the breakdown of total coverage of NHIS in Ho municipality.

Social security contributors (Formal Sector)	...	23,629
Pensioners	...	7,057
Children of 18yrs and below	...	58,583
Pregnant women	...	4,414
Aged 70yrs and above	...	2,581
Indigent	...	899
Self employed (Informal Sector)	...	<u>24,805</u>
Total	...	<u>121,968.</u>

Source: NHIS Municipal Office, Ho

From 2005 to July 2009, an amount of Three billion six hundred and eighteen thousand, One hundred and eighty Ghana cedis Sixty eight pesewas GH¢3,618,180.68 was paid by government from the consolidated fund for reimbursement to service providers in the municipality.

Judging from the above analysis, it is very appropriate to infer that the introduction of the VAT in Ghana has had its multiplier effect on the Ghanaian economy in general and Ho municipality in particular. Source: NHIS Municipal Office, HO.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is devoted to the summary, conclusion and ended with recommendations offered on the effect of VAT on the economy of Ghana.

5.2 Summary of Findings

The government of Ghana in its quest to increase revenue mobilization decided to change the tax structure in order to ensure efficiency, effectiveness in the administration of tax, the sales and services tax were replaced by VAT in March 1998 on the grounds that the previous system encouraged smuggling and tax evasion, had a narrow base of revenue generation and deferred the payment of tax.

In view of the above assertion, there is the need for the researcher to look into the contribution of VAT on the economy of Ghana and whether the introduction of VAT has any positive or negative effects on the economy.

The study revealed that government have increase its revenue base with the introduction of VAT hence the improvement in infrastructure in all tertiary institutions in Ghana and the alleviation of poverty through the introduction of National Health Insurance which sought to give equal right to the under privilege to assess health care.

Data collected, Presented and analyzed indicated that the education on VAT before its introduction was not enough to prepare the mind of the citizenry on the purpose and the role of the VAT on the economy hence the demonstration at the early stage (Kumi-Preko), (1998). Where education can be done through information Vans, Seminars, Workshops, Radio, Televisions, and talk shops regularly to create awareness on the benefit the country stands to derived from VAT, it was left in the hands of the revenue agency (VAT) with limited resources to achieve a higher targets.

It has been pointed out in the analysis that, though there has been a tremendous increase in government revenue with the introduction of VAT which help improve government commitment to community development, the VAT staffs were not well motivated to increase efficiency and effectiveness in tax collection hence their inability to go extra miles

Again, the data collected and analyzed indicated that the accounting system put in place by the government to audit the accounts prepared by corporate institutions that collect taxes on behalf of government are weak. Hence there are false declarations of sales figure that prevent full disclosure of VAT revenue.

Finally, the study attempted to establish a relationship between the positive and negative role of VAT on the economy of Ghana. In postulating, it was established that VAT creates employment to tax experts which has impacted positively on the Ghanaian economy whereas consumers also believe that the

introduction of VAT has increased the prices of goods and services which in effect reduced their real income.

Also there were other avenues identified through the study that the government could explore to effectively monitor and improve collection of VAT revenue in Ghana.

Clearly, an overwhelming majority of the of the VAT staffs believes training activities have been centered at the apex where most of those trained do not go on to the field for the assessment of VAT revenues collected on behalf of the government which have negatively affected the operation of the VAT office and the government as a whole.

5.3 Conclusion

From the data collected on the study, the researcher came to a conclusion that the VAT has actually improved the economic development of the country. For example, the 2.5% rate mean for the Ghana Education Trust Fund (GET Fund) has helped improved the educational sector, by building educational structures for all the public tertiary institutions and also secondary and primary schools are being provided with other educational facilities.

5.4 Recommendations

On the basis of the findings that have been established and the conclusion drawn from the study area: following recommendations are necessary.

- Government should spend part of its revenue generated from VAT to develop the rural areas, in so doing; it will prevent rural-urban migration and its related vices like over-population in the urban areas, arm robbery and health related problems.
- Supervision of registered traders should not be done on big companies alone but rather both the small and big companies should all be supervised to prevent cheating and fraud.
- Also VAT officials should try and check or audit the accounts of all registered traders.
- Government should try and widen the tax base by reducing the VAT threshold from two hundred million to one hundred million (GH¢20.000.00 – GH¢ 100.000.00) so that more people will be caught in the tax net
- Education on VAT must be done through the following media: Television, radio, information van, community workshops etc to ensure its effectiveness and efficiency.

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Public Notice (P. N.4.) *“VAT keeping records and accounts”*

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Public Notice (P. N.6.) “Filing in a VAT returns”

Public Notice (P. N.7.) “Inputs”

Public Notice (P. N.8.) “Partial Exemptions”

Public Notice (P. N.9.) “VAT retail scheme”

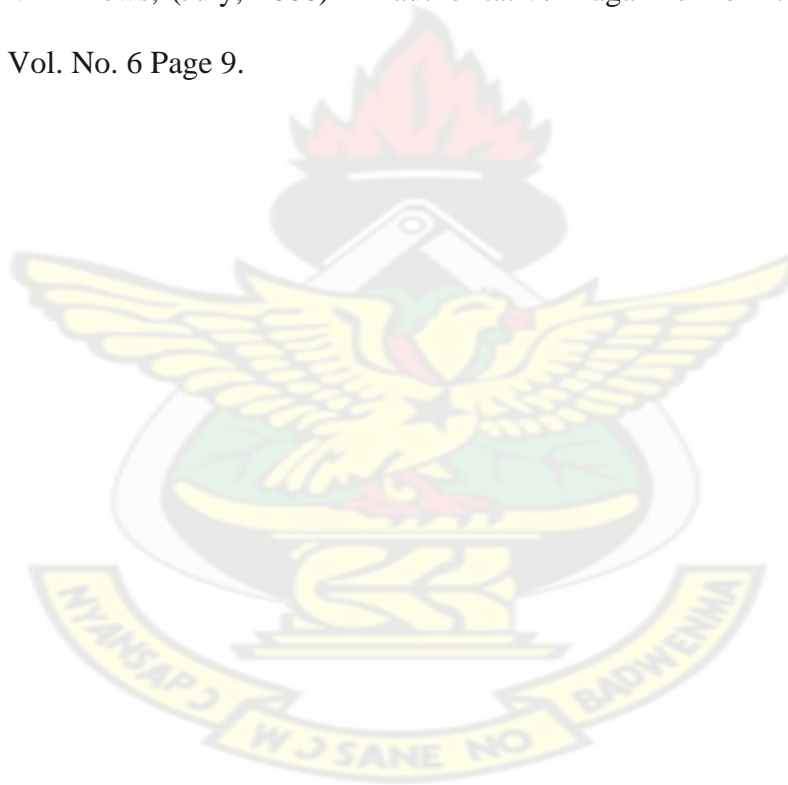
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Vol. No. 6 Page 9.



APPENDIX A
**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND
TECHNOLOGY (KNUST)**

INSTITUTE OF DISTANCE LEARNING

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

A QUESTIONNAIRE SOLELY DESIGN FOR ACADEMIC PURPOSE IN SOLICITING INFORMATION ON THE EFFECT OF VALUE ADDED TAX (VAT) ON THE ECONOMY OF GHANA.

CASE STUDY: VAT SERVICE HO MUNICIPALITY.

ASSURANCE IS GIVEN FOR THE CONFIDENTIALITY OF THE INFORMATION TO BE PROVIDED, **PLEASE WRITE AND TICK WHERE APPROPRIATE**

SECTION A

Background Information

1. Gender Male ☐ Female ☐

2. Age Group 18 – 25 ☐ 26 – 32 ☐

 33 – 39 ☐ 40 – 46 ☐

 47 above

3. Marital Status Never Married ☐ Married ☐

 Divorced ☐ Widowed ☐

4. Number in a Household 1 – 4 ☐ 5 - 9 ☐ 10 and above [

]

5. Level of education:

- a. ICA/ACCA/CIMA (Professionals) []
- b. University /Polytechnic []
- c. Senior High/Technical []
- d. Junior High/Middle School []
- e.. Others (Specified).....

SECTION B

The concept of VAT

6. Type of business activity

- a. Retailing []
- b. Manufacturing []
- c. Service providing []
- d. Consuming []

7. Do you understand the concept of VAT?

Yes []

No []

8. What category is VAT classified

Tax on consumption [] Tax on income []

Tax on inputs [] Tax on Exports []

Others specified

9a. Has the implementation of VAT to the economy of Ghana beneficial?

Yes [] No []

10a. Do you think that the collection of VAT in Ghana is effective?

Yes [] No []

11. What in your opinion, is the best effective ways to recover VAT on goods and services?.....

.....

12. Do companies recover full percentage of their VAT returns?
(Consumers Only)

Yes [] No []

13. Is it good for the government to widen the tax base by reducing the VAT threshold from GH¢20,000.00 to GH¢10,000.00 for retailers of goods?

Yes [] No []

14. Do you think the current VAT rate of 10% should be changed?

Yes [] No []

15. If yes, which of the following VAT rate should it be changed to?

a. 8% [] b. 12% [] c. 15% [] d. 17% []

16. Do you think the education of VAT is enough for effective implementation in Ghana?

Yes [] No []

17. What efficient and effective method of communication should be adapted to educate the population on VAT.

a. Television [] b. Radio []

c. Community workshop [] d. Information Van []

Others specified.....

18a. In your opinion, where should government spend greater part of its VAT revenue?

Rural [] Urban []

18b.State reason(s).....

19a. Do you think that VAT staffs are motivated enough for effective collection of VAT in Ghana?

Yes [] No []

19b State reason(s).....

20. Which of the following should government spend higher percentage of its VAT revenue on?

a. Infrastructure [] b. Agriculture [] c. Education []
d. Health [] e. Salary [] f. Other Specified.....

21. How often should VAT registered person be audited?

a. Once every month [] b. Once in every three month []
c. Once in six months [] d. Once in a year []

22a. Do you agree or disagree with the system of collection of VAT in Ghana?

Agree Disagree

22b State reason(s).....

23. Do you always issue out VAT invoices to your customers? (**Retailers Only**)

Always [] Sometimes [] Not at all []

24. Do you always insist on VAT invoices whenever you buy goods or receive services? (**Consumers Only**)

Always [] Sometimes [] Not at all []

26a. Considering the high illiteracy rate in Ghana, is insisting on the collection of VAT invoice by consumers the only sufficient and effective means?

Yes [] No []

.....

.....

Yes [] No []

.....

minimize the evasion of rate VAT?.....

.....

a.Finally, in your opinion has the imposition of VAT impact
the economy of Ghana?

Yes [] No

If no, give reasons.....

.....

THANK YOU!!!

APPENDIX B
NATIONAL TAX REVENUE SINCE 1991

YEAR	NATIONAL TAX REVENUE TARGET (GH¢Million)	C E P S' CONTRIBUTION	PERCENTAGE (%) PERFORMANACE
1991	35,440,000	25,370,000	71.6
1992	33,350,000	25,050,000	75.1
1993	57,820,000	43,360,000	75.0
1994	97,580,000	63,760,000	65.3
1995	158,460,000	91,130,000	57.5
1996	199,760,000	126,070,000	63.1
1997	244,670,000	160,610,000	65.6
1998	317,650,000	204,680,000	64.4
1999	336,600,000	231,200,000	68.7
2000	423,3000,000	222,660,000	52.6
2001	625,360,000	300,670,000	48.1
2002	818,320,000	438,910,000	53.6
2003	1,258,690,000	714,630,000	56.8
2004	1,642,080,000	929,310,000	56.6
2005	2,208,560,000	1,131,790,000	51.2
2006	2,393,100,000	1,281,910,000	53.3
2007	3,312,658,114	1,651,840,000	49.9
2008	4,299,451,807	1,930,030,000	44.9

Source: CEPS News: A news letter of Ghana Customs Excise and Preventive Service, April 2007 (Anniversary Edition).

APPENDIX C

Shown below are some of the physical infrastructures by the (GETFUND).



A front view of the magnificent Auditorium of Ho Polytechnic



Front view of Ho Polytechnic Auditorium



An aerial view of the magnificent Auditorium of Ho Polytechnic



1200 Seater Auditorium of Ho Polytechnic



An aerial view of the Auditorium and the Lecture Hall of Ho Polytechnic



Front view of Ho Polytechnic ICT Centre



Aerial view of the ICT Centre of Ho Polytechnic



Lecture theater complex of Ho Polytechnic. (GETFund Project)



The Front view of GETFund Hostel of Ho Polytechnic



The Back View of GETFUND Hostel



400 Bed Capacity Dormitory of Mawuko Girls Secondary School, Ho.



The Back view of 400 Bed Dormitory of Mawuko Girls Secondary School, Ho



Sixteen Unit classrooms Block of Mawuko Girls Secondary School, Ho



Aerial view of Sixteen Unit Class Room Block of Mawuko Girls Secondary School, Ho (GETFund)



Administration Block Complex of Mawuko Girls' Secondary School.



An Administration Block Complex of Mawuko Girls' Secondary School, Ho