

**INVESTIGATING THE RELATIONSHIP BETWEEN TAX OFFICIALS AND
TAXPAYERS: A STUDY OF DOMESTIC TAX REVENUE DIVISION OF THE
GHANA REVENUE AUTHORITY IN THE KUMASI METROPOLIS**

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By

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DECLARATION

I hereby declare that this submission is my own work towards the M.A Degree in Sociology 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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DEDICATION

I dedicate this thesis to the Almighty God for his care and guidance throughout my studies.

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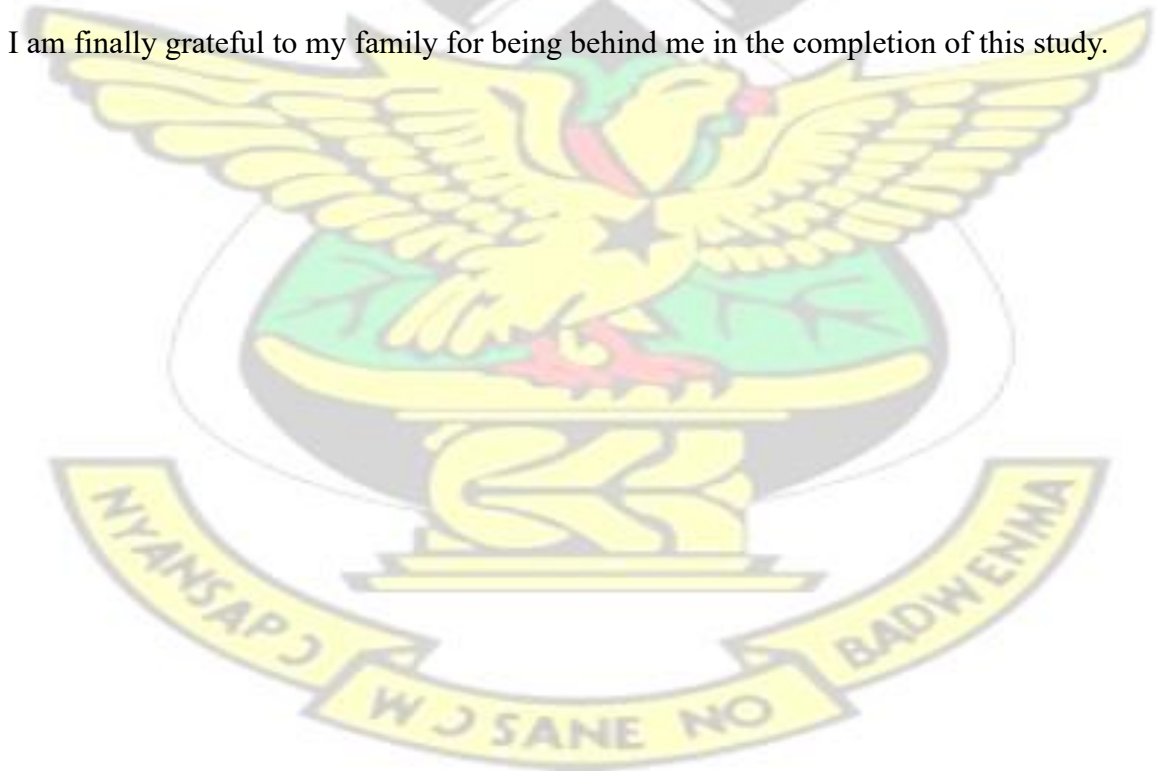
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ABSTRACT

In December 2009, the Ghana Revenue Authority (G.R.A) was established and was committed to ensure efficiency in revenue mobilization. After the merger, little is known about the relationship that now exists between the tax official and the taxpayer. This study sought to look at the relationship whether improved or not in the Domestic Tax Revenue Division (D.T.R.D) of the G.R.A in the Kumasi Metropolis. The study was a cross-sectional explorative study of 200 individual taxpayers who have traded for two or more years with active files in the Kumasi metropolis and who were sampled using proportional allocation method of random sampling from each of the trading areas: Allabar, Roman Hill, Central Market and Kejetia. Appropriate statistical analyses such as frequencies, chi-square and logistic regression were employed. Results of the study revealed a positive relationship between taxpayers and tax officials. The bivariate analysis using cross-tabulation revealed that due payment of tax, tax process explanation, tolerance, collaboration and cooperation, knowledge of uses of taxes, knowledge of tax system, demand of money to reduce tax, demand of money to examine tax returns, patience, display of professionalism, politeness and preferential treatment significantly relates to taxpayers perception of their relationship with tax officials. The binary logistic regression analysis indicated that only due or prompt payment of taxes and knowledge of tax system made a unique statistically significant contribution to predicting a positive relationship between taxpayers and tax officials. The study recommends that tax authorities put persuasive measures in place to raise tax morale and also take tax education serious to increase the level of knowledge of taxpayers.

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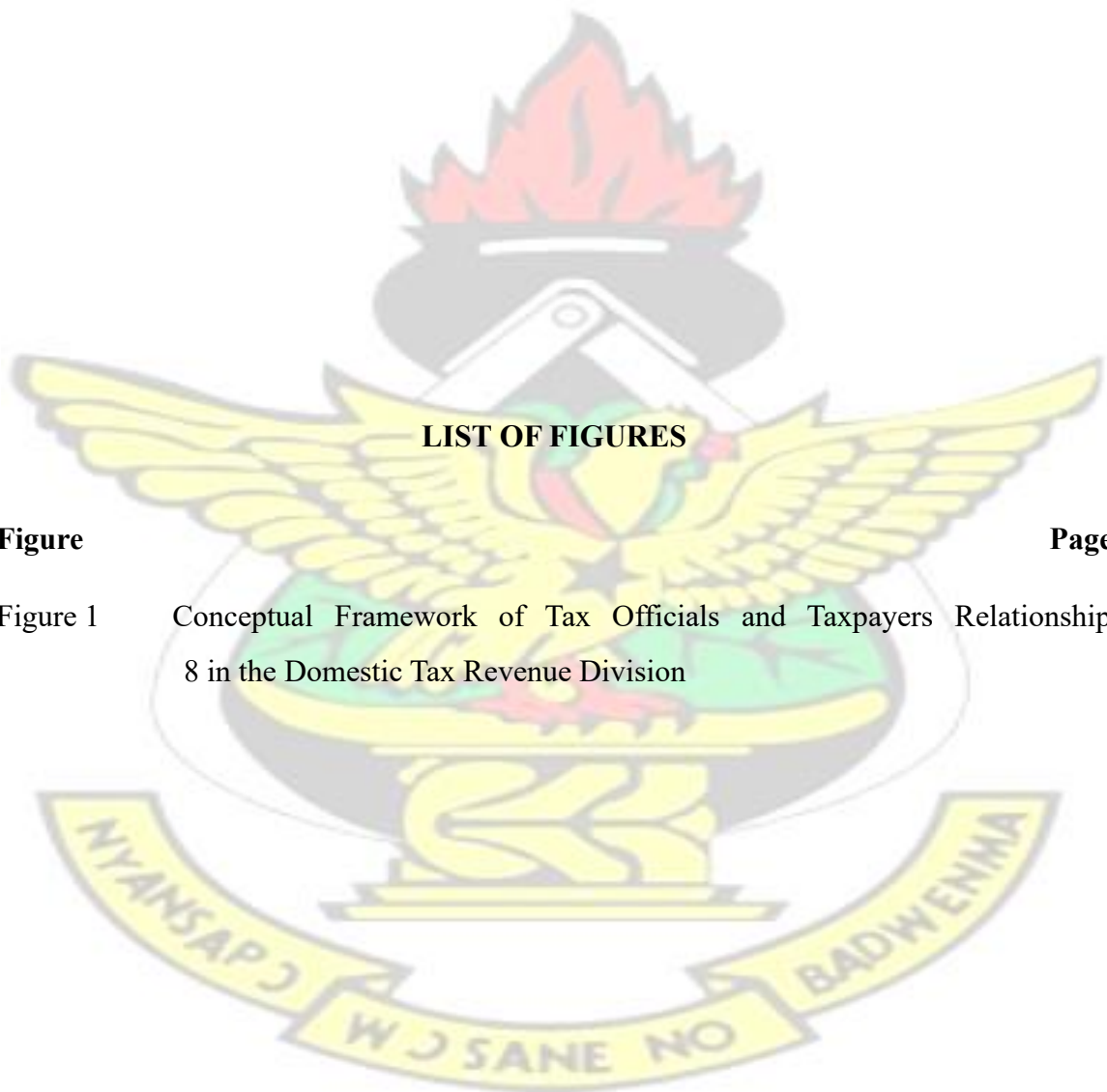
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LIST OF ABBREVIATIONS

DTRD	-	Domestic Tax Revenue Division
GRA	-	Ghana Revenue Authority
IRS	-	Internal Revenue Service
VAT	-	Value Added Tax



CHAPTER ONE

INTRODUCTION

1.1 Background to the study

There are a lot of activities that bring tax officials and taxpayers into contact. Some of those activities are payment of taxes, filing of tax returns and application for other documents including certificate of registration and tax clearance certificate. In Ghana, tax officials have to go to the field for tax collection because most taxpayers fail to do so. This is unlike the developed countries where most of these are done online and therefore both tax officials and taxpayers rarely see each other with respect to tax matters.

Taxation is very important in the development of every nation in the world. According to Oboh (2012), the concept of taxation has been a concern of global significance as it affects every economy irrespective of national differences. According to Allingham and Sandmo (1972), tax revenues are one of (if not the) main income source for many governments throughout the world. Few matters are as important as the taxes people pay to their government as taxation is considered the most efficient and effective means of raising revenue for both central and local governments. Importantly, taxation is the avenue through which citizens are most intimately connected to the state and can be an important catalyst for public demands for responsiveness and accountability (Prichard, 2009). To avoid excessive foreign financial support which may in the long- run lead to problem of debt burden and possible domination, Gupta (2007) is of the view that developing countries need to rely substantially on domestic tax. Tax is a compulsory charge imposed by a public authority on the income of individuals and companies as stipulated by the government

decrees, acts or cases laws irrespective of the exact amount of services rendered to the taxpayer (Olaseyitan & Sankay, 2012; Omotoso, 2001).

Whenever a citizen becomes a taxpayer, there is an automatic relationship between him or her and a tax official who does the imposition of a tax charge. It is important to note that before a tax charge is levied, a relationship is established as the potential taxpayer is interviewed and assisted by a tax official through the requisite procedures before finally the tax charge. At that early stage, if the tax official is able to build trust in the taxpayer, the latter is likely to work hard to meet the tax demand. Trust is therefore a paramount factor for strengthening the tax official-taxpayer relationship. According to the Swedish Tax Agency, one of the reasons for which people pay their taxes and refrain from evasion is the trust in the tax officials. In their study, one of the questions was: “Would you evade tax if you had the possibility?” Out of the people who said that they trusted the Tax Agency, 12% answered yes, they would evade the tax, if they had the possibility. In contrast, in the group of people who said that they did not have trust in the Tax Agency, 27% said that they would take the opportunity and avoid the tax if they only could.

The trust in the Swedish Tax Agency was found to be based on the way the tax officials treat their taxpayers: If the attitude is helpful, listening and cooperative, and based on the assumption that most people are honest, the impact of the trust in the Tax Agency is positive. However, the impact on the trust is negative, when the position of the tax official is: indifferent, insensitive, superior, exercising power and accusatory, or even worse, if it is based on the belief that most people are dishonest (Desax, 2009). Aside trust, a reciprocal fulfillment of expectations from both parties is likely to maintain an affirmative relationship necessary for revenue mobilization.

In every relationship, each party has a responsibility to fulfill. In other words, both parties have expectations from each other. An argument raised by Organization for Economic Cooperation and Development (OECD) (2007) affirms that, the revenue body expects taxpayers to be fully transparent in their communications and dealings. This means that taxpayers are expected to volunteer information about tax return and also provide comprehensive responses so that the revenue body can understand the significance of issues, deploy the appropriate level of resources and reach the right tax conclusions. In the same way, the taxpayer also has expectations in the relationship. The principal goal of taxpayers is to have tax matters resolved quickly, quietly, fairly and with finality. There is a common ground here with the position of revenue bodies, in that the quick, quiet, fair and final resolution of tax issues will come with increased disclosure and transparency. A point to note, however, is that if a particular taxpayer is not being transparent enough, he or she less likely receive the reciprocal benefits of the relationship.

In the same way, anecdotal evidence suggests that transparency this time on the part of governments is likely to affect the relationship between the tax official and taxpayer. When there is marginal level of transparency and accountability, taxpayers register their displeasure against a government to the tax official by refusing to pay their taxes. In Ghana, cited examples are alleged cases of corruption among government officials. Wang (2010) stated that taxpayers' confidence is largely dependent on the efficiency and efficacy of government services, that is, whether the services provided are cost-efficient (that is, perceived to represent "value for money") and whether the revenue is appropriately spent in a transparent and accountable manner. With reference to the local government level in Tanzania, Fjeldstad (2006) states that taxpayers' unwillingness to pay is not perceived to

be the main problem in revenue collection but rather misuse of tax revenues. Tax officials as “middlemen” between government and taxpayers are directly attacked by the latter. This therefore affects the cordial relationship that is supposed to exist between the taxpayer and tax official as far as revenue mobilization is concerned. As the study was conducted in Ghana, an important question asked was: “what single challenge is likely to affect the relationship between the two parties in Ghana?”

The relationship between tax officials and taxpayers in Ghana is to some extent affected by inadequate taxpayer service to make taxpayer compliance with the relevant laws and regulations as easy as possible. Little has been done about making provision of sufficient information, pamphlets and education which would eventually improve the relationship. This had been the situation before the creation of the G.R.A in 2009. This study was therefore committed in finding out the relationship between the tax officials and taxpayers after the creation of the G.R.A.

1.2 Problem Statement

The problem statement is what accounts for the need for the study (Creswell, 1994). It is meant to answer the question ‘why does this research need to be conducted?’ (Pajares, 2007). There is a relationship in the tax administration in any country and the principal parties to the relationship are taxpayers and the revenue bodies. It is one characterized by what each is legally required to do without any urging or persuasion from the other (OECD, 2007). Therefore, if one party fails to do what is required of it, the relationship is likely to

be affected negatively. When the relationship between the tax official and the taxpayer is weak, low compliance is likely to occur (Alabede, Ariffin & Idris, 2011). For instance, where there is low level of education on tax ethics, citizens evade taxes. This is because there are empirical evidences suggesting that ethical values may play significant role in the compliance decision of an individual taxpayer. Ho and Wong (2008) submitted that individuals with stronger ethical mind may have favourable compliance attitude as they will regard complying with rule and regulation as an obligation that must be honoured. Manaf (2004) reported that taxpayers who see tax evasion as unethical are likely to comply more than those who regarded tax evasion as not unethical. Therefore education of taxpayers over core ethical values is likely to ensure tax compliance.

Even though the relationship between the tax officials and taxpayers is important as it contributes to revenue mobilization, not much is known about it. This is because there is dearth of studies that look at the tax officials/taxpayers relationship. There is therefore a gap in the relevant literature that has to be filled and this study is committed to do that. A limitation of some of the studies is the fact that they looked at the relationship at the corporate institutions and company level (example is Europe, Middle East & Africa (EMEA) (2012) Tax Facts). What makes this study in particular unique is the fact that it focuses on the relationship between tax officials and individual taxpayers and not corporate institutions. Another problem at this level of relationship between tax officials and taxpayers has been a hostile relationship where according to anecdotal evidence tax authorities and taxpayers work against each other. Since majority of people do not like paying taxes, tax officials use coercive measures to enforce taxation in Ghana. Some of the coercive measures include monetary fines (penalties), garnishing and prison sentence.

Some tax officials do not see taxpayers as partners in the tax contract and therefore use authoritarian measures which are devoid of respect in dealing with taxpayers. On the other hand, some taxpayers evade and avoid taxes by failing to declare their true taxable income, all of which affects revenue mobilization. Alm, McClelland and Schulze (1992) argue that “a purely economic analysis of the evasion gamble implies that most individuals would evade if they are ‘rational’, because it is unlikely that cheaters will be caught and penalized.” Anecdotal evidence has shown that some taxpayers flout tax laws by failing to report to the tax office upon invitation, tamper with properties (padlocks) of the D.T.R.D when their shops are garnished and issue verbal and physical attack on tax officials.

Many tax reforms are being enforced around the world and in Africa example Kenya in 1995 and Uganda in 1996. These tax reforms are silent on the tax official-taxpayer relationship. However, the success of these reforms also depends on a good relationship between the tax official and taxpayer. It was in December 2009 that the G.R.A was established and was committed to ensure efficiency in revenue mobilization. After the merger, little is known about the relationship that now exists between the tax official and the taxpayer. This study sought to look at the relationship whether improved or not in the Domestic Tax Revenue Division of the G.R.A in the Kumasi Metropolis.

1.3 Research Questions

The study was committed to find out the existing relationship between tax officials and taxpayers. In this context, the overall research question was: “what factors affect the

relationship between tax officials and taxpayers?” To answer this question, four subquestions were formulated.

1. What is taxpayers’ perception of their relationship with tax officials?
2. To what extent do persuasion and coercion affect the relationship between tax officials and taxpayers?
3. Does taxpayers’ level of knowledge influence their relationship with tax officials?
4. Does tax officials’ attitude affect their relationship with taxpayers?

1.4 Objectives of the study

The main objective of this study was to identify the factors that affect the relationship between tax officials and taxpayers.

More specifically, the study sought to:

1. Find out taxpayers’ perception of their relationship with tax officials.
2. Find out the extent to which persuasion and coercion affect the relationship between tax officials and taxpayers.
3. Ascertain whether taxpayers’ level of knowledge influence their relationship with tax officials.
4. Examine tax officials’ attitude that affect their relationship with taxpayers.

1.5 Research Hypotheses

H₀: Coercive measures by tax officials do not have a negative effect on the relationship between tax officials and taxpayers.

H₁: Coercive measures by tax officials have a negative effect on the relationship of tax officials and taxpayers.

H₀: Taxpayer's level of knowledge on taxation issues does not lead to a positive relationship.

H₁: Taxpayer's level of knowledge on taxation issues leads to a positive relationship.

H₀: Tax official's positive attitude does not have a positive effect on tax officials and taxpayers relationship.

H₁: Tax official's positive attitude has a positive effect on tax officials and taxpayers relationship.

1.6 Conceptual Framework

Figure 1. Conceptual Framework of Tax Officials and Taxpayers Relationship in the Domestic Tax Revenue Division

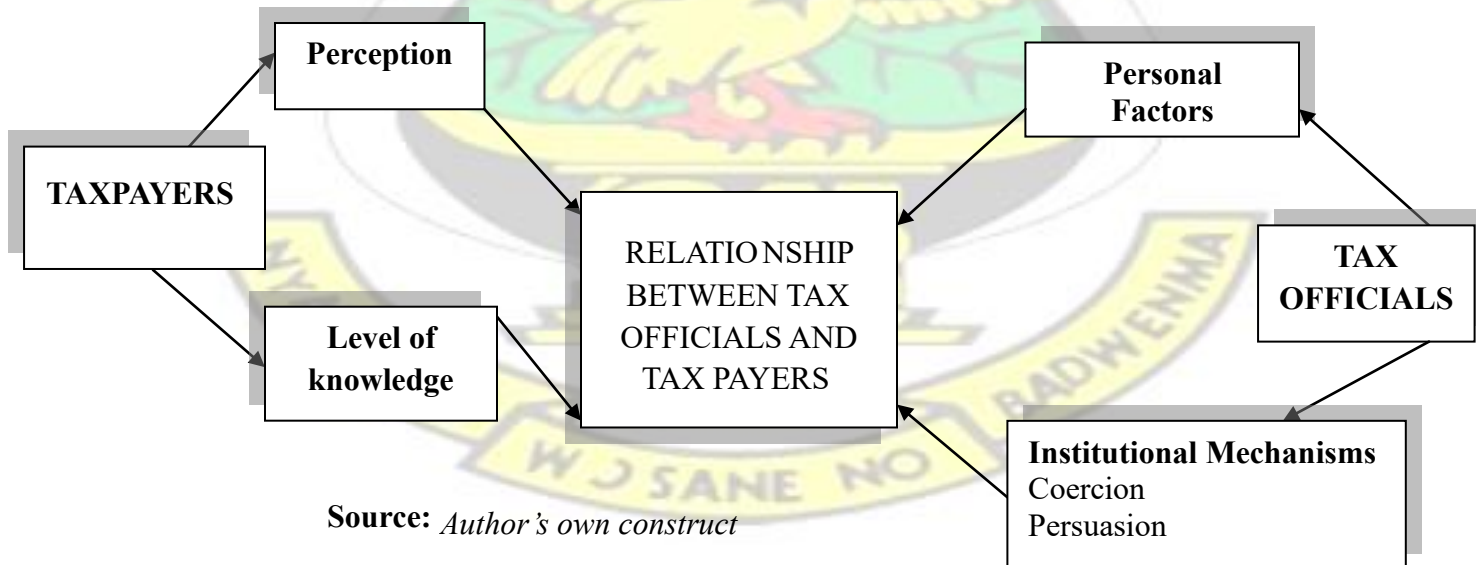


Figure 1 shows the relationship between taxpayers and tax officials. As it is with every relationship, there is reciprocity in this relationship. That is, the relationship is not a 'one way traffic' so to speak but rather 'two way traffic' as depicted by the opposite arrows.

Both the taxpayer and the tax official enter into the relationship with certain factors. On the part of the taxpayer, he/she comes into the relationship with factors such perception and level of knowledge. On the side of the tax official attitude from the personal factors and institutional mechanisms which are the use of persuasion and coercion. The persuasive measures include trusting and collaborating with taxpayers and giving them enough time to settle their arrears. Moreover, coercion comprises the use of the police, penalties, garnishing, the use of force in revenue collection and many others. These are the intervening or mediatory variables that operate within the relationship.

1.7 Significance of the study

Income taxes are important source of revenue to government in both developing and developed countries (Teera & Hudson, 2004). But the amount of revenue to be generated by government from such taxes for its expenditure programme depends among other things, on the willingness of the taxpayers to comply with tax officials on the basis of tax laws of a country (Eshag, 1983).

This study was relevant for three major reasons. This study will look at the relationship between tax officials and taxpayers in revenue mobilization. It will revealed whether the relationship is positive or negative.

Secondly, there was no comprehensive literature on the existing relationship between the tax official and the taxpayer after the erection of the Ghana Revenue Authority. The

findings will contribute to the existing knowledge base on tax official/taxpayers relationship.

Again, it will serve as a useful material for future research when published and a potential contributor to policy consideration in terms of improving the relationship between the two parties.

1.8 Scope of study

The scope of study covers the Domestic Tax Revenue Division of G.R.A. The D.T.R.D has five district offices in Kumasi Metropolis namely Odum, Asokwa, Ashanti New Town, Suame and Kwadaso. It has a total staff of 141. For the purpose of this study, the target was the Ashanti New Town District Office with a staff strength of twenty-four (24).Eight(8) out of the twenty-four(24) are females and sixteen(16) are males.

The Ashanti New Town District Office is charged with the responsibility of collecting taxes from traders in areas including Central Market, Roman Hill, Aboabo Station, Dr.Mensah, Kejetia, Asawasi, Akwatialine and Sawaba. Therefore taxpayers considered for this study were selected from four of these trading areas namely Central Market, Roman Hill, Kejetia and Allabar.

The second aspect of the scope is contextual which focused on the specific context within which the research was conducted. One area the study looks at was the relationship that existed between the tax official and taxpayer. Another area was the factors that affect the relationship which were persuasion, transparency, the use of coercion, corruption, appropriate enforcement, taxpayers` perception, taxpayers` level of knowledge and tax officials` behavior.

The researcher looks at the relationship and factors that affects it because even though some studies had been done on the relationship, focus had to be placed on it at the individual taxpayer level.

1.9 Definition of concepts

Coercion: In this context, it is the enforcement of rules set for revenue mobilization.

Persuasion: In this context, it is the act of convincing taxpayers to pay their taxes.

Patience: In this context, it is the ample time tax officials give to taxpayers to pay their arrears.

Politeness: In this context, it is the respectful behavior tax officials' show to taxpayers.

Professionalism: In this context, it is the showing of partiality and favouritism to taxpayers by tax officials.

Preferential Treatment: In this context, it is the competence and skills tax officials use in the discharge of their duties.

1.10 Organization of the study

The report of this study is organized into six chapters. Chapter one includes background of the study, statement of problem, objectives of study, conceptual framework and significance of study. Chapter two is about the literature review on the various sub-areas of the problem of the study. The third chapter entails the research methodology for the study. Data analysis and presentation covers chapter four of the study. Chapter five constitutes discussion of the major findings. Lastly, chapter six is about the summary, recommendations and conclusion of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter one of this study looked at the overall research question which looked at what factors affect that relationship between the tax official and taxpayer. This chapter is committed to answering the research question by considering the existing literature that covers the tax official and taxpayer relationship. More importantly, this chapter will find out the gap in previous research so as to make contribution in that respect. The review of the relevant knowledge is expected to help develop sharp and insightful research questions. The review of the relevant literature is important for determining what is known and unknown about the chosen research topic and also keep abreast with current research approaches and trends and debates. The assessment of the state of knowledge relevant to the research topic is expected to inform the analytical framework, methods of collecting data and analysis (Yeboah, 2010).

This chapter starts with a definition of literature review. This is followed by examining taxation and its relation to the relationship between tax official and taxpayer. Next, this chapter looks at the theory of relationship which is followed by the factors that affect the relationship between the tax official and taxpayer. This chapter concludes with stressing on the essence of the relationship between the tax official and taxpayer in maximizing taxation.

The westerners understand better the importance of paying taxes and therefore they have a positive attitude towards it. Tax evaders are not spared and it has also contributed to the

massive involvement of all in the payment of taxes. However, in the western world, tax officials do not have much contact with taxpayers as it is in developing countries. This is because taxpayers do not have to go to the tax office to pay tax, file tax returns or apply for other documents. All these can be done online without the taxpayer visiting the tax office. However, the situation is different in Africa as taxpayers and tax officials routinely meet. Because of this, there is not much in the literature about the relationship between tax officials and taxpayers in the industrial countries.

2.2 What is Literature Review?

According to Cooper (1998) and Galvan (1999), a literature review is a body of text that determines the aims to review the critical points of current knowledge including substantive finding as well as theoretical topic. A literature review contributes to a particular topic. It is a secondary sources and as such, do not report any new or experimental work.

The issue of taxation is vital to this study because it is out of this concept that the issue of relationship between the tax official and taxpayer comes forth. Therefore, a section of this study looks at the concept of taxation.

2.3 Issue of Taxation

“No one likes taxes. People do not like to pay them. Governments do not like to impose them. But taxes are necessary both to finance desired public spending in a noninflationary way and also to ensure that the burden of paying for such spending is fairly distributed. While necessary, taxes impose real costs on society. Good tax policy seeks to minimize those costs” (Bird, 2003).

Taxation is fundamental to sustainable development, as it supports the basic functions of an effective state and sets the context for economic growth. More often than not, the role of taxation as a catalyst for the development of responsive and accountable government, and for the expansion of state capacity is overlooked. Yet for this state of economic growth to be achieved, the relationship between the two parties (Taxpayers and Tax officials) must not be taken for granted.

2.4 Theories to the explanation of the relationship

There are existing theories that give detailed explanation to the understanding of the relationship between the tax official and the taxpayer. Two of them to be put into consideration are the Systemic and Behavioural theories.

2.4.1 Systemic Theory

A system is a set of things that affect one another within an environment and form a larger pattern that is different from any of the parts. The System theory was used by Von Bertalanffy (1968), a biologist, as the basis for the field of study known as ‘general system theory’. In the light of this study, taxation is a system. It is the umbrella under which the two parties namely the tax official and taxpayer are found. It is important to note that it is through the tax system that a relationship has been established between the taxpayer and the tax official.

From the system theory, different parts or elements are found within a system. The parts that come under the tax system are the tax officials and taxpayers. As each part makes a contribution toward the maintenance of the system, the system theory explains that there is

an internal relationship as the parts are interrelated and interdependent. Therefore the tax officials and taxpayers interrelate and inter-depend on each other. For example, tax officials expect taxpayers to pay taxes on quarterly basis and taxpayers expect tax officials to educate them on taxation. Anecdotal evidence argues that, many taxpayers consider it helpful to them when tax officials come to the field for collection of taxes. Fulfilling each other's expectation is likely to affect their relationship positively.

However, this is because relationships stand when those involve get what they want.

There is also the idea of functional prerequisites in the system theory. A necessary condition for the system is roles and rules to guide the tax officials in the discharge of their duties. The rules that guide the tax official in the discharge of their duties affect the relationship either positively or negatively. For example, taxpayers who plead for penalty exemption but are not considered upon late submission of tax returns may see tax officials to be hard on them or hard hearted. Again, frequent locking of taxpayers' shops is likely to lead to a negative relationship with tax officials. However, the locking of shops is a coercive measure which tax officials are expected to use in revenue mobilization. From the explanations of the system theory, a good relationship between the tax official and taxpayer leads to a functional system.

2.4.2 Behaviourism Theory

Behaviourism is appropriate in explaining the relationship between tax officials and taxpayers. It is primarily concerned with observable behavior as behaviourists assert that the only behaviours worthy of study are those that can be directly observed; thus, it is actions, rather than thoughts or emotions, which are the legitimate object of study (Parkay

& Hass, 2000). The behaviour put up by both the tax official and taxpayer is observable and helps to determine whether it is a positive or negative relationship. For example, the use of force and persuasion by the tax official are observable behaviour.

Parkay and Hass (2000) argues that behaviour is directed by stimuli. An individual selects one response instead of another because of prior conditioning existing at the moment of the action. For example, tax officials can adjust their behaviour to deterrence when the taxpayer refuses to make regular payments. When a taxpayer delays in tax payments or submission of tax returns, the use of penalty is likely to be the response of the tax official. This is likely to affect the relationship negatively. The theory also argues that a person's environment determines their behavior. When the people around a taxpayer have a good attitude toward taxation, the latter is likely to contribute to revenue mobilization willingly. This may account for why a country may record higher revenue than another and why some nations are developed and others developing.

According to Parkay and Hass (2000), in assuming that human behavior is learned, behaviorists also hold that all behaviors can also be unlearned, and replaced by new behaviors; that is, when a behavior becomes unacceptable, it can be replaced by an acceptable one. To avoid being taken to court or possible incarceration, tax evaders can choose to change behaviour and honour their tax obligations. A key element to this theory of learning is the rewarded response. The desired response must be rewarded in order for learning to take place. When active taxpayers are rewarded and have their names published, it is likely to encourage other taxpayers to fulfill their tax charges. The theory of

behaviourism throws light on the fact that an adjusted behaviour from unacceptable to acceptable is likely to affect the tax official-taxpayer relationship positively.

2.5 Factors that affect the relationship

In improving revenue mobilization, a key issue that cannot be overemphasized is the relationship between the tax official and the taxpayer. When attention is given to it, revenue mobilization is likely to increase. However, there are a number of factors that affect the relationship between the tax official and the taxpayer. Some of those to be discussed below are the institutional mechanisms which are the use of persuasion and coercion, transparency, rewards, cultural difference, corruption, appropriate enforcement, taxpayers' perception, taxpayers' education/service and tax officials' attitude.

2.5.1 Institutional Mechanism

2.5.1.1 Persuasion/Respectful Treatment

Since many people do not like paying taxes, coercion is needed to enforce taxation. Several scholars have established that selfish individuals would be rational not to pay taxes, because the probability of being detected and the size of the fines are so low that it is advantageous to evade tax (Alm, McClelland and Schulze, 1992 cited in Feld and Frey, 2003). For this reason, tax officials may adopt measures to undertake this difficult exercise of mobilizing revenue and avoid needlessly hurting the feeling of taxpayers.

Feld and Frey (2003), suggested that tax officials can approach their work successfully by considering the respectful treatment supporting, and possibly even raising, tax morale.

The taxpayers' willingness to pay their taxes, or tax morale, is supported, or even raised, when the tax officials treat them with respect and dignity. That is, through persuasion, taxpayers are more likely to comply with tax laws. However, when the tax officials consider taxpayers purely as 'subjects' who have to be forced to pay their dues that is through coercion, the taxpayers tend to respond by actively trying to avoid taxation. That is, when tax officials use coercion, resistance is what can be expected therefore marring the relationship between taxpayers and tax officials. Taxpayers respond in a systematic way to how the tax authority treats them (Feld & Frey, 2003). The tax officials can decide between these two extremes, that is, persuasion and coercion in many different ways. For instance, when they detect an error in the tax declaration, they can immediately suspect intent to cheat, and impose legal sanctions. Alternatively, the tax officials may give the taxpayers the benefit of the doubt and inquire as to the reason for the error. If the taxpayer in question did not intend to cheat, but simply made a mistake, he or she will most likely be offended by the suspicion on the part of the tax authority.

The feeling of being controlled in a negative way, and being suspected of tax cheating, tends to crowd out the intrinsic motivation to act as an honorable taxpayer and, as a consequence, tax morale will fall. In contrast, if the tax official makes an effort to find out the reason for the error by contacting the taxpayer in an informal way (example by phoning him or her), the taxpayer will appreciate this respectful treatment and tax morale will be upheld (Feld & Frey, 2003). These treatments imply that there is a direct relationship between taxpayers and tax officials. Thus, if tax officials hide behind their profession to model an incongruent behavior, taxpayers are likely to respond in kind.

The existence and survival of this tax contract requires certain behaviour on the part of the two parties concerned. In particular, the tax authorities must acknowledge and support the contract with the taxpayers by acting in a respectful way towards them, but also by preventing honest taxpayers from being exploited in the process (Feld & Frey, 2003). To maintain the psychological tax contract, the tax authority must take positive actions to support it, and negative actions to prevent breach of contract. The basis of any contractual relationship that relies on trust is the prior belief that the partner in the contract behaves honestly. The same applies to the psychological contract between tax authorities and taxpayers: tax authorities suppose that taxpayers will honestly report their true income on the tax declaration. On the other hand, taxpayers expect to be treated respectfully, as if they are honestly reporting their true income. A strategy of tax authorities to suspect taxpayers of being evaders right from the beginning would undermine the psychological contract between taxpayers and tax authorities. Treating citizens respectfully can be expected to be more pronounced in polities with constitutional provisions for direct voter participation, like referenda and initiatives, because both taxpayers and tax authorities know that voters support public policies, which clearly sustain the public good. In such systems of direct democracy, taxpayers know that the public services they consume are worth the taxes they pay. Taxpayers therefore feel obliged to pay their taxes honestly (Feld & Frey, 2003). This suggests that when taxpayers are accorded the due respect and honor by tax officials, the urge to conduct themselves honorably in paying their taxes is achieved. That is, the use of persuasion by tax officials to make taxpayers 'render their due' is much welcomed than the use of coercion.

A strategy of tax authorities to suspect taxpayers of being evaders right from the beginning would undermine the psychological contract between taxpayers and tax authorities (Prichard, 2010). Efforts to encourage a reciprocal exchange of tax compliance for improved responsiveness and accountability must be founded on dialogue between taxpayers and government tax officials. Taxpayers must, implicitly or explicitly, express their expectations of government tax officials and their willingness to support those goals. Governments through tax officials, in turn, must draw clear connections between taxation, public spending and the achievement of broadly held goals in order to obtain the support of taxpayers. In order to have such a national dialogue about taxation, taxpayers must be aware of the taxes they are paying and educated about the tax and budgetary systems, while government through tax officials must be transparent about tax collection and public spending. Awareness and transparency are a basic requirement for building public engagement and essential trust; without some degree of both, taxation is likely to remain characterized by conflict. It suggests that when taxpayers are well informed about the state of their contribution to national development, there are less likely to resist payment of tax.

Persuasion is used mainly in the sense of wining over a person to a certain course of action. It appeals more to reason and understanding than to feelings. For a truly refreshing and cordial relationship to prevail and maintain, tax officials must desist from modeling incongruent behavior.

2.5.1.2 Coercion

Coercion is to compel something by force. That is, the force that tax officials use to ensure that taxpayers do what is expected of them. This force might make taxpayers feel controlled

and forced to pay their taxes. This in turn affects the relationship between the parties involved in a negative way. When taxpayers feel cornered, Frey and Feld (2002), argue that such coercion imposed by the tax authority may undermine individuals' intrinsic willingness to conform to tax laws. As seen from the ongoing discussion, coercion breeds mistrust and stress the relationship between taxpayers and tax officials.

Coercion is the practice of forcing another party to act in an involuntary manner (whether through action or inaction) by use of threats or intimidation or some other form of pressure or force. In law, coercion is codified as the duress crime. Such actions are used as leverage, to force the victim to act in the desired way. Coercion may involve the actual infliction of physical pain or injury or psychological harm in order to enhance the credibility of a threat. The threat of further harm may lead to the cooperation or obedience of the person being coerced. Prichard (2010), argues that when taxation remain purely coercive, taxpayers may angrily reject taxation and could result in animosity against tax officials and revenue mobilization would therefore be impeded. This effect could affect government spending and economic growth in a country.

An 'authoritarian' relationship using instruments of deterrence has two countervailing effects: on the one hand the change in relative prices (the higher probability of being punished) reduces the incentives to evade taxes but on the other hand tax morale is undermined or crowded out. Few researchers seem to be aware that an increasing number of studies has indeed obtained laboratory as well as field evidence for the supporting and undermining effects of external interventions on motivation (Prichard, 2010). There are such a large number of laboratory experiments in psychology on the crowding effect that

it is impossible to summarize the results here. Fortunately, there have already been no less than seven formal meta-analytical studies of the crowding theory. Rummel and Feinberg (1988) used 45 experimental studies covering the period 1971-85; Wiersma (1992) 20 studies covering 1971-90; and Tang and Hall (1995) 50 studies from 1972-92. These meta-analyses essentially support the findings that intrinsic motivation is undermined if the externally applied rewards are perceived to be intrusive by the recipients.

The way taxpayers are treated by tax authorities reveals interesting differences between the Swiss cantons a research conducted in Switzerland. In the study, only fifty-eight percent of Swiss cantonal tax authorities believe that mistakes in reported incomes are, on average, in favor of taxpayers. Thirty-one percent believe that mistakes are neither to the advantage nor to the disadvantage of taxpayers, and twelve percent believe that mistakes are to the disadvantage of taxpayers. These answers indicate a general lack of distrust towards taxpayers. If a taxpayer does not report his or her true taxable income, tax authorities can contact her in several ways. Fifty-four percent of the cantons phone the person concerned and ask how the mistake(s) occurred in the tax reporting form and what explanation the taxpayer has. All of the cantons send a letter to the taxpayer, half of them with a standard formulation. Nearly eighty-five percent ask the taxpayer to pay a visit to the tax administration office, but only half of the cantons mention the possibility of punishment. Thus, tax authorities rarely adopt the strategy of explicit deterrence, but rather seek to gain additional information. Ninety-six percent of the cantonal tax authorities correct reported incomes that are too high, i.e. reduce taxable incomes when taxpayers commit mistakes that are to their disadvantage. Twenty-seven percent of the tax authorities correct reported

taxable income even if taxpayers fail to profit from legal tax savings (Frey & Feld, 2002). For example, Schmolders (1960) analyzed tax morale among self-employed workers in Europe, and he concluded that self-employed taxpayers had lower levels of tax morale than taxpayers who worked for other people or organizations. Strumpel (1969) also analyzed tax morale among European taxpayers. He conducted an international comparative survey in Europe, in which he compared both the tax systems of the various European countries and the level of tax morale among each country's taxpayers. He found that tax morale in Germany was comparatively low, whereas in England it was comparatively high. Strumpel (1969) went on to suggest that the major difference between the German and English tax systems at the time was that the German government made use of coercive tax enforcement techniques, while the English system treated taxpayers with more respect and less control. Strumpel (1969) also argued that the enforcement strategies used by the Germans served to alienate the public, and that this alienation had a negative influence on their tax morale. He suggested that the English system, in contrast, helped to cultivate tax morale (although he did note that such a system might have offered easy opportunities for avoidance and evasion).

Tax morale is closely linked to what some other authors refer to as "taxpayer ethics" defined by Song and Yarbrough (1978, cited in Alm & Torgler, 2006) as "the norms of behavior governing citizens as taxpayers in their relationship with the government". It has also been suggested that tax morale is likely to be affected by the nature of the fiscal exchange between taxpayers and government. For example, Feld and Frey (2002) argue that the way in which government treats taxpayers (example is the exchange viewed by taxpayers as fair or unfair?) affects taxpayer morale. They also argue that the demonstration

that the government trusts taxpayers will be rewarded by greater taxpayer trust in government, which also improves tax morale.

Relatedly, Smith (1992) and Smith and Stalans (1991) present some evidence that reciprocity (e.g., positive rewards for honest behavior) can be an important inducement for compliance (Alm & Torgler 2006). Wang (2010:82 cited in Franzsen, 2007) states:

“Although South African taxpayers, including business taxpayers, generally hold the view that it is reasonable to pay one’s fair share of tax, they also feel especially that the tax system in the country is too complex, tax rates are too high and there are too many taxes, which all contribute to high compliance costs.”

To conclude, taxes are needed by the state or government to ensure both economic and social development. To accomplish this, taxpayers and tax officials come in contact. Most research work often time turn to neglect the relationship between these two parties. This research focuses on the relationship between taxpayers and tax officials. As noted in the discussions above, the relationship between taxpayers and tax officials is very important if taxation will be maximized. It was noticed in the literature reviewed that there are two strategies that come to the fore when tax officials deal with taxpayers. These are the use of coercion and persuasion. The use of coercion involves tax officials compelling taxpayers by force or intimidate. That is, the force that tax officials use to ensure that taxpayers do what is expected of them. When this happens, it undermines taxpayers’ intrinsic willingness to conform to tax laws. The way in which tax officials treat taxpayers (e.g., is the exchange viewed by taxpayers as fair or unfair?) affects taxpayer morale in a negative way. On the other hand, when persuasion is used, that is, mainly the sense of wining over a person to a

certain course of action. Appealing more to reason and understanding than to feelings is the focus of this strategy. The bond between tax officials and taxpayers is strengthened and taxpayers are more willing to comply with tax laws when persuasion is used.

2.5.3 Transparency

The strength of public demands for greater tax transparency is apparent from a survey of Tanzanian taxpayers in the late 1990s. It found that 75 per cent of respondents favoured the publication of the names of tax evaders and 84 per cent believed that the names of those receiving any kind of tax incentives or exemptions should be published, along with the cost to the treasury. The strength of public demands for transparency surprised even the authors of the survey (Gray, 2001 quoted in Prichard, 2010). Unfortunately, in most low-income countries trust in tax administration and government is very low, owing to inequitable enforcement of tax laws and a significant lack of transparency about what taxes are collected and how the money is used (Gloppen & Rakner 2002; Fjeldstad and Semboja 2001; Bahiigwa *et al.* 2004; Fjeldstad & Therkildsen 2008 quoted in Prichard, 2010). Basic awareness of taxation is likewise limited, as taxpayers are aware that they are paying, but seem to often have only a partial understanding of how much, why and what for, particularly with respect to the use of their taxes. These also buttress the point that when taxpayers are fully aware that tax officials acknowledge them, the relationship between them grows and get strengthened (Prichard, 2010).

Awareness and transparency are basic requirements for building public engagement and trust; without some degree of both, taxation is likely to be characterized by conflict rather than co-operation. Citizens must be aware of the taxes they are paying and be educated about the system of taxation and budgeting, while government must be transparent about

tax collection and public spending. At the local level transparency can be achieved by publicizing revenue collection and its links to public spending, and by engaging citizens directly in budgeting, revenue raising and assessment processes. At the national level governments can do much more to share revenue information, transparently estimate compliance and revenue performance and more closely monitor tax incentives and their costs. Both levels should consider the use of well-designed tax earmarking to strengthen the links between taxes and what they are spent on (Magashula, 2010).

The relationship between taxpayers and tax officials is shaped to a large degree by (a) whether or not they believe that other taxpayers are paying, (b) how effectively they believe that revenue is being used and (c) whether or not they believe that tax administration is honest and fair (Fjeldstad 2004 quoted in Prichard, 2010). All of these forms of trust are undermined by the lack of transparency around (a) tax collection, (b) tax compliance and (c) the use of tax revenue at both the national and local levels. There is reason to believe that improvements in transparency could improve tax compliance while facilitating citizen engagement in political discussions of taxation and public spending (Prichard, 2010). Mikesell and Birskyte (2007) state that – “compliance improves when taxpayers believe the tax system is fair, they believe that they receive something valuable for their payments and when society shows no tolerance for tax evasion. The relationship between the two parties (tax officials and taxpayers) can therefore be strengthened with the improvement of transparency and taxpayer awareness.

2.5.4 Corruption

In recent years, especially in the 1990s, a phenomenon broadly referred to as corruption has attracted a great deal of public attention. For example, in its end-of-year editorial on December 31, 1995, *The Financial Times* characterized 1995 as the year of corruption. The following three years could have earned the same title. The writing of books on corruption has become a growth industry in various countries. And this concept cannot be left out in the field of taxation. If the issue of corruption is not addressed in tax collection, other efforts by tax administration including a sound tax structure and expenditure policy would be unprofitable.

The specific source of bureaucratic inefficiency in tax collection on which we focus here is collusion between tax collector and taxpayer to evade taxes which affects their relationship. The scope of such practices is vast. The Nigerian customs inspector who found a Mercedes Benz 350 SEL inside a cargo bin with milk for import, and who obligingly charged duty only on the milk (Idigbe, 1986), is a case in point. So is the practice by merchants in Zaire of keeping two sets of books, one for public use and the other secret, and paying off any tax collector expressing curiosity about 'real books' (Gould, 1980). So is a scheme common in Eastern Nigeria in the 1950s, whereby an income-tax collector would understate the number of households in a district and allow all households to share the tax burden of the households declared, with the collector keeping part of the savings (Eastern Region of Nigeria, 1960). One observer (Simanjuntak, 1979) argues that collusion between tax collector and payer is likely, quantitatively; to be the most important form of corruption in Indonesia and this has a direct effect on the relationship between the two parties.

In reducing the effects of corruption in the relationship between the tax official and taxpayer, the wages of tax officials should be made better. Inadequate wages are frequently cited as a prime cause of bureaucratic corruption. Sharp increases in Indonesian civil service wages to combat corruption and other problems have been proposed by the 1970 Commission of Four on corruption (Palmier, 1983) and by the Asian Development Bank (Soesastro et al., 1988). The 1977 Tax Review Commission in Ghana recommended higher wages for tax collectors and a special salary scale for them, separate from the rest of the civil service (Ghana, 1977). Nonetheless, using high wages as an incentive device seems to be a relatively rare occurrence (Palmier, 1983)

There are two reasons why higher wages might improve performance in the collection of taxes and ensure a positive tax official-taxpayer relationship. The first concerns the incentives of tax inspectors to shirk, which means taking bribes. It is related to the analysis of Shapiro and Stiglitz (1984). A wage premium may be used to increase the value of remaining in a job relative to outside opportunities and hence reduces shirking.

The second argument concerns the quality (here the honesty) of those who are employed. Paying higher wages constitutes one means of enforcing honest behaviour from those, who if paid only what they could receive in their next best occupation (that is, their reservation wage), would be dishonest. Most of taxpayers have a perception of corruption about tax officers. Adequate wages for tax officials is likely to encourage honesty among them and this would change the negative perception taxpayers have concerning them.

Should this happen, the tax official-taxpayer relationship would improve (Besley & McLaren, 1993).

2.5.5 Appropriate Enforcement

Ineffectiveness of the tax administration can affect the tax officials and taxpayers relationship. Bird (2003) states that “due attention must be given to the extent to which revenue is attributable to ‘enforcement’ (the active intervention of the administration) rather than ‘compliance’ (the relatively passive role of the administration as the recipient of revenues generated by other features of the system)”. Tax administrations must be able to identify those who must pay, but will not pay (that is, tax evaders), and distinguish them from those who may want to pay, but cannot pay (that is, hardship cases). Various enforcement mechanisms, coupled with tax relief mechanisms, are available to tax administrations to succeed in this task. An example, is jailing a taxpayer.

Enforcing a tax system is neither an easy nor a static task. It is especially difficult in the dynamic environments prevailing in developing countries. Unless this task is approached professionally and with consistency, even a well-designed tax system will fail to produce good results (Bird & Zolt, 2003). This is especially evident at local government level where tax collectors seldom use the available enforcement mechanisms provided by law, or where they do enforce, inappropriate mechanisms are sometimes used. This also affects negatively the tax official and taxpayer relationship.

2.5.6 Taxpayer Perceptions

Both taxpayers and tax officials have perceptions about themselves and whether positive or negative, those perceptions affect the relationship that exists between the two parties.

Mikesell and Birskyte (2007) have stated that “compliance improves when taxpayers believe the tax system is fair, they believe that they receive something valuable for their payments and when society shows no tolerance for tax evasion. This finding is explained by a broad concept of ‘the tax culture’.”

“Although South African taxpayers, including business taxpayers, generally hold the view that it is reasonable to pay one’s fair share of tax, they also feel that the tax system in the country is too complex, tax rates are too high and there are too many taxes, which all contribute to high compliance costs” (Wang, 2010 cited in Franzsen, 2003). Governments and tax administrations have the responsibility of putting the interest and sentiments of taxpayers into consideration on tax matters so as to be in the good books of taxpayers. This will influence their perception and improve the tax officials and taxpayer relationship.

2.5.7 Level of Knowledge

Tax education can constitute any informal or formal programme organized by the tax authority or independent agencies by which to facilitate taxpayers in completing tax returns correctly and also to cultivate awareness of their responsibilities in respect of the tax system (Eriksen & Fallan, 1996; IRB Annual Report, 2006; McKerchar, 2007). Building a relationship between the tax official and taxpayer also depends on efforts to provide better services and education to taxpayers. By increasing awareness and the perceived legitimacy of the tax system, such measures can immediately improve compliance while laying the foundations for a more effective tax bargain. Unfortunately, the absence of documented

successes suggest that efforts to improve taxpayer services have yet to consistently alter the often antagonistic relationship between taxpayers and the tax administration in developing countries. Taxpayers still complain regularly about high compliance costs, a lack of clarity over tax regulations, seemingly arbitrary behaviour by tax officials and a lack of transparency.

At a minimum, public demand for improved services appears undeniable. In a South African survey, small and medium businesses made powerful demands for a better taxpayers' helpdesk. In fact, the survey found that demand for a helpdesk exceeded demand for a simplified tax regime or a higher VAT threshold, among other things (Abrie & Doussy, 2006).

The Peruvian tax reform during the early 1990s included extensive efforts to improve services and educate taxpayers in order to rehabilitate public perceptions of the tax agency. Efforts to expand public outreach included creating an information centre downtown in the capital city; developing a free taxpayer bulletin, which was reaching 5000 people by 1994; hosting tax fairs throughout the country; and disseminating important information through newspaper ads and brochures. At the same time a large investment was made in training, with more than one-third of employees sent to professional training courses between 1992 and 1996 and all staff involved in ethics courses. Coupled with good performance, the result was that the tax reform quickly came to be viewed as a model agency by much of the public (Durand & Thorp, 1998).

In Rwanda the government has also prioritized public outreach and education, with significant success. This has included a series of Taxpayers' Week events, a focus on

improving customer service, making tax issues a prominent subject of speeches by the president, working with local private sector associations and developing taxpayer surveys to identify problem areas and measure success in changing public perceptions (Land, 2004). These measures bring the tax official and taxpayer together to enhance their relationship.

Various programmes in the United States, including the Public Information Programme, were introduced to educate school children, small business owners and other selfemployed individuals. Through workshops or in-depth tax courses, instructors provided training on filing tax returns, starting a business, recordkeeping, preparing business and personal tax returns, self-employment tax issues, and employment taxes (IRS, 2009).

In Australia, the Australian Tax Office(ATO) launched a programme called ‘Teaching Tax with Tax Files’ in 1998 to educate school children aged 9 to 12 (ATO, 2009). It is an innovative multimedia tax education kit which comprises of an interactive CD-ROM and a hard copy which provides schools with extensive, up-to-date information about tax. This programme is to educate the school children to be aware of where government money comes from and what it is used for, the responsibilities of a taxpayer, and should develop their understanding of the role of taxation in a society (example is the connection between tax and services such as hospitals, roads and schools) (ATO, 2009).

Countries such as the US, Canada, Japan, New Zealand, Australia, the UK and Malaysia have all been implementing a continuous tax education for taxpayers and children (as future taxpayers). Apart from these programmes to educate taxpayers directly and instill public awareness regarding tax matters, various countries such as the USA, the UK and Australia

also have developed interactive websites, disseminated leaflets together with tax returns, opened call centres, created advertisements or supplied reminders via television and radio (Palil, 2010).

2.5.8 Tax Officials' Attitude

A series of studies has found that the nature of interactions between tax officials and citizens significantly shapes taxpayers' overall perceptions of tax system fairness and tax officials. Studies by Fjeldstad and Semboja (2001), Fjeldstad (2004), Therkildsen (2004), Friedman (2003) and Ssewakiryanga (2004) are particularly explicit on this point, warning against the consequences of apparently arbitrary behaviour by tax collectors. Fjeldstad (2004) goes so far as to argue, based on survey evidence from South Africa, that when tax officials seek to impose tax evasion penalties that are perceived as arbitrary or excessive, this can actually reduce compliance among other taxpayers. As Ssewakiryanga (2004) argues, "citizen engagement in revenue processes is still very dependent on how they negotiate their relationship with tax collectors" (OECD, 2010). Tax officials have to behave professionally so as to establish a cordial relationship between them and taxpayers. Among other things, tax officials are enjoined to dress well and put on their flying tie as some taxpayers years ago used to complain about the way some tax officers dress when on the field.

CHAPTER THREE

RESEARCH METHODS

3.1 Introduction

In chapter one the overall research question was about what factors affect the relationship between tax officials and taxpayers in the Kumasi Metropolis. Following that was chapter two which reviewed the relevant existing literature covering the research question. This chapter therefore looked at the methods that would address the research question. It is believed that research methodology is about collecting data for research projects. It gives a clear cut idea on what the researcher is carrying out in his or her research. The research methods in this chapter comprised of research design, population of study, target population, sample size and sample technique, source of data collection, method of data collection, pretesting, ethical issues and field work report. The essence of the research methods was to have reliable and accurate results of the study. This chapter concluded with data presentation and analysis.

3.2 Research Setting

The research setting for this study is Kumasi which is the capital city of Ashanti region. It is popularly known as "The Garden City" or "heart beat" of Ghana because of its many beautiful species of flowers and plants. Kumasi was chosen for this study because of its dominance in economic activities. The city has a population of about 800,000 shops for most of its consumer goods. Some of the selected areas for the sample size were Kejetia and Central Market.

The Kejetia market is believed to be the largest single market in West Africa with over 10,000 stores. For Central Market, it is believed that about twenty thousand traders come together six days a week for trading purposes. Virtually everything that one wants to purchase from a market can be found at these two major trading areas in Kumasi. In

Kumasi, the organization under study was the Ghana Revenue Authority, Ashanti New Town District Office.

Before Ghana Revenue Authority was established, history of Domestic Revenue Agencies has it that, Internal Revenue Service (IRS) started with the name Income Tax Administration Department in the then Gold Coast in September 1943. In July 1963, with addition of more taxes like Pay As You Earn (PAYE) system, the Income Tax Department was renamed Central Revenue Department to reflect the broad scope of taxes collected. In July 1986, government took a decision on structural changes in the Department. The Internal Revenue Service (IRS) Law 1986 (PNDC Law 143) was passed.

This law transformed the hitherto Central Revenue Department into a public service organization, the Internal Revenue Service, granting full operational and partial financial autonomy with its own Board of Directors.

3.3 Research Design

Research design is about the plan and the structure of conducting a research project. A research design which is not properly planned will result in waste of resources and money. According to Vaus (2001), two fundamental types of research questions asked by social researchers are: what is going on (descriptive research)? and why is it going on (explanatory research)? This study was committed to looking at the relationship that exists between the tax officials and taxpayers which made this study descriptive. Furthermore, the study revealed why certain things happen in the relationship between the tax official and taxpayer. For example, why taxpayers evade taxes or why tax officials use respectful

treatment in dealing with taxpayers. The study was not only descriptive but explanatory as well.

Secondly the study employed a cross-sectional approach. According to Olsen and St. George (2004), one of the most common and well-known study designs is the cross-sectional study design. A cross-sectional study is the study that observes or measures exposures and outcomes simultaneously in a population. In this design, a researcher examines the association between the exposure and the outcome, but cannot infer cause and effect (ADA, 2011). According to popular opinion, cross-sectional studies are observational in nature because they are used to describe characteristics that exist in a population, but not to determine cause and effect relationships between different variables. The researcher believed this method of data collection used to collect data from more than one case at a single point in time helps to collect data in connection with a number of variables to help determine the relationship and moreover, they are collected by the use of questionnaire.

3.4 Sampling Procedure

3.4.1 Target and Study Population

The study targeted individual taxpayers who had traded for two or more years with active files because the researcher believed that such taxpayers had experience with respect to their relationship with tax officials and therefore could make better contribution to the study than new taxpayers. Self-employed or individual taxpayers were targeted. This is because among the three categories of taxpayers: companies, employees and self employed, the latter has a direct relationship with tax officials. Companies and employees are represented by accountants in tax matters but the self employed deal directly with tax officials. There

are many self employed or individual taxpayers including carpenters, fashion designers, fishermen and lawyers. The focus was however on traders that is, individual taxpayers who engage in buying and selling.

Mouton (1996) define a population as the entire set of data from which a sample is selected and about which the researcher wishes to draw conclusions. Taxpayers within the main trading areas of the Kumasi Metropolis namely Central Market, Roman Hill, Allabar and Kejetia constituted the population of the study. The population of taxpayers from Central Market, Roman Hill, Allabar and Kejetia was 3123.

3.5 Sample Selection

Taxpayer respondents were selected using proportional allocation method of random sampling from each of the trading areas (Allabar, Roman Hill, Central Market and Kejetia) to give a total sample size of 200 out of the 3123 taxpayers in the four trading areas. One hundred and thirty-eight (138) respondents were selected from Central Market, twenty-six (26) from Roman Hill, twenty-four (24) from Kejetia and twelve (12) from Allabar. The number of respondents from each area differed since some had more taxpayers than others. Specifically, Central Market has 2143 taxpayers, Roman Hill has 410 taxpayers, Kejetia has 380 taxpayers and Allabar has 190 taxpayers.

3.6 Sources of Data

Data Collection is an important aspect of any type of research study. Inaccurate data collection can impact the results of a study and ultimately lead to invalid results. The primary source of data was collected from the taxpayers. The primary source of data was collected by the researcher at first-hand through the use of self-administered questionnaire.

On the secondary source, data was collected from G.R.A web, literature on G.R.A, files of either tax officials or taxpayers (in case of any problem with tax official or taxpayer).

3.7 Variables

The dependent variable in the study was taxpayer perception of relationship with tax officials. The independent variables measured were; coercion, persuasion, level of knowledge, corruption and attitude of tax officials.

3.7.1 Measurement of variables

Taxpayers Perception of Relationship

In revenue mobilization the relationship between taxpayers and tax officials plays a key role. Though taxpayers are obliged to pay their taxes the relationship that exists between them and tax officials determines their willingness to pay and not default. To establish the relationship between taxpayers and tax officials, five (5) questionnaire items were developed to measure taxpayers' perception of their relationship with tax officials. The items measured included: ease of communication, warmth, friendliness, trustworthiness, and likability of tax officials. The sum of the six items was computed and transformed into a composite variable with two response categories, that is, positive or negative relationship. Because the response categories of the individual items was coded as 0=No and 1=Yes, a total score of zero (0) was taken as a negative relationship while a total score of five (5) indicated a positive relationship. Though this categorization may be criticized as being arbitrary, it provided the best estimate of measuring the relationship between the two parties.

Coercion

Existing literature establishes that coercion has a significant effect on the taxpayer's relationship with tax officials (Frey & Feld, 2002). To determine if coercion also affects tax officials and taxpayers' relationship in the DTRD of Ghana, five items were developed to measure taxpayers' perception of tax officials' use of coercion. The items measured included: response to part payment, use of command and force, payment of arrears, payment of taxes by due date, frequency of locking shops and submission of tax returns.

Persuasion

The feeling of being controlled in a negative way and being suspected of tax cheating makes tax morale fall (Prichard, 2010).

Four (4) questionnaire items were developed to measure persuasion as one of the independent variables of the study. The items measured included tax officials': offer of ample time to pay tax, explanation of tax processes, tolerance, and use of collaboration and cooperation. The response categories of these items were coded as 1=Yes, 2=No.

Level of Knowledge

The knowledge (which entails their awareness and understanding of tax issues) of taxpayers on the need to pay their taxes, the benefits derived from paying taxes and their internalization of such knowledge determines the extent to which they cooperate with tax officials in their operations (Abrie & Doussy, 2006; Durand & Thorp, 1998). To determine if level of knowledge on tax issues affect the relationship between taxpayers and tax officials in the DTRD there was the need to develop research items to measure the

knowledge of tax issues among taxpayers. Three (3) items were developed to measure level of knowledge. Items measured included taxpayers' awareness of: uses of taxes, responsibility to pay taxes as a Ghanaian and all responsibilities in respect of the tax system.

Corruption

Research shows that taxpayers' perception of tax officials' corruptness affects their relationship. Four (4) questionnaire items with response categories '1=Always to 3=Not at all' was developed to measure corruption. Items measured included tax officials: usual demand of money to reduce tax, usual demand of money to waive arrears, usual demand of money before giving of official certificate and demand of money to examine tax returns.

Attitude of Tax Officials

Attitude of tax officials as an independent variable was measured by five (5) questionnaire items. The items measured included tax officials': patience, display of professionalism, politeness, preferential treatment and good treatment.

3.8 Method of Data Collection

Questionnaires were used to collect data from taxpayers. The importance of a well-designed questionnaire that elicits valid and reliable information from respondents and additionally facilitates analysis and interpretation cannot be overemphasized (Creswell, 1999; Bell, 1999 cited in Yeboah, 2010). While validity is concerned with accuracy of the questionnaire, reliability has to do with consistency and stability over time. The questionnaire used in the collection of data for the study was closed-ended with mutually

exclusive and exhaustive responses. The closed-ended questions made the analysis much simpler.

Since some of the taxpayers were non-literates, they were assisted by the researcher through the researcher-administered questionnaire whilst the literates used the self-administered questionnaire. The researcher-administered questionnaire enabled questions to be explained to respondents and also result in higher response rates (Yeboah, 2010). After the construction of the questionnaire, it was pretested. Pretesting and its importance is discussed in the next section.

3.8.1 Pretesting

The researcher intended to do pretesting of the questionnaire using the taxpayers. In all, five (5) taxpayers were involved in the pretesting. Pretesting is very important as it helps to unearth some of the inevitable problems related to converting of designed data collection instrument into reality (Creswell, 1994; Robson, 2002 cited by Yeboah, 2010). Pretesting helped the researcher to be conversant with the questions and changes that had to be made with respect to the questions, the pretesting revealed the need to do that.

3.9 Ethical Issues

Ethics become extremely important when dealing with human subjects. Ethical issues are becoming a crucial element in social research. It is compulsory for a social researcher conducting research involving humans to apply for ethical clearance (Mollet, 2011).

Ethical considerations are important because social research, especially when it involves fieldwork, almost always intrudes into respondents' private lives when they disclose to

researchers private and personal information that they will want to keep confidential. The act of researching people's lives and putting such information in the public domain also raises ethical issues. Ethics concerns the moral deliberation, choice and accountability on the part of researchers throughout the research process (Edwards & Mauthner, 2002 cited in Yeboah, 2010). The researcher notified respondents of any likely risk they may face as suggested by Yeboah (2010) that before collection of data it is important to ensure that respondents give information willingly as informed and voluntary consent implies that respondents are aware not only of the benefits of the research but also of the risks that they face.

On the issue of confidentiality and anonymity, the researcher employed measures suggested by Holloway (1997) cited in Yeboah (2010) including: use of pseudonyms that have no resemblance to the real name; names not linked to data (names are kept separate); specific locations not being mentioned and; respondents not being identified by age, gender, ethnic group to mention a few.

3.10 Field Work Report

Leslie and Storey (2003) cited in Yeboah (2010) have observed that fieldwork in developing countries, especially rural areas, involves negotiating complex situations. There is no doubt about this as the researcher came across host of challenges in the course of data collection. One of them is the fact that the researcher was unable to retrieve all the questionnaires from the respondents as some of them misplaced them. Sixteen (16) of them

did misplace their questionnaires. Because of this the researcher gave out sixteen (16) more questionnaires, this time to different people to cover those which were misplaced.

Another challenge was the unwillingness of some taxpayers to administer the questionnaires. This category of taxpayers refused to take part in this work on different grounds. Some complained that the topic was an area they were not interested for fear of getting problems with their tax officers or their taxes being increased. Others said they were busy and would not get time to administer. The researcher articulated the import of the work and secondly promised them confidentiality and anonymity. This convinced some of them to participate

Another observation was that, some of the respondents were expecting something in return for attending to the researcher as they asked how much they would be paid. The researcher explained the work was purely for academic purpose and not a contract. Upon the explanation, they all participated voluntarily.

As indicated by Leslie and Storey (2003) cited in Yeboah (2010), expectations and well designed plans during fieldwork in developing countries may go haywire precisely because everyday life in such countries is characterized by uncertainties and flexibility with time. The researcher expected to collect the data in a week. However, many of the respondents delayed in filling the questionnaire. The frequent visit of the researcher and his assistants compelled the respondents to expedite the completion of the questionnaire.

All the questionnaires were therefore collected within two weeks.

3.11 Methods of Analysis

Analysis for this study involved all the three levels of statistical analysis; univariate, bivariate and multivariate analysis of empirical data. The Statistical Package for Social Sciences (SPSS v20) software programme was used to analyse the data. The univariate analysis involved analysis of the demographic/background characteristics of taxpayers sampled for the study.

The second form of analysis, which was the bivariate analysis, examined the relationship between the independent variables (coercion, persuasion, level of knowledge, corruption and attitude of tax officials) and dependent variable (relationship). The chi-square test for independence which is used to explore the relationship between two categorical variables was utilized. Preliminary analysis was conducted to ensure that there was no violation of the chi-square test assumptions. All the cells had expected frequencies of 5 or more.

The third analysis which is the multivariate analysis was employed to establish the determinants or factors that significantly affect the relationship between taxpayers and tax officials. The multivariate analysis technique; Logistic Regression was used. The binary Logistic regression was the procedure of choice because not only does it allow for or test models to predict categorical outcomes with two categories, but also unlike multiple regression, logistic regression does not make assumptions concerning the distribution of scores for the predictor variables; however, it is sensitive to high correlations among the predictor variables (multicollinearity) (Pallant, 2011). Logistic regression was again used because it helps assess how well a set of predictor variables predict or explain a categorical dependent variable; gives an indication of the adequacy of model (set of

predictor variables) by assessing ‘goodness of fit’; provides an indication of the relative importance of each predictor variable or the interaction among predictor variables, and provides a summary of the accuracy of the classification of cases based on the model, allowing the calculation of the sensitivity and specificity of the model and the positive and negative predictive values (Pallant, 2011).



CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter begins with the descriptive analysis of background characteristics of respondents sampled for the study. This is followed in by the bivariate analysis of the independent variables cross-tabulated with the dependent variable establishing relationships between the variables which help to determine if the hypotheses advanced for the study is supported or not supported. The multivariate analyses results which establishes the significant determinants and effects of the set of independent variables on the dependent variable (relationship) is then presented.

4.2 Taxpayers characteristics and Perception of their relationship with Tax officials

Table 1 shows that a higher percentage (76.5%) of males were taxpayers compared with females (23.5%). This finding contradicts the assertion that most taxpayers are females. The high number of male respondents recorded for the study can however be attributed to the fact that data was collected from sample areas mostly dominated by males. In spite of the large difference in the sample with regards to gender, a high percentage of females (38.3%) reported that they have a negative relationship with tax officials compared with males (30.1%) who indicated they had a negative relationship with tax officials. Male taxpayers as can be seen from Table 1 are more likely to develop a positive relationship (69.9%) with tax officials than female taxpayers (61.7%). Age wise, a higher percentage (37.5%) of respondents were between the ages of 29 and 38 years. This result suggests that the youth are more into trading than adults. The dominance of the youth in trading can be attributed to the fact that the youth are strong and would be able to meet the demanding nature of the work. Also the aged constitute the marginal percentage due to the fact that most of them have handed over their work to their children and grandchildren. It is clear from the table that trading in the Kumasi Metropolis is dominated by the youth of school going age. Compared to the other age cohorts, older taxpayers as can be seen from Table 1 were more likely to develop a positive relationship (100%) with tax officials. Taxpayers within the age category of 49-59 were more likely to have a negative relationship (50.0%) with tax officials than any other age group.

Compared to singles (35.5%), a higher percentage (64.5%) of taxpayers were married. This finding reflects the actuality on the ground as trading is mostly done by married couples,

in most instance joint ventures. From Table 1 it can be observed that taxpayers who were married were less likely to have a positive relationship with tax officials (67.4%) than taxpayers who are unmarried (69.0%). Taxpayers who were married were again more likely to develop a negative relationship with tax officials (32.6%) than taxpayers who were single (31.0%). The inference drawn from this result is that marital status to some extent may be related to developing a positive or negative relationship with tax officials.

Considering the educational attainment of taxpayers, 58.0% of taxpayers had completed Senior High School. Taxpayers who had attained post secondary education (tertiary education) also constituted 22.5% of the sample, which recorded the second highest percentage. From table 1 it can be realized that most of the taxpayers had at least attained some form of formal education, however, 2.0% of taxpayers indicated that they had not attained any level of formal education. This result gave a fair distribution of education as a variable in the sample and supported the assertion that most traders are semi literates. Table 1 also shows that taxpayers who had attained secondary education are more likely to develop a positive relationship (72.4%) with tax officials. Taxpayers who had not attained any form of formal education were not surprisingly found to develop a negative relationship (50.0%) with tax officials as education to a large extent determines traders' knowledge on tax issues.

Table 1. Taxpayers' relationship with Tax officials by various Characteristics

Variables	Categories	Sample Size N=200	Negative Relationship (%)	Positive Relationship (%)
Gender	Male	153	30.1	69.9
	Female	47	38.3	61.7

Age group	18 – 28	49	32.7	67.3
	29 – 39	75	33.3	66.7
	40 – 48	49	22.4	77.6
	49 – 59	24	50.0	50.0
	60+	3	0.0	100.0
Marital Status	Single	71	31.0	69.0
	Married	129	32.6	67.4
Education	No education	4	50.0	50.0
	Up to J.H.S	35	31.4	68.6
	Secondary	116	27.6	72.4
	Post Secondary	45	42.2	57.8

Source: Fieldwork, May, 2013

4.3 Relationship between independent variables and dependent variable

This section is dedicated to presenting the results of the bivariate analysis conducted to establish the relationship between the independent variables of the study and the dependent variable; taxpayers' perception of relationship. The chi-square test of independence was utilized. Results of the analysis are presented in the Table 2.

Table 2. Bivariate relationship between independent variables and taxpayers perception of relationship with tax officials

Variable	Relationship		χ^2	P-value
	Negative n(%)	Positive n(%)		
Coercion				
<i>Frequency of shop lockups</i>				
Once	23(33.3)	46(66.7)	2.22	0.529
Two times	14(35.0)	26(65.0)		

Three times	7(43.8)	9(56.2)		
Not ever	20(26.7)	55(73.3)		
<i>Due payment of taxes</i>				
Yes	29(23.8)	93(76.2)	8.80	0.003*
No	35(44.9)	43(55.1)		
<i>Submission of tax returns</i>				
Yes	34(31.5)	74(68.5)	0.03	0.865
No	30(32.6)	62(67.4)		
<i>Settlement of arrears</i>				
Once	26(34.7)	49(65.3)	0.75	0.862
Twice	11(32.4)	23(67.6)		
Thrice or more	5(25.0)	15(75.0)		
Not ever	22(31.0)	49(69.0)		
<i>Response to part payment</i>				
Accept	57(31.0)	127(69.0)	0.60	0.441
Refuse	7(43.8)	9(56.2)		
Persuasion				
<i>Ample time to pay tax</i>				
Enough time	45(30.6)	102(69.4)	0.28	0.597
Little time	19(35.8)	34(64.2)		
<i>Tax process explanation</i>				
Yes	24(20.9)	91(79.1)	14.23	0.000*
No	40(47.1)	45(52.9)		
<hr/>				
<i>Tolerance</i>				
Yes	44(27.3)	117(72.7)	7.21	0.007*
No	20(51.3)	19(48.7)		
<i>Collaboration and cooperation</i>				
True	43(27.4)	114(72.6)	6.82	0.033*
False	21(48.8)	22(51.2)		
Taxpayers knowledge of tax issues				
<i>Knowledge of uses of taxes</i>				
Yes	45(27.8)	117(72.2)	6.00	0.014*
No	19(50.0)	19(50.0)		
<i>Knowledge of tax system</i>				
Much knowledge	24(21.2)	89(78.8)	14.93	0.001*
Limited knowledge	34(48.6)	36(51.4)		
No knowledge	6(35.3)	11(64.7)		
Corruption				
<i>Demand money to reduce tax</i>				

Always	10(45.5)	12(54.5)	5.93	0.052*
At times	17(43.6)	22(56.4)		
Not at all	37(26.6)	102(73.4)		
<i>Demand money to waive arrears</i>				
Always	4(40.0)	6(60.0)	1.82	0.402
At times	12(41.4)	17(58.6)		
Not at all	48(29.8)	113(70.2)		
<i>Demand money to give certificate</i>				
Always	7(50.0)	7(50.0)	5.58	0.070
At times	12(46.2)	14(53.8)		
Not at all	45(28.1)	115(71.9)		
<i>Demand money to examine tax returns</i>				
Always	4(25.0)	12(75.0)	9.260	0.010*
At times	11(64.7)	6(35.3)		
Not at all	49(29.3)	118(70.7)		
Tax Officials Attitude				
<i>Patience</i>				
Yes	43(26.7)	118(73.3)	9.42	0.002*
No	21(53.8)	18(46.2)		
<i>Display of Professionalism</i>				
Yes	43(25.6)	125(74.4)	17.99	0.000*
No	21(65.6)	11(34.4)		
<i>Politeness</i>				
Yes	39(24.7)	119(75.3)	16.94	0.000*
No	25(59.5)	17(40.5)		
<i>Preferential Treatment</i>				
Yes	45(27.8)	117(72.2)	6.00	0.014*
No	19(50.0)	19(50.0)		
<hr/>				
<i>Good treatment</i>				
True	27(26.2)	76(73.8)	2.74	0.098
False	37(38.1)	60(61.9)		

Source: Fieldwork, May, 2013

* $p < 0.05$

Table 2 shows that the only coercion variable that significantly related to taxpayers perception of their relationship with tax official was due payments of taxes, with a high percentage of taxpayers (76.2%) indicating that they have a positive relationship with tax

officials. The statistical inference of this result is that the more taxpayers adhere to paying their taxes promptly, the more likely they are to develop a positive relationship with tax officials.

Though the frequency of shop lockups, submission of tax returns, settlements of arrears, and tax officials response to part payment of taxes as independent variables did not relate significantly to taxpayers perception of their relationship with tax officials, each of these variables either negatively or positively affected the relationship between taxpayers and tax officials as can be seen from Table 2.

The chi-square test of independence as depicted in Table 2 also shows that the persuasive measures that significantly relate to taxpayers perception of their relationship with tax officials are tax process explanation, tolerance, and collaboration and cooperation of tax officials. In all the measures of persuasion a high percentage of taxpayers reported that tax officials offer of ample time (69.4%), explanation of the tax process (79.1%), tolerance (72.7%) and collaboration and cooperativeness (72.6%) positively affected their relationship with tax officials.

According to Table 2, all the measures of taxpayers' knowledge of tax issues significantly related to taxpayers perception of their relationship with tax officials. From the table it can be observed that a high percentage of taxpayers who indicated that they had knowledge on the uses of taxes (72.2%) and those who had much knowledge of the tax system (78.8%) reported a positive with tax officials.

Taxpayers' report of tax officials' demand of money to reduce tax and demand of money to examine tax returns which are corruptive measures significantly related to the relationship

between taxpayers and tax officials. In each of the two significantly related variables, a high percentage of taxpayers indicated that tax officials' non demand of money to reduce tax (73.4%) and non demand of money to examine tax returns (70.7%) positively influenced their relationship with tax officials. Though demand of money to waive arrears and demand of money to give certificate did not significantly relate to taxpayers perception of their relationship with tax officials, a high percentage of taxpayers indicated that tax officials non demand of money to waive arrears (70.2%) and non demand of money to give tax certificate (71.9%) positively affected their relationship with tax officials.

All the measures of tax officials' attitude significantly related to their relationship with tax officials, except good treatment which was slightly insignificant ($p = 0.09$). From Table 2 it can be seen that a high percentage of taxpayers indicated tax officials patience (73.3%), display of professionalism (74.4%), politeness (75.3%), preferential treatment (72.2%) and good treatment (73.8%) positively influenced the relationship. The implication of this result is that tax officials' attitude towards taxpayers largely or is more likely to effect a positive relationship between taxpayers and tax officials. In sum, the variables that significantly related to taxpayers perception of their relationship with tax officials identified in this study include: Due payment of tax, Tax process explanation, Tolerance, Collaboration and cooperation, Knowledge of uses of taxes, Knowledge of tax system, Demand of money to reduce tax, Demand of money to examine tax returns, Patience, Display of Professionalism, Politeness and Preferential Treatment.

These variables were further analyzed (by the binary logistic regression model) to ascertain which of them was a significant predictor or determinant of a positive relationship of

between taxpayers and tax officials. The next section presents the results of the binary logistic regression analysis.

4.3 Multiple Regression

4.3.1 Determinants of Taxpayers perception of relationship with Tax officials

Direct logistic regression was performed to assess the impact of the significantly related variables or factors on the likelihood that taxpayers would report a positive relationship with tax officials. The model contained twelve independent variables (identified by the chi-square test of independence analysis) variables. The full model containing all predictors was statistically significant, $\chi^2(5, n = 200) = 35.06, p < 0.001$, indicating that the model was able to distinguish between respondents who reported a positive or negative relationship with tax officials. The model as a whole explained between 23.4% (Cox and Snell R square) and 32.7% (Nagelkerke R squared) of the variance in taxpayers' perception of a positive relationship status, and correctly classified 78.0% of cases. As shown in Table 3, only two of the independent variables (due or prompt payment of taxes and knowledge of tax system) made a unique statistically significant contribution to the model which predicted a positive relationship between taxpayers and tax officials. An elaborated interpretation of the results on the various statistics is presented in the Table 3 below.

Table 3. Logistic regression predicting likelihood of relationship between taxpayers and tax officials (N=200)

Variables	B	Exp(B)	S.E.	Wald	p
Due payment Yes					
No	.665	1.944	.376	3.132	.047*
	0	1	.	.	.

Tax process explanation Yes	.652	1.920	.373	3.064	.080
No	0	1	.	.	.
Tolerance Yes	.471	1.602	.477	.976	.323
No	0	1	.	.	.
Collaborations and Cooperation Yes	.149	1.160	.443	.113	.737
No	0	1	.	.	.
Knowledge of Tax uses Yes	.487	1.627	.458	1.130	.288
No	0	1	.	.	.
Knowledge of tax system				6.750	.034*
Much knowledge	.327	1.387	.753	.188	.664
Little knowledge	-.727	.483	.712	1.043	.307
No knowledge	0	1	.	.	.
Demand of money to reduce tax				1.036	.596
Always	-.622	.537	.611	1.036	.309
At times	-.079	.924	.461	.029	.865
Not at all	0	1	.	.	.
Demand of money to examine tax returns				5.396	.067
Always	.641	1.898	.745	.740	.390
At times	-1.375	.253	.658	4.365	.037
Not at all	0	1	.	.	.
Patience Yes	.003	1.003	.499	.000	.995
No	0	1	.	.	.
<hr/>					
Display of Professionalism					
Yes	.591	1.806	.554	1.136	.286
No	0	1	.	.	.
Politeness					
Yes	.252	1.286	.497	.256	.613
No	0	1	.	.	.
Preferential Treatment					
Yes	.528	1.695	.475	1.237	.266
No	0	1	.	.	.
Constant	-1.630	.196	.858	3.614	.057

Cox & Snell R Square = .234

Nagelkerke R Square = .327
Hosmer and Lemeshow Test = .683

Source: Fieldwork, May, 2013

** p < 0.05*

The beta values in the first column of Table 3 represent the co-efficients of the independent variables entered into the model. From the table, it can be seen that, due or prompt payment of taxes recorded the highest beta value, followed by tax officials explanation of the tax process, with the least value of beta recorded for tax officials patience. This indicates that, due payment of taxes is a stronger predictor of a positive relationship between taxpayers and tax officials. An inspection of all the beta (B) values reveal that all the variables affected the relationship positively with taxpayers little knowledge of tax issues, tax officials persistent and seldom demand of money to reduce taxes all negatively affecting the positive relationship.

The Wald values in the fourth column of Table 3 also indicate the contribution made by each of the independent variables to the model which predicts a positive relationship between taxpayers and tax officials. From the table it can again be seen that knowledge of tax system (6.8), demand of money to examine tax returns (5.4), due payment of taxes (3.1) and tax process explanation (3.1) predicted mostly to the positive relationship between taxpayers and tax officials. Politeness made the least contribution to predicting a positive relationship with tax officials' patience not contributing to predicting a positive relationship between taxpayers and tax officials.

The *p* values in the table also indicate the variable or set of variables that significantly predict a positive relationship between taxpayers and tax officials in the D.T.R.D of the

Ashanti region. According to Table 3 only due payment of taxes ($p = 0.047$) and taxpayers knowledge of the tax system ($p = 0.034$) proved to be the only significant determinants or predictors of taxpayers and tax officials positive relationship (model), as they recorded p-values less than 0.05.

Table 3 also indicates the odds ratio ($\text{Exp}(B)$) for each of the independent variables (predictors). According to Tabachnick and Fidell (2007), the odds ratio represents ‘the change in odds of being in one of the categories of outcome when the value of a predictor increases by one unit’ (p.461). From the table, it can be observed that, due payment of taxes by taxpayers recorded an odds ratio of 1.94 which is the highest. This indicates that taxpayers who indicated that they pay their taxes promptly were almost two times more likely to have a positive relationship with tax officials than taxpayers who indicated they failed to pay their taxes promptly. The odds ratio of 1.92 obtained for tax process explanation also indicates that about 92% of taxpayers who tax officials explain the process of taxation to are more likely (2 times) to develop a positive relationship with tax officials. The odds of 1.63 obtained for taxpayers’ knowledge on tax uses also indicate that taxpayers who have some knowledge on the uses of tax in Ghana are almost 2 times more likely to have a positive relationship with tax officials.

CHAPTER FIVE

DISCUSSION OF MAJOR FINDINGS

5.1 Introduction

This chapter examines the major findings of the study which are related to the research questions and hypotheses. The discussions will be linked to the literature reviewed and

some comparisons drawn in terms of similarities and differences between the findings and earlier studies.

5.2 Discussion of findings

As far as the demographic characteristics are concerned, the study revealed that the male respondents (76.5%) far outnumber the females and this counters the assertion that most taxpayers in the trading sector are females. The study also revealed a negative relationship between female taxpayers and tax officials than male taxpayers and tax officials. Pertaining to age, this study showed that trading in the Kumasi Metropolis is dominated by the youth and this can be attributed to the fact that the youth are strong and able to meet the demanding nature of the work. The study revealed that older taxpayers have a positive relationship with tax officials as compared to the youth. The study on marital status reflects the actuality on the ground as trading is mostly done by married couples, in most instance joint ventures.

The study also showed that, taxpayers who are single (69.0%) have a positive relationship with tax officials than those married. On education, the study disclosed that most of the taxpayers had at least attained some form of formal education and that half of those who had no education (50%) had a negative relationship with the tax officials. All of them can be seen in Table 1.

On coercion, the study found that taxpayers who conformed to coercive measures were likely to have a positive relationship with tax officials as those who submitted returns on time and those who made payments to avoid locking of their shops testify a positive relationship with tax officials. A high percentage (73.3%) of taxpayers who indicated that

they never had their shops locked up by tax officials, taxpayers who submitted their tax returns (68.5%) and tax officials' acceptance of part-payment of taxes (69.0%) positively affected their relationship with tax officials. However, most of taxpayers who reported having frequent shop lockups (three times), and taxpayers who did not submit their tax returns (32.6%) reported a negative relationship with tax officials. Concurrently, a test of the logistic regression analysis revealed that taxpayers who indicated due payment of taxes also indicated that a positive relationship existed between them and tax officials. This study did not give credibility to the first research hypothesis and as such a conclusion can be drawn at 95 percent confidence level that coercive measures by tax officials has a positive effect on the relationship between tax officials and taxpayers. This is contrary to the studies by Prichard (2010), which states that when taxation remain purely coercive, taxpayers may angrily reject taxation and could result in animosity against tax officials and revenue mobilization would therefore be impeded.

In all the measures of persuasion a high percentage of taxpayers reported that tax officials offer ample time (69.4%), explanation of the tax process (79.1%), tolerance (72.7%) and collaboration and cooperativeness (72.6%) positively affected their relationship with tax officials. This study show that persuasive measures lead to a positive relationship. This corroborates Feld and Frey (2003) studies that tax officials can approach their work successfully by considering the respectful treatment supporting, and possibly even raising, tax morale and that taxpayers respond in a systematic way to how the tax authority treats them. This again supports the study of Strumpel (1969) which analyzed tax morale among European taxpayers in England and Germany. The analysis revealed that tax morale was

high in England but low in Germany because the latter practiced coercive tax enforcement techniques while the former focused on respectful treatment.

In answering a major research question as to whether taxpayers' level of knowledge on taxation influence their relationship with tax officials, the table confirms that a high percentage of taxpayers who indicated that they had knowledge on the uses of taxes (72.2%) and those who had much knowledge of the tax system (78.8%) reported a positive relationship with tax officials. The study therefore reveals that, if a taxpayer has knowledge on tax issues and knows what taxes are used for, their relationship with tax officials is likely to be positive. This was also confirmed by the binary logistic regression analysis results which revealed knowledge of tax system to be one of the significant predictors of a positive relationship between taxpayers and tax officials. On the basis of this result, the second hypothesis advanced by the study, which predicted that taxpayers level of knowledge on tax issues leads to a positive relationship is supported.

In each of the two significantly related variables (tax officials demand for money to reduce tax and examine returns), a high percentage of taxpayers indicated that tax officials' non demand of money to reduce tax (73.4%) and non demand of money to examine tax returns (70.7%) positively influenced their relationship with tax officials.

This analysis shows that, there are many tax officers who do not engage in corrupt practices in the discharge of their duties. From the table, tax officials would examine returns, revise taxes or waive arrears without being bribed by the taxpayer. This contradicts the studies of Idigbe (1986) and Simanjuntak (1979). Both of them argue that the collusion between tax officials and taxpayers to evade taxes is vast and also collusion between the two parties is

likely, quantitatively; to be the most important form of corruption and this has a direct effect on the relationship between the two parties respectively.

Furthermore, another research question was to find out whether tax officials' attitude affects their relationship with taxpayers. From Table 2 it can be seen that a high percentage of taxpayers indicated tax officials patience (73.3%), display of professionalism (74.4%), politeness (75.3%), preferential treatment (72.2%) and good treatment (73.8%) positively influenced the relationship. These are the variables that significantly relate to the relationship between taxpayers and tax officials. The study found that, good attitude exhibited by officials to taxpayers encourages a healthy and positive relationship between the two parties. This was further confirmed by the logistic regression analysis results (Table 3) which provided support to the third research hypothesis advanced by the study, which was: Tax official's positive attitude has a positive effect on tax officials and taxpayers relationship. The positive beta values obtained for each of the attitudinal measures (see, Table 3) leads to the conclusion that indeed tax officials' positive attitude correspondingly has a positive effect on their relationship with taxpayers. This validates the popular opinion that positive attitude of tax officials encourages voluntary compliance which eventually promotes a good relationship with taxpayers.

In all, the study has it that most of the taxpayers are of the perception that, the relationship between the tax officials and them is a positive one. This study answers the major research question which was to find out taxpayers perception of their relationship with tax officials.

KNUST



CHAPTER SIX

SUMMARY OF STUDY, RECOMMENDATIONS AND CONCLUSION

6.1 Introduction

This chapter presents appropriate recommendations made on the basis of the findings of this study. In addition, it summarizes the findings of the study with particular emphasis on the contribution of the study to knowledge.

6.2 Summary of the study

The study was an exploratory research set to investigate taxpayers' perception of their relationship with tax officials in the DTRD of the Kumasi Metropolis. The target population

comprised of taxpayers who have traded for two or more years and with active files within the main trading areas of the Kumasi Metropolis namely Central Market, Roman Hill, Allabar and Kejetia.

A background study was conducted by the researcher on the development of the now Ghana Revenue Authority. The theoretical bases of the taxpayers and tax officials relationship were also reviewed. It was realised that the relationship existing between taxpayers and tax officials could be motivating or de-motivating to the generation of revenue for development. A search for literature on empirical studies conducted to ascertain the relationship between taxpayers and tax officials after the Internal Revenue Service and Value Added Tax (VAT) merger revealed no study carried out in this area.

A survey questionnaire was used as the principal tool for data collection. The questionnaire was pre-tested and post-tested to ascertain its validity and reliability before it was finally used for the data collection. The data was analyzed quantitatively using both descriptive and inferential statistics. The descriptive statistics consisted mainly of frequency tables which permitted comparison of responses. The inferential statistics used included chi-square and binary logistic regression which also permitted tests of hypotheses. In all, three hypotheses were tested; the first of which showed that coercive measures by tax officials does not have a negative effect on the relationship of tax officials and taxpayers. The second test of hypothesis also proved that taxpayer's level of knowledge on taxation issues leads to a positive relationship. Finally, the third hypothesis was tested which also showed tax official's positive attitude has a positive effect on tax officials and taxpayers relationship.

6.3 Recommendations

On the basis of the findings, the following recommendations are suggested:

Since relationship between two persons is very vital, it is suggested that a better relationship be established between tax officials and taxpayers. This is because the study in spite of indicating a positive relationship between taxpayers and tax officials also reveals a negative relationship between the two parties.

As taxpayers respond in a systematic way to how tax officials treat them, persuasive treatment is recommended to ensure voluntary compliance. Tax authorities need to put persuasive measures in place to raise tax morale.

Further, it is recommended that tax authority take tax education serious to increase the level of knowledge of taxpayers. The study reveals that majority of (72.2%) and (78.8%) who had knowledge on the uses of taxes and much knowledge of the tax system

respectively reported a positive relationship with tax officials. The tax authority therefore must be committed to prioritizing tax education through suggested means including developing a free taxpayer bulletin, hosting tax fairs throughout the country and disseminating important information through newspapers and brochures.

Finally, it is recommended that a positive attitude be shown by tax officials in their dealing with taxpayers. The positive attitude exhibited by tax officials is likely to shape the perception of taxpayers about them and better enhance their relationship. The study has revealed how the positive attitudes of patience, politely and professionalism contributed to ensuring a positive relationship between the officials and taxpayers.

6.4 Conclusion

The relationship between tax officials and taxpayers is likely to shape the perception taxpayers have about tax officials. It is very important in ensuring reciprocal benefit between the tax official and taxpayer. This is possible when each plays the significant roles which are legally required of them.

The importance of a positive relationship between the two parties has to be understood. Moreover, the roles that the respective parties need to play to enhance the relationship must be known. For instance, since the principal goal of taxpayers is to have their tax issues resolved quickly and fairly, they are expected to give information about their tax return to help tax officials reach the right tax conclusion. This goes a long way to strengthen the relationship between the tax officials and taxpayers. Officials have to widen tax education to all so as to strengthen their relationship by reducing tax evasion.

The roles that the variables play in determining a positive relationship between tax officials and taxpayers have been clearly defined. Though the study has corroborated the contribution of other researchers pertaining to the relationship between tax officials and taxpayers, a major aspect of the contribution of this study to knowledge has been to examine and employ persuasion to better enhance the relationship between the said parties. For instance, when tax officials collaborate and cooperate with taxpayers, the latter according to the study responds to the tax demand which eventually promotes a healthy relationship. When taxpayers are given enough time to settle their arrears, it boosts their

morale to fulfill their tax obligations. Such persuasive measures according to the study stabilize a positive relationship.

Secondly, the use of the coercion variable has to be minimized as it scares taxpayers. Though it forces taxpayers to honour their tax obligations, it negatively affects their relationship with officials. As some taxpayers respond systematically to how tax officials treat them, coercive measures applied to them leads to misunderstanding and verbal exchanges as argued by anecdotal evidence. To raise tax morale and increase voluntary compliance among taxpayers, tax officials are enjoined to reduce coercion.

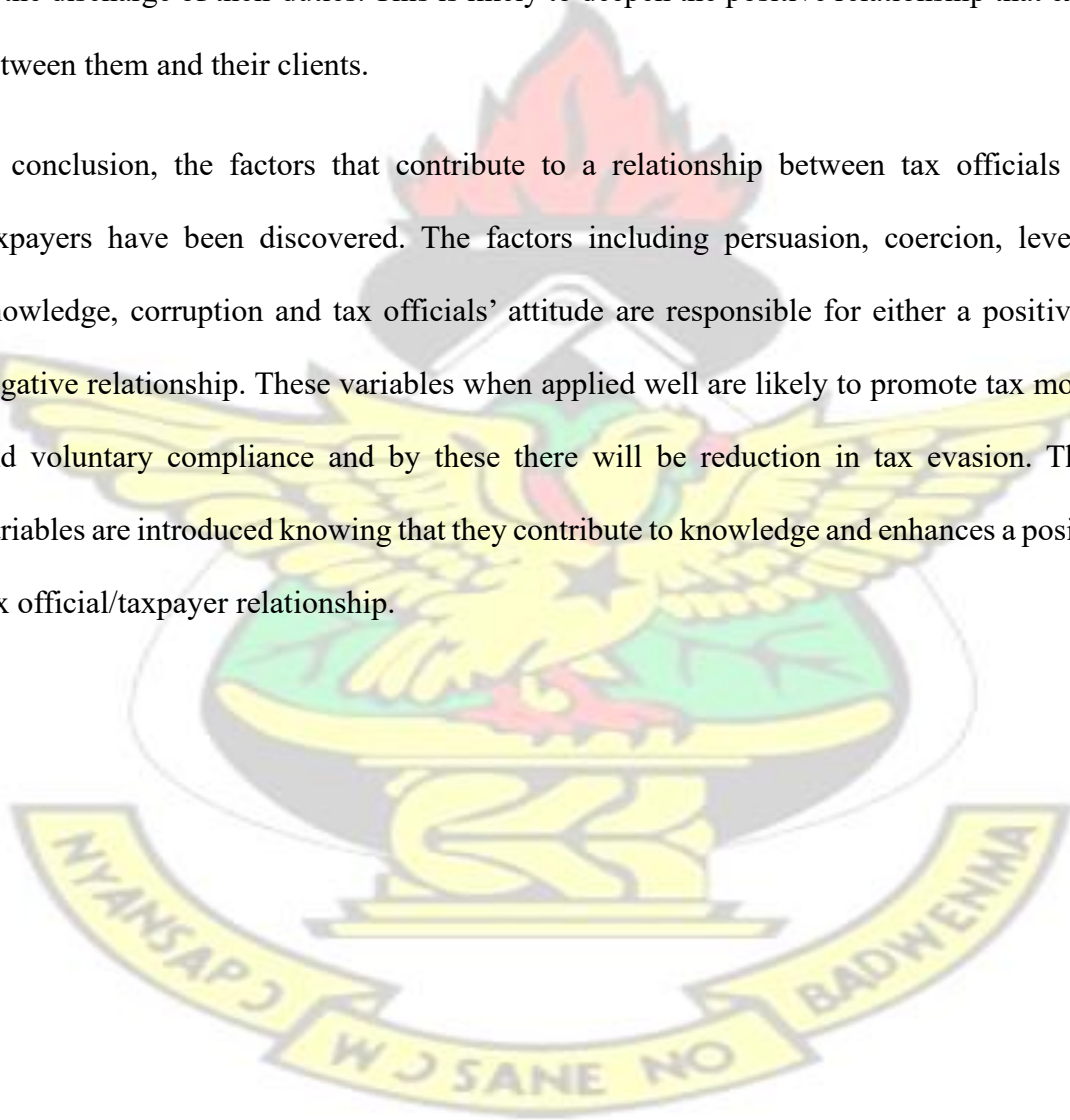
Again, level of knowledge has much role to play in the taxpayer/tax official relationship. The variable has revealed why those with much knowledge about the tax system have a positive relationship with tax officials. Those who have little or no knowledge on the tax system do not appreciate or understand it and it ends up affecting their relationship with officials. Example is traders who do not know anything about Income Tax or what taxes are used for. Therefore it is proposed that tax officials increase tax education to enlighten taxpayers about their tax obligations.

Corrupt tax officials are likely to have a negative relationship with taxpayers especially those who bribe such officials reluctantly. As the study has shown, most taxpayers in the Kumasi Metropolis have a positive relationship with tax officials because of the absence of corruption in their dealings. This reflected in the reduction of their taxes and examination of returns. Since the absence of corruption see to a positive relationship with taxpayers, conscious efforts need to be put in place to alleviate it from the system. For instance, criminalizing corrupt activities and simultaneously motivating tax officials is likely to

clamp down corruption and reinforce a healthy and positive taxpayer/tax official relationship.

Furthermore, the attitude variable has an impact on the taxpayer /tax official relationship. As this variable in the study promotes a positive relationship between the two parties, it is proposed that tax officials put up quality attitude by being patient, polite and professional in the discharge of their duties. This is likely to deepen the positive relationship that exists between them and their clients.

In conclusion, the factors that contribute to a relationship between tax officials and taxpayers have been discovered. The factors including persuasion, coercion, level of knowledge, corruption and tax officials' attitude are responsible for either a positive or negative relationship. These variables when applied well are likely to promote tax morale and voluntary compliance and by these there will be reduction in tax evasion. These variables are introduced knowing that they contribute to knowledge and enhances a positive tax official/taxpayer relationship.



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APPENDIX A

QUES TIONN AIRE

You are please requested to provide answers to the following questions. This research looks into *Tax Officials and Taxpayers Relationship in the Domestic Tax Revenue Division of Ghana Revenue Authority in the Kumasi Metropolis*. This is part of the requirement by the University for a Partial Award of post graduate degree. It is purely an academic work and any piece of information given will be used as such. There is no right or wrong answers. You are assured of maximum confidentiality and anonymity. **No name is required.** Counting on your usual corporation. Many thanks.

INSTRUCTION

Please check the appropriate box with a tick. [✓]

BACKGROUND/ DEMOGRAPHIC INFORMATION

1. Gender (1) Male [] (2) Female []
2. Age Group (1) 18-28 [] (2) 29-39 [] (3) 40-48 [] (4) 49-59 [] (5) 60 and above
3. Marital Status (1) Single [] (2) Married []
4. Educational Attainment.
(1) No education [] (2) Up to J.H.S [] (3) Secondary [] (4) Post secondary and above
5. I communicate with tax officials (1) Easily [] (2) with difficulty []
6. Do you welcome tax officials to your place of work? (1) Yes [] (2) No []

7. Do you have some tax officials as friends? (1) Yes [] (2) No []
8. How often do you communicate with tax officials?.....
9. Aside tax issues, I am usually to tax officials (1) Close [] (2) Distant []
10. I see tax officials as (1) Trustworthy [] (2) Not reliable []
11. I generally the way tax officials do their work (1) Like [] (2) Dislike []
12. How many times was your shop locked last year?
(1) Once [] (2) Two times [] (3) Three times or more [] (4) Not ever []
13. Do you usually pay your taxes by due dates? (1) Yes [] (2) No []
14. Do you usually submit tax returns? (1) Yes [] (2) No []
15. How often do you usually receive letters prompting you to settle your arrears in a year?
(1) Once [] (2) Twice [] (3) Thrice or more [] (4) Not ever []
16. How do tax officials usually respond when you make part payments?
(1) They accept [] (2) They refuse []
17. In my opinion, I appreciate tax officials' use of command and force.
(1) True [] (2) False []
18. Tax officials give me to pay my tax
(1) Enough time [] (2) Little time []
19. Do tax officials often explain tax processes to you? (1) Yes [] (2) No []
20. Tax officials are usually (1) Tolerant [] (2) Intolerant []
21. Do you trust tax officials? (1) Yes [] (2) No []
22. In my opinion, I appreciate tax officials' use of collaboration and cooperation
(1) True [] (2) False [] (3) Other Specify.....
23. I am of what taxes are supposed to be used for in Ghana
(1) Aware [] (2) Uncertain []
24. It is my responsibility as a citizen of Ghana to pay taxes (1) True [] (2) False []

25. I have of all my responsibilities in respect of the tax system

(1) Much knowledge [] (2) Limited knowledge [] (3) No knowledge

26. Do tax officials usually demand money from you to reduce your tax?

(1) Always [] (2) At times [] (3) Not at all []

27. Do tax officials usually demand money from you to waive your arrears?

(1) Always [] (2) At times [] (3) Not at all []

28. Do tax officials usually demand money before giving you any official certificate/document?

(1) Always [] (2) At times [] (3) Not at all []

29. Do tax officials usually demand money from you to examine your tax returns?

(1) Always [] (2) At times [] (3) Not at all []

30. In my opinion, tax officials are usually (1) Patient [] (2) Impatient []

31. Tax officials usually behave (1) Professionally [] (2) Unprofessionally []

32. Tax officials usually treat me well (1) True [] (2) False []

33. Do tax officials usually interact politely with you? (1) Yes [] (2) No []

34. In my opinion, tax officials give me preferential treatment (1) True [] (2) False []

