TAXATION OF THE INFORMAL SECTOR IN GHANA: A CASE STUDY OF THE COMPLIANCE LEVEL OF ARTISANS IN BRONG AHAFO REGION.

BY:

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DECLARATION

I hereby declare that this thesis is my own work towards the award of Master of Business Administration (Finance Option) Degree and that 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 to the best of my knowledge except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated to my father, Mr. Kweku Ehun of Blessed Memory for his unconditional love and support in my academic pursuit.

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ABSTRACT

The economy of Ghana is made up predominantly of the informal sector which employs a larger proportion of the working population. However very little can be said of it actual revenue contribution to the larger economy though it has great potentials in this regard (GTUC, 2004). Artisans are people who work with specialized skills mostly obtained through mentorship and apprenticeship. The low revenue contribution of this sector compelled the erstwhile internal Revenue Service to introduce Tax Stamps, a tax regime that categorizes various informal sector businesses by the nature of the business, size and volume of transaction in order to give fixed quarterly taxes. The issue of properly registering and taxing the informal sector is a major challenge and thus this study established the factors that promote tax compliance. Primary data was collected from 170 respondents using both closed and open ended questions for the four Direct Tax Districts in Brong – Ahafo. Ordinary least square model was used to predict compliance of artisans. The following factors were found to be significant: number of children of the artisan, number of years of working (experience) and educational level of artisan. However age was the only non-significant factor. It was found out from the research that artisans do not see the need to pay taxes because they receive no direct financial assistance from Government. As part of the recommendations, punitive measures such as seizure of business assets should be put in place to deal with artisans who do not fulfil their duties as citizens, thus payment of taxes.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The Ghanaian economy is comprised of formal and informal divisions. The formal division of economy utilizes around 14% of the work power whiles the casual segment (counting rural area) utilizes 86% of the working populace (GTUC, 2004). According to the World Bank gauges, the formal sector represents 40% of GNP of low - salary nations (Farrell, 2004 referred to by Yadav, 2009). This sector of the economy gives various wellsprings of income, which if all around exhausted, could expand government internally created income. The Institute of Statistical, Social and Economic Research (ISSER), expressed that "the principle wellspring of business in Ghana is the informal segment. The part gives job chances to no less than 80% of the work power" (ISSER, 2003).

Regardless of the huge commitment of the informal division to the wealth of creating nations, they are less burdened with taxes. As indicated by Major (Rtd) Daniel Ablorh–Quarcoo the Commissioner of erstwhile Internal Revenue Service (IRS), , information at the Registrar General Department of Ghana demonstrate that there are 226,760 independently employed enlisted in the informal division, however just 53,352 are enrolled with erstwhile IRS and evaluated to pay tax (GNA, 2009).

The evaluated size of the informal sector suggest that, the division makes critical commitment to the Gross Domestic Product (GDP) thus the segment could similarly make significant commitments to the income tax revenue.

Taxation is very much characterized as the demanding of mandatory commitments by government having expense purview, to settle the expense of their exercises (Ali –

Nakyea, 2006). Agyemang (2005) further expresses that, taxation is the demand by the central government or local government for a compulsory payment of money by citizens of a country other than as a payment for some particular administration or as a punishment. In Ghana, tax is a necessary toll on the people, enforced by an act from the parliament of Ghana. There are two sorts of assessments in particular Direct and Indirect Taxes.

The direct taxes are expected to be paid by the individual or association on whom or which it is really collected, the effect and frequency being on the same individual or association, e.g. Income tax, capital gains and gift tax. (Ali-Nakyea, 2006). Indirect tax assessments are levies on individual trade and expenditure. They are charged when a citizen purchases a thing and are paid to the merchant as a major aspect of the price tag of the thing. It is then the seller's obligation to pass on the tax to Ghana Revenue Authority e.g. VAT (Alan 2005)

Tax revenue is utilized to raise income to settle the expense or services provided by the state and help government to give certain services, for example, decrease disparities emerging from the circulation of riches, limit certain sorts of utilization, secure indigenous commercial enterprises and control certain parts of the nation's economy (Ali –Nakyea, 2006). The procurement of open administrations and base financed by tax income is a key element for financial development and advancement. Yet, numerous emerging economies neglect to produce the imperative tax income to back their public consumptions (Fuest& Riedel, 2009; Adamopoulos, 2010).

Several developing economies including Ghana are confronted with the issue of raising the vital incomes to meet governments' expenditure. Governments' planned incomes

more often than not miss the mark regarding the budgeted expenditure. This was recognized by the financial plan articulation of Ghana in 2007 when the sector Minister specified that ─given the incomes and uses delineated over, the 2007 financial plan is relied upon to result in a general spending plan deficiency comparable to 3.2% of GDP financial plan of Ghana, 2007). In the course of recent decades, the administration of Ghana has reliably expended above it capacity to create as income and the gap is regularly sponsored with outside assistance which has sustained the nation's aid reliance (Osei and Quartey, 2005).

To reinforce local asset activation, developing nations need to depend on levy/tax and look to raise extra income by extending the tax base and fortifying income tax organization. Tax/Levy is the most productive and powerful method for raising income for the government (Gberegbe, 2007).

This study looks at the issue of non-compliance to tax in the informal sector. However the degree of the study is limited to direct taxation of Artisans in Brong-Ahafo. In this regard, the disclosures of the study cannot be generalized for each one of the workers in the informal sector in Ghana.

1.2 PROBLEM STATEMENT

The informal sector is predisposed to develop speedier than it is currently if government can draw up solid strategies to encourage the financial exercises of the area. The income potential is relied upon to increase drastically as an outcome if reliable plans can put in place to develop the capacity of the members of that segment. In reality, ISSER recognized that, "the importance of the informal sector has not been completely consolidated in Ghana's development endeavours. This is halfway showed in the area's low profitability, a trademark that plainly mirrors the way that following

50 years of autonomy, there is still no exhaustive strategy system for a division that contains around 80% of Ghana's work power" (ISSER, 2003).

In fact, the informal segment has the capability of creeping near the formal segment as far as their income tax payment to national advancement is concern. The exceptional social hidden objectives of the informal sector, for example, high regulation, prevalent money exchanges, poor or no book keeping, vagrant in nature, practically zero hindrances to passage and whatnot, makes the sector amazingly hard to impose taxes. This circumstance has brought about gigantic tax avoidance and evasion of all structures from complete non-filing of return to understatement of proceeds.

Among the significant issue going up against the government of the third world countries in their forward walk to financial improvement is the way to deal with the wonder of the fledging developing economy and augmentation of tax revenue from that division. This revelation was perceived by "Anuradha and Ayee" (2001), when they express that how to charge the informal sector remains a squeezing inquiry.

It is hard to distinguish citizens in the informal sector, as an after effect of insufficient information and lacking staff. Thus, there is insufficient data about how the income tax framework antagonistically influences the creation and development of the informal sector. Taxing the informal sector in Ghana is an extremely troublesome errand in fact. This has been recognized by the 2007 Budget Statement. To upgrade income accumulation and bring a more pleasant appropriation of the taxation rate which is as of now borne by those employed in the formal area, the financial backing recommends that amid 2007 "the government will create and actualize a framework to evaluate and collect income tax utilizing the estimation of vehicles enrolled on the grounds that a

huge – rate of vehicle enlistments are from the informal operators, the vast majority of whom are not taxpayers" (Republic of Ghana 2006: 296).

One of the significant difficulties confronting the administrations of developing nations particularly Ghana, is the manner by which to assess the informal sector. This affirmation was also perceived by Joshi and Ayee (2009), when they express that how to tax the informal sector appears as a daunting task. Over the previous years each part of managing the informal sector (independently employed) has been an issue which has challenged all actions gone for enhancing the relative offer of taxes of the informal division (Adom, 2000).

The tax inflow of the casual segment in respect to its sheer size is only a drop in the national coffers. Regardless of the low income offer of the informal sector, there is still resolved by government to extend the tax base to the informal sector since disregarding the segment's dealings will lower compliance drive and expand the danger of summed up resistance((Terkper, 2003).

1.3 OBJECTIVES OF THE STUDY

This study addresses the accompanying specific goals:

1. To determine the factors that lead to tax non-compliance behaviour in the informal sector.

2. To identify the various categories of artisans in the informal sector.

3. To find out challenges encountered in the mobilization of tax revenue from the informal sector.

1.4 RESEARCH QUESTIONS

To arrive at the specific aims of this research the analyst would like to discover responses to the subsequent questions:

1. What are the factors that lead to tax non-compliance behaviour in the informal sector?

2. What are the various categories of artisans in the informal sector?

3. What are the challenges encountered in the mobilization of tax revenue from artisans in the informal sector?

1.5 SIGNIFICANCE OF THE RESEARCH

The centrality of the study turns around its dedication to research and methodology. Concerning investigation, although, elsewhere on the planet there is uncommonly huge number of examination document and studies, here in Ghana there is all in all inadequate examination in the zone of easy going region duty. This study may perhaps be the bases for future and additional research in the domain by diverse understudies and masters. This study can't be unquestionable on the subject of depleting of the informal division. As the social structure changes, more work could be done within the near future. This research will be a profitable wellspring of knowledge to government overall, and to Ghana Revenue Authority, in policymaking choice concerning taxation of the informal area.

1.6 ORGANIZATION OF THE STUDY

The study shall be grouped under five chapters. The rest of the study is organized as follows:

Chapter two constituted the literature review by providing theories related to the subject under study. Empirical findings related to the study shall also be reviewed.

Chapter three constituted the methodology by providing the research design, population, sample size, sampling technique, materials for data collections, procedure involved in data collection as well as ethical considerations guiding the study.

Section four of the study constituted the examination of information assembled from the study by utilizing the Statistical Package for Social Sciences (SPSS). Data was examined and translated in consistency with the points and goals of the study. Suitable diagrams and tables have been used where and when fundamental. Part five constituted the synopsis of the discoveries, conclusion and suggestions for the study and in addition proposals for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 HISTORY OF TAXATION IN GHANA

In September 1943, the British provincial regime introduced taxes in the then Gold Coast, now Ghana during the period of World War II. Prior to this, few endeavours had been made, for instance, during the regime of Governor Major Hill in 1852, there was an introduction of poll tax mandate was to generate cash to back the expanded expense of the British government (Abdallah, 2006).

The main Income tax enactment was accordingly the Income Tax Ordinance (No.27), 1943. This law was demonstrated to a vast degree on the general standards underlying the Income Tax law then operating in Britain. It enforced the tax by and large on earnings with its basis in the then Gold coast, now Ghana so that overseas pay was not obligated except transmitted to Ghana. As accounted by GRA news of year 2010, trademark highlight of this statute was the various individual reliefs and deductions that it contained. From that point forward the Income Tax Law has seen a few corrections building up and finally finishing in the current Act 592, Internal Revenue Act 2000.

Governments throughout the passage of time have constantly thought that it was convenient to utilize extremely straightforward and simple to mobilize strategies to tax the nationals. It wasn't a big surprise that the foremost framework of tax collection was in view of individual wage and import since they were less demanding to recognize and collect. Amid the last medieval times, countries like Germany and Italy presented head tax for the vulnerable and total assets for the affluent as means of fairness thus individuals who could better bear the cost, paid higher taxes than those poorer ones. In

1852, during the course of the administration of Major Hill, the British pioneer experts had demanded that foundation of schools, change in legal framework, fundamental wellbeing services and infrastructure must be sponsored with taxes. This demand by the governor suffered awesome resistance by the indigenous individuals reaching a state of perfection in the pulling out of the immediate taxes (Agyeman, 2005)

Different taxes that have met beginning challenges amid their presentation include the National Health Insurance Levy (NHIL) Value Added Tax (VAT), Ghana Education Trust Fund (GETFund),and the Communications Service Tax (CST).

2.2 DEFINITION OF TAXATION

As per Dalton (1920), a tax assessment is a compulsory contribution enforced by public authorities, regardless of the amount of services provided to the citizens but not as punishment for some legitimate offense. The key perspective is that there is a lawful impulse to pay or to give and one normal component among taxes is that they are enforced by law.

The Internal Revenue Act 2000 (Act 592), does not define tax but rather offers the accompanying provisions: In Section 1 of the act a person who has a taxable income shall pay, for each year of assessment income tax as ascertained as per this Act.
Section five and six characterizes chargeable income as the individual's aggregate assessable pay for the year of assessment from any business, employment or investment which has it source in Ghana amid any bases period of the person ending within the year of assessment but however does exclude exempt income.

2.3 PURPOSE OF TAXATION

The goals of tax policies are like those of open strategy in developing nations and overlap with the reasons of the tax framework or the motivation behind most governments.

Edgar and Sandler (2005) uncovered that there are five reasons for collecting revenue through taxes: to give government energy to designate assets; to empower government to give/bolster social advancement; to balance out the economy; to constitute and characterize the commercial centre; and to energize ideal monetary development. Moreover, three of these are of most noteworthy earnestness in developing economies: economic development, stability, and guaranteeing that incomes are disseminated equally.

2.3.1 Distribution of Income

The distributional part of expenses in creating nations is another vital motivation behind duty framework. Incongruities in salary can square advancement and expand requests for government social spending. The fundamental redistributive assessment in most expense frameworks is close to home wage charge (Zee, 2005). Practically speaking, the individual salary charge in creating nations is a long way from being dynamic because of extensive inconsistencies in livelihoods. These incongruities are exacerbated by the impact of the rich, who may wind up paying less tax because of various exemptions or favours from the government.

Other purposes of levying are to diminish disparities emerging from the appropriation of riches; to limit certain sorts of spending e.g. alcoholic drinks and cigarettes; to secure local commercial enterprises and to control certain parts of the nation's economy e.g.

balance of payment, employment savings, investments and productivities (Abdallah, 2006).

2.4 NATURE OF TAXATION

The percentage of tax charged determines the nature of tax.

i. Progressive Tax: a tax is said to be progressive if the percentage tax rate rises as income rises, alternatively, higher income attracts proportionately higher taxes compared to lower incomes.

ii. Regressive Tax: a tax is said to be regressive if the payments as a percentage of income declines as incomes rise, in other words, the lower the income the higher the proportion of tax paid and vice versa

iii. A tax is neutral if payment as a percentage of income is constant as income rises. (Bird, 1992)

2.5 TYPES OF TAX

They are usually portrayed as Direct or Indirect. This qualification is from an authoritative perspective, despite the fact that it may not generally be right. (Ali-Nakyea, (2008)

2.5.1 Direct Taxes

Direct Tax:- it is planned to be borne by individuals or associations on whom it is actually targeted at, the effect and occurrence all on the same person or association , for instance, Gift, Corporate, Capital Gains Tax, etc. The mandated body in Ghana is the Ghana Revenue Authority.

2.5.1.1 Types of Direct Tax

2.51.1a Personal Income Tax (Pit)

In developing nations, income taxation is broadly acknowledged as the most suitable essential source of income and remains the best method for reaching above subsistence incomes (Tanzi and Zee, 2001). A greater segment of the incomes raised with personal pay tariff is derived from civil servants, business administrators, employees, and expert individuals (Tanzi and Zee, 2001).

Limitations of PIT

Regardless of the way that the PIT is for the most part exceptionally effective in assembling income when contrasted with other tax instruments, it experiences clear constraints in the context of developing nations. As indicated by Tanzi and Zee (2001), PIT has yielded generally little income in most developing nations as a result of ineffective tax organization, as well as in light of the innate thinness of the tax base and the impact of graduated rate structures on taxpayer behaviour.

2.5.1.1b Corporate Income Tax (CIT)

The well-known method of reasoning for corporate charges is capacity to pay. Since companies' are separate lawful persons and the vast majority of them have a lot of cash, they must have considerable capacity to pay their taxes. In developing nations, most of the large taxpayers are readily identifiable and easily taxed. It is helpful to use companies as agents to collect revenue from clients (sales tax), workers payroll and personal income tax, (dividend and withholding taxes). The incidence of Corporate Income Tax (CIT) is progressive, to the degree that corporate taxes lessen the income of the shareholders who, contrasted with non-shareholders, are, on the average, rich

(Bird, 1996). In Ghana, the corporate tax rate was essentially diminished from 32% in 2001 to 25% in 2006.

Limitationsof Corporate Income Tax

Corporate taxes in developing nations have a tendency to be genuinely wasteful. Provisions that bode well in more developed economies tend to limit the CIT base without having any observable incentive effects. For example, multiple rates differentiated along sectional lines, exclusion from tax of specific areas of the economy, and granting of capital allowance on depreciable asset for tax purposes tends to reduce the tax base (Tanzi and Zee, 2001).

2.5.2 Indirect Taxes

This is collected on one individual in the desire that the levy will be moved or passed on to another. The effect and frequency have been on diverse persons, for instance, national health insurance levy, Getfund levy and Valued Added Tax. The examples mentioned above are Indirect Taxes in light of the fact that the overseeing body which imposes the levies on goods and services, don't collect the taxes from the purchaser yet, do as such in a roundabout way through traders, producers or other mediators. The shifting on of liabilities is completed by loading the tax component on purchase value of the goods/services retailed to the following individual in the business cycle until it is at long last incident by the purchaser. (Abdallah, 2006).

2.5.2.1Types of Indirect Tax

Customs Division of Ghana Revenue Authority

Custom Duties allude to assessments and obligations payable on products coming into the nation or leaving the nation, Import duties are payable on almost all imports in

Ghana except those specifically exempted, for instance, as in the case of agricultural inputs and personal effects.

b. Import VAT: Items produced in Ghana for consumption usually attract VAT. Similar items imported into Ghana attract Import VAT.

c. Export Duty is paid on goods exported. It is currently applicable to timber and cocoa.

d. Excise Duty is payable on all generally fabricated or delivered merchandise, unless the products are absolved from the obligation. It is figured on the ex - manufacturing plant cost of products created by regional standards. Extract obligation gets to be expected and might be paid by the producer to the Commissioner General before the products are conveyed from the processing plant or a distribution center.

i. Vehicle Importation Tax. All vehicles imported into the country, unless specifically exempted shall attract Vehicle Purchase Tax and Import VAT.

e. Special Tax. This is a protective tax which is levied on some goods imported into the country in order to enable them to be competitive with similar goods produced in Ghana.

Value Added Tax

Value Added Tax (VAT) was initially presented in Ghana on 1stMarch, 1995 by VAT Act of 1994 (Act 486) as a major aspect of the Tax restructuring Program which started in 1993. It was however revoked by government on 14th June, 1995 because of an overall population clamor, including demonstrations, against an unfaltering increment in the costs of goods and services (including food items) which was faulted mainly for the introduction of Value Added Tax.

VAT was reintroduced in 1998 with the entry of the Value Added Tax Act, 1998 (Act 546). VAT supplanted the sales tax with a specific end goal to enhance revenue

administration. Sales tax on domestic production was restricted to the manufacturing sectors, which put a lopsided tax rate on their operations. Thus it was recommended that as opposed to depending on a framework which charges a few types of buyer spending yet not others, it is ideal to supplant them with a general consumption tax that falls all the more equitably on a much more extensive scope of consumer spending in the consumer economy, in light of the fact that low salary individuals pay unevenly high taxes under the present scheme.

The VAT has given an important alternative source of tax, particularly in light of its buoyant revenue base. A recent IMF study has presumed that the VAT can be a decent approach to grow tax revenues and modernize the general tax framework (Ebrill et al, 2002).

Merits of the VAT

The VAT is for the most part accepted to be non-distortionary, provided there is couple of exceptions and minimal zero-ratings. Notwithstanding, it is progressively acknowledged that zero-rating is important to accomplish social equity and security in harsh financial conditions (Bird and Gendron, 2006). At the point when the VAT on investment is completely credited, it is a change over more established taxes on capital products.

The VAT for the most part replaces wasteful, distortionary, and severely managed taxes that course liabilities, use several tax rates, tax capital products and exports, support imported merchandise, lessen the base, and as often as possible include an old-fashioned and corrupt administration.

With the coming into force of VAT, the monetary expenses and dangers associated with revenue collection will decline as the whole production and distribution chain gets to be included in the collection of this tax, in light of the fact that this spreads the expenses and dangers of collection over a much larger volume of transactions (Bird, 2005). The VAT has additionally served to promote trade by exempting exports, removing subsidies, and putting the tariff on imports and local generation on the same level playing field. Thus the VAT has ended up being more dynamic than the trade taxes it replaced (Ebrill, 2002). As far as straightforwardness, the VAT can facilitate substantial improvement in general tax organization, especially the foundation of more coordinated tax authoritative frameworks and the advancement of cutting edge strategies in view of promoting voluntary compliance.

In many nations, transactions occurring in the informal sector of the economy for the most part escape the direct taxes. Then again, an indirect tax, for example, the VAT can be utilized to charge undetectable taxpayers, for example, non-reporting handymen (plumbers) and other home repair ventures that purchase supplies from enlisted taxpayers (Bird and Gendron, 2006).

Restrictions of the VAT

As in several developing nations, VAT has turned into the workhorse of the revenue framework in Ghana in light of the fact that direct taxation keeps on being generally ineffectual. VAT is regularly thought to be a characteristically complicated tax, lumbering for both taxpayers and authorities. In developing nations, where even fundamental record-keeping capacities may be restricted, it can be particularly hard to implement a VAT (Ebrill, 2002). The adequacy of the VAT is further undermined by the trouble of executing workable self-evaluation frameworks, under which taxpayers

declare and pay taxes on the premise they could call their own counts, subject to the likelihood of later review by tax authorities (Bird, 2005).

Government's inability to refund excess credits to specific taxpayers, especially exporters, lessens the viability of VAT in light of the fact that exports are zero-rated; exporters have no output tax liability, and are qualified for a discount of tax paid on their spending. Inability to pay refunds takes away from the benefits of indirect tax (Ebrill, 2002).

In spite of these reactions of the VAT, the VAT is still the best type of general consumption tax for developing nations, for example, Ghana.

2.6 BARRIERS TO EFFICIENCY OF TAX

While tax laws force commitments on citizens to contribute to government incomes, the genuine measure of incomes streaming under the control of any rule relies on upon the viability of its revenue organization (Bird, 2003). Shortcomings in revenue collections lead to inadequate tax collection. Not just dodeveloping nations confront a difficult task in bringing people and organizations into the tariff prepare yet governments face deficient organization staff with low abilities, elevated amounts of absence of education among citizens, absence of logistics and absence of solid information (Kangave, 2005).

A noteworthy imperative is the absence of sufficient assets to support and aid the activities of tax authorities. Assets to oversee taxes can be for the most part isolated into two classifications: HR and physical assets. HR is the quantity of tax authorities as well as the nature of duty authorities.

Physical assets cover a more extensive measurement, extending from office structures and office equipment to vehicles and correspondence frameworks. These are the assets needed by the HR keeping in mind the end goal to ensuring compliance with the tax laws. Because of money related imperatives, many tax authorities do not have the bookkeeping ideas that are fundamental to investigating proceeds and this is compounded by absence of sufficient schooling and opportunities. The vast majority of the preparations are broad in nature (Tanzi and Zee, 2000).

Absence of cutting edge innovation, particularly PCs, to encourage the tax procedure is another hindrance tax organization. As of not long ago, the duty organizations needed to depend on physically entering citizen information into records books, and keeping a huge measure of expense data in print.

The additional issue is the large amounts of lack of education in the villages and some towns. As indicated by the statistics department of Ghana in 2010, about 51.0% of the grown-up populace in the area is educated. The pervasiveness of absence of education unavoidably influences charge organization, in light of the fact that citizens are not able to document returns or record their salary sources and consumptions. Subsequently assess powers are generally not able to gather fitting duties from such individuals (Bird, 2003).

2.7 DEFINITION OF INFORMAL SECTOR

In the seventies, the International Labour Organization conceived the idea of informal sector and essentially utilized it for little and micro-enterprises that were outside the domain of government supervision and levy (ILO 1972). It was essentially seen as an organization in the survival economy. The term was later explained in 1989, when De

Soto recognized the casual part as a wellspring of enthusiasm and development, kept down just by unseemly government directive.

The start of the casual sector hence graduated to an attention on the legitimate status of the business: regardless of whether it was enlisted and took after suitable enactment. It is this lawful definition that has across the board utilized today (Gerxhani 2004, Kenyon 2007). Firms in the informal sector arrive in light of the fact that they contradict – or are not subject to – some of a mixed bag of principles and regulations including work laws, ecological laws, enrolment and assessment. This brief history of the roots of the idea highlights a few issues that are correlated to our worry with assessment. To begin with, despite the fact that the term at first depicted work conditions, its present utilization incorporate casual compensation work, the independently employed, and informal sector firms. Next to the above, the term informal/casual sector is regularly used to depict a twin effect: a restriction to the formal part. In this origination firms can be grouped into one class or the other. By and by, on the other hand, the duality portrayal is deluding.

As clear from the most superficial overview of organizations, some have contended that the extent of the casual segment is identified with conscious government strategies and regulations that make hindrances to section and related rents that can be effectively appropriated through tariff at low regulatory expenses (Auriol &Warlters, 2005). Others propose that regulation is identified with the extent of the casual economy just in nations with powerful law requirement (Kus, 2010). In the creating scene, there is a continuum of firm sorts from the most casual (subsistence sort exercises) to the most (formal, expense paying well behaved organizations).

It is clear that, contingent on the background, organizations regularly move along this continuum, some looking for formalization, and some falling into casualness as the money saving advantage estimations of being in some class change. Concentrating exclusively on the subject of duty agreeability, while casual division administrators may escape national assessment, they are regularly troubled by a few sorts of expenses, charges and permitting expenses paid to neighbourhood governments (De Mel et al., 2010)

As stated by Friedrich and Dominik (2000), 'endeavors to gauge the shadow economy (i.e. casual part) initially confronted the issue of characterizing it'. There are changed meanings of the idea in the current writing. A few definitions given in the writing are displayed as takes after:

(i) "Every single monetary activity that add to the formally computed gross national item however as of now unregistered" (Feige, 1989).

(ii) "Business sector based creation of merchandise and administrations, whether legitimate or unlawful, that escapes identification in the official assessments of the total national output" (Smith, 1994).

(iii) "Unregulated monetary endeavours or activities"(Hart, 1973).

Farrell et al (2000) expressed that "at present there are two ways to deal with characterizing casual division movement: the definitional and behavioural". As indicated by the definitional methodology, 'Casual segment is financial movement unrecorded in the official measurements, for example, the GDP and/or the national wage accounts' (Farrell et al, 2000).

Behavioural methodology, then again, looks after that 'informal sector is in view of regardless of whether action conforms to the built up legal, administrative, and institutional structure (Farrell et al, 2000)

2.8 CHARACTERISTICS OF CASUAL/INFORMAL DIVISION

The casual division of the economy is connected with specific qualities that have been gathered into four primary classes as indicated by the current writing. These incorporate the following:

2.8.1 Employment Characteristics of the People Engaged In the Informal Sector

The persons working in the casual division do display some form of exceptional trademarks which either support or conflict with them. These attributes are considered as takes after:

a) Nonexistence of authority insurance and acknowledgment

The casual division business people detest assurance from the state apparatus as enactments against any corrupt person who may dupe such business visionaries over the span of business transactions. Since the administrators in the casual segment would prefer not to be distinguished because of a paranoid fear of being burdened abstain from being perceived and consequently detest the insurance that may be accessible to them from the government (Farrell et al, 2000).

b) Non scope by the lowest pay permitted by law enactment and social security

A lot of workers, utilized in the casual division frequently get paid far beneath the nationwide lowest pay permitted by law and most informal segment businesses fail to pay to social security of their workers. These employers break the law but their unlawful exercises escaped the law enforcers' offices (Farrell et al, 2000). The work

force likewise neglect to report their bosses either inspired by a paranoid fear of been "terminated" or out of gross lack of awareness of the law (Farrell et al, 2000).

c) Predominance of independent work

There is no increase saying the way that administrators in the casual segment are independently employed working from their homes regularly, with others utilizing any accessible open space (prominently alluded to as 'no man's land). They set up quickly normally with one table and a seat one could afford and without much of a stretch begin their own particular business with bootstrapping strategies (Farrell et al, 2000).

d) Absence of exchange union association

Informal sector administrators are individualistic in nature with an extensive variety of exercises which make it to a great degree troublesome for the development of trade unions for the insurance of the interest of the individuals. At any rate, development of such trade unions may "uncover" the informal operators and risk the danger of being formalized (enlisting with a suitable body) and in this way pay tax for which reason some work casually.

e) Low wage and wages

The individuals utilized in the informal sector are by and large paid low pay rates and wages because of the way that there is overabundance work supply and absence of aptitudes that may draw in higher wages. The business visionaries additionally get low profit for their venture as a consequence of sharp rivalry in that division (Farrell et al, 2000).

f) Little or no professional stability

The representatives in the informal sector could lose their occupations at whatever time at the impulses and eccentricities of their managers. The representatives can't take any

lawful activities for any out of line horrid as there is typically no coupling contract of business. No pay is normally paid for such release (Farrell et al, 2000).

g) Ease of entry

The capital necessity for working in that part is somewhat low thus anyone at all whenever may choose to set up business in the informal sector. There are likewise no administrative prerequisites for going into that area. Yankson (1992) shows that "capital intensity in this sector is low- most of the entrepreneurs use labour-intensive technology, with the largest units having the most fixed capital per employee".

h) Reliance on locally available resources

Informal sector organizations are little in size and lack the ability to do seaward procurement of assets material, human and monetary – for the running of the business. Thus the informal sector businesses have a tendency to depend more, if not singularly, on the local assets or resources. The assets are obtained from different sources, some of the time new or second-hand or self-built however once in a while imported. So likewise for their raw materials, informal sector business people depend to a great extent on the local assets, essentially from the formal division units in the urban areas (Barwa, 1995).

i) Family proprietorship

Family proprietorship rules the ownership of the informal sector organizations. This is to a great extent because of the way that family provide cheap source of labour to the business. The absence of trust with respect to people does not advance development of partnership and joint ventures in the informal economy.

j) Labour intensive and adopted technology

The level of innovation, utilized in the informal sector specialty units reviewed in Ghana by Yankson (1992), was accounted for low and in poor conditions. The equipment utilized by informal sector business people are self-made or purchased locally with ensuing enhancements made by the entrepreneurs. The informal division shows 'technological creativity' by utilizing locally made machines. The operators need satisfactory financial assets to import more advance technology.

2.9 ROLE OF INFORMAL SECTOR TO THE ECONOMY

Most small scale undertakings work in informal sector, making contributions to the national development. The informal sector is fast developing and anticipated that would extend its gainful limit to make more contributions to the overall national GDP. The contributions of the informal sector to the development and improvement of economy incorporates the generation of products and services, work creation and skills acquisition (ISSER, 2003).

Since the revelation of the informal division, it has made critical commitment to financial development of Ghana. As indicated by ISSER (2003) "a critical look at the activities of the informal sector visa-a-vis the economy's growth pattern demonstrate the significant contribution that it makes to national development". A few commitments of the informal sector deserving of particular notice are mention below.

2.9.1 Contribution to National Yield

All things considered, the administrators in the informal sector produce assorted merchandise and services that contribute to the national yield. Certain products and services are better provided by the informal sector as against the formal segment.

As indicated by ISSER (2003) "the role of the informal division in the local economy is exhibited in the wide mixed bag of goods and services created by the segment. In view of the worth included appraisals from JASPA (1989) study, it was found out that the division represents around 22 percent of real GDP, with the contribution of the rural informal activities overwhelming that of the urban part. In the non-farming area, commitment of exchange and trade is the biggest representing 52 percent, followed after industry with 28 percent, services 12 percent, and transport 8 percent (ISSER, 2003).

The rural informal sector assumes a critical role in the agricultural segment to feed the nation. Without the informal sector there would have been horrible under supply of the raw foodstuffs.

2.10.2 Job creation and income distribution

As expressed before, one of the primary driver of the casual segment is the lack of openings for work in the formal segment. Informal sector in Ghana gives street to boundless openings for work. Thus, those individuals who are not able secure formal employments tend to look for comfort in the informal division.

In the ISSER's (2003) report, it is expressed that "the principle wellspring of vocation is the informal sector. The segment gives occupation chances to no less than 80 percent of the workforce. The area as of year 2000 gave occupations to around 6.7 million individual.

The significance of the informal sector as a wellspring of business was clear between 1988/89 and 1991/92 when, in the wake of public sector conservation and privatization, the extent of informal sector workers in the aggregate workforce climbed forcefully

from 79 percent to 88 percent. Small ventures (considered basically informal) have a tendency to be moderately work escalated, using low levels of innovation and depending intensely upon the physical and mental abilities of proprietors and employees (Stanley and Morse, 1965).

By giving business, the informal division members get some level of salary for their work. Informal sector gives a noteworthy wellspring of wage for the poor and uneducated people who might never find the opportunity to work in the formal segment, in the expressions of Kuipo (1996).

In Ghana, the significance of small scale ventures in giving salary earning open doors outside formal compensation of work is reflected in the developing regard for micro-enterprises. Further, it is for the most part trust that amid the time of financial decrease extraordinarily from 1970 to 1983 when pay for every head declined considerably in the urban focuses, the role of the informal sector was critical in easing huge scale destitution in the urban focuses. It is generally contended that the main part of the urban work power participates in one type of informal sector business or the other, either on a full time or part time basis a marvel which somewhat serves to clarify the unlucky deficiency of any marked destitution in the urban regions particularly in the circumstance of the declining real wages and business growth in the formal segment" (ILO/JASPA, 1989).

2.9.2 Skills Acquisition In Training

Another field in which the informal sector contributes enormously is in the zone of the preparation of the work power in the securing of artisanal aptitudes. This is accomplished through the customary apprenticeship framework. In spite of the fact that this is not a flawless framework for preparing labor for modern work due to

insufficiency of the techniques utilized as a part of preparing, through this capacity, the informal sector assumes a vital part in the advancement of the indigenous business especially in artisan training in both the urban and rural regions in Ghana (Yankson, 1989).

Effective industrialization must have an indigenous base. The extension of the small undertaking sectors will help add to the accomplished experienced managerial and entrepreneurial class that is required as a premise for more effective indigenous instrument and administration of large scale commercial enterprises (Bruton, 1990). Albeit some informal sector undertakings noted to crease up in the initial five years of operation, some do survive and develop from being casual to formal and turning out to be big time organizations utilizing hundreds and a huge number of specialists.

2.10 CHALLENGES OF TAXATION IN THE INFORMAL SECTOR

There has been a developing enthusiasm for taxing the informal sector in most developing nations for various reasons which incorporate revenue needs; the remarkable size and development of the informal sector (Aryee, 2007).

As a measure to grow the tax base to the informal division, the Government of Ghana has introduced several taxes with particularly focus on the informal segment operators. These incorporate the vehicle Income Tax (VIT) on public transport administrators, the Tax Stamp regime for collecting income tax from small traders and Flat Rate Scheme for growing the scope of the VAT (Prichard, 2009). This has resulted in some changes in the income yield however the general accumulation from the informal sector has stayed little with respect to other taxes, for example, PAYE and Corporate tax. In 2007,

out of the aggregate accumulation of GH¢910.2m by the IRS, self-employed contributed GH¢45.6m when contrasted with GH¢372.2m and GH¢418.7m from PAYE and Corporate taxes individually (Revenue news, 2008).

The independently employed made a record development in income of around 45% against normal of 20% in the course of recent years. This extraordinary performance was credited to successful checking of withholding taxes which contributed around 35% of the income (Revenue news, 2009). This implies that the direct payment by the citizens themselves were not a big deal.

Like any developing nation, taxing the informal sector in Ghana is a considerable errand. This was recognized by the 2007 Budget Statement of Ghana when the Minister of Finance and Economic Planning expressed that, one of the significant difficulties confronting Ghana is the way to widen the tax net. The fact that the greater part of Ghanaians are in the informal private division makes income generation an overwhelming assignment (Budget of Ghana, 2007).

Fundamentally, there are three important reasons why taxation of the informal sector has been all around unsuccessful. The primary is capacity constraints. Informal sector operators are effectively trying to maintain a strategic distance from tariffs and even under the most favourable circumstances have restricted ability to keep excellent books of records for tax purposes (Prichard, 2009).Meanwhile tax authorities in many creating nation governments don't have the assets or the faculty ability to actualize, screen, and implement tax laws (Joshi &Ayee, 2009).

The informal sector economy is described by short life and instability. Money exchanges rule. There is impassioned to formal bookkeeping because of large amounts of absence of education and a lack of moderate bookkeeping administrations.

In a few zones of the casual economy, for example, transportation or road distributing the versatility of the administrators makes it hard to enforce compliance. The extensive number of individuals occupied with the division and the moderately little measures of taxes payable pose an extra logistical issue for collection. Subsequently, taxation taking into account formal frameworks of income estimation, records, and payment choices are not suited to the informal sector.

The second test identifies with thoughts of Equity. The greater part of informal division operators have low livelihoods, and this makes an in number contention for close aggregate exemption from tariff. Then again, a lot of the informal sector administrators have substantial income and ought to rightly be requested that pay more income taxes. Without viable record keeping, the requirement for equity in the treatment of the low-wage earners in all likelihood makes it harder to focus on those with higher wages (Prichard, 2009).

The last difficulty is political. A lot researchers have proposed that taxing the casual division is politically risky in light of the fact that the casual part shapes a significant vote bank for government officials (Joshi &Ayee, 2009). State authorities and legislators deliberately ignore to exercises in the informal sector with a specific end goal to hold their support base; at the same time, organize informal division workers to literally force government authorities to decrease enforcement (Joshi and Ayee, 2009).

Truth be told, there are inherent agreement made by government officials that permit taxation rates to be reduce on non-formal and small business activities in return for political vote (Tendler, 2002). This is the thing that Tendler has coined the ―devil's deal.― Vote for me and I will shield you from paying taxes, I will be your godfather and defend you in times of trouble, you would not be harassed by public official because we will be there for you be it environmental or labour regulations; and I will protect you from the police and tax inspectors from troubling you (Tendler, 2002). This goes far to clarify the reasons why the fewer formal sector operators are frequently over loaded with taxes.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

The methodology that was used for this study and a justification for steps taken is presented in this chapter. Essentially it deals with the research design, the population, sample and sampling techniques, data collection procedure, the steps for analysing the data collected.

3.2 RESEARCH DESIGN

A research design serves as an outline for a study. It lays out the research questions, which appropriate data to be collected and used, and how the result is analysed. (Adèr, Mellenbergh, & Hand, 2008). In this study, a survey research which is one of the most common types of quantitative instrument used in social science research was adopted. Survey research is a method used to obtain information needed by giving out questionnaires to the related population. For explorative intention, explanatory or confirmatory, evaluation, prediction, operational research and development of social indicator, Survey research can be used. It allows the collection of data about subjects that are exclusively internal to the participant, such as attitudes, opinions, expectations and intentions, and data on these areas are important for the study. Furthermore, it is often obtained by using a questionnaire; these data are standardized allowing easy comparison (Saunders et al, 2009).

3.3 POPULATION OF THE STUDY

The informal sector operators include hairdressers and beauticians, mechanics, artist, masons, carpenter, fashion designers, food vendors, butchers, aluminium fabricators,

etc. The study population also included businesses in the informal sector registered with the Registrar Generals' Department and had one time or the other filed tax returns.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

Two fundamental techniques were considered in deciding the sample size, thus likelihood and non-likelihood methods. With likelihood testing, all units had the same likelihood of being included in the sample while with non-likelihood sampling; there is no chance to get of determining the likelihood that each unit has some chance of being included. This study for convenience and economic reasons used likelihood sampling strategy.

A sample size for the study was one hundred and fifty (150) respondents, this consisted of artisans from the four GRA district offices in Brong-Ahafo and also 20 respondents in management and senior office positions each from the four (4) Domestic Tax Revenue division Offices in Brong-Ahafo i.e. Goaso, Sunyani, Brekum and the Techiman office. A total sample size of 170 was used.

The particular likelihood sampling strategy utilized was convenience sampling in light of the fact that this method permits researchers to select based on convenience the sample size that is helpfully accessible and pertinent to the study. Finally, purposive sampling was used in gathering information from management and senior officers because they have in depth knowledge about the subject matter.

Rubin and Rubin (2005), emphasized that to ensure credibility of research, the researcher should interview people who understand and have deeper information

about the issue. This is because the credibility of the interviews depends on the knowledge base of the interviewees or participants of the study.

3.5 DATA COLLECTION

The study was largely based on primary data. Valuable information was collected through questionnaire and direct interview. The questionnaire was structured with open and closed- ended questions.

Some of the questions in the questionnaire were closed–ended questions. The closed ended question empowered the researcher to get the accurate data being looked for while the open – ended questions were utilized to collect data on feelings, dispositions and convictions of the respondents toward taxation in the informal sector. Those who can neither read nor write were assisted to complete the questionnaire.

3.5.1 Primary Data

According to Malhotra& Birks (2007, p. 94), "Primary data is a data originated by the researcher for the specific purpose of addressing the research problem." It is what the researcher originally collects from the sample or target population. In this study the primary data used will be collected from respondent via a questionnaire survey.

3.5.2 Secondary Data

Secondary data refers to published data and data collected from the past or other parties and these include selected books, journals, the internet and pamphlets which were relevant to the study than the problem at hand (Malhotra& Birks, 2007 p. 94). Secondary data for this study will be collected from the directories of company

used for the study, annual reports, brochures, manuals and published online articles in refereed journals.

3.5.3 Data Collection Instrument (Nb: Whether Interviews, Questionnaires EtcAnd Why Those Instruments)

A structured survey questionnaire was used for the research. Closed- and open-ended questions including multiple choice questions were used to restrict the interviewee to choices to be selected from largely because majority of the informal sector entrepreneurs have low level of education and to aid in the filling questionnaires with no difficulty hence the plan adopted.

Open-ended questions were utilized to collect data on feelings, dispositions and convictions of the respondents towards taxation of the formal sector.

3.6 DATA ANALYSIS

The data collected was partly analysed using Microsoft Office Excel to group respondents so as to enable me establish percentages in demographic Characteristics and interpreted those percentages within the theoretical framework. The rest of the information gathered was also analysed using Statistical Package for Social Sciences (SPSS).

3.6.1 Working Definition of Compliance

For the purpose of this study, compliance to tax payment by a person who derives or expects to derive an assessable income for a Year of Assessment which is not subject to Withholding of Tax at source is liable to pay tax by Quarterly Instalment.

In the case of a person whose basis period is a twelve month period beginning at the start of a calendar month, payment shall be on or before the last day of third, sixth, ninth and twelfth months of the basis period.

In any other case, at the end of each three month period commencing at the beginning of the basis period and a final payment on the last day of the period unless it coincide with the end of such a three month period.

3.7 MODEL SPECIFICATION

Ordinary least squares regression model was used as the analytical tool. Quantitative clarifications were made out of the subjective information to offer meaning to them and clarify their implications

3.7.1 OLS Regression Model

In this study, the dependent variable compliance is been tested to check the probability that the factors below have an effect on it. It was a suitable system to utilize on the grounds that it is developed to foresee a most likely dependent variable as a component of predictor variables.

$P (T=1) = f(X_{1...K}) + U$, where U is the error term

The probability, P, for the above function of compliance is given by the model below;

In [p (y)] = β_0 +$\beta_1 X_1$ +$\beta_2 X_2$ + … … … … … $\beta_K X_K$

   [-p(y)]

Where,

y is a probable outcome representing compliance

The X_1, X_2 …… X_K are the independent variables employed in the study whiles the betas represent the regression co-efficient

In equation above, the OLS regression model directly relates the probability of Y to the predictor variables.

Expanded model

Log [p (1-p)] =β_0 +$\beta_1 X_1$ +$\beta_2 X_2$ +$\beta_3 X_3$ + …. $\beta_K X_K$

Where

P = probability that a respondent is compliant

Estimation of the factors that affect Tax Compliance by OLS

$$T = \beta_0 + \beta_1 Ag + \beta_2 Nc + \beta_3 Ed + \beta_4 Exp + U$$

$$where: \beta_0 > 0; \qquad \beta_1 > 0;$$

β_0 is the constant, whilesβ_1 , β_2, β_3 , β_4 are the coefficients of age, number of children, educational level and number of years in the profession respectively.

T $\longrightarrow$ Tax Compliance Function

Ag $\longrightarrow$ Age

Nc $\longrightarrow$ Number of children

Ed $\longrightarrow$ Educational level of respondents

Exp $\longrightarrow$ Number of years the profession

U $\longrightarrow$ Disturbance error term

3.7.2 Assessing the Goodness-of-fit of the Estimated Model

The Goodness-of-fit for an OLS relapse model can be evaluated in two ways. Restricted is to survey model estimation fit and the other methodology is to look at prescient precision (like the order network in segregate examination).Although the two

approaches examine model fit from different perspectives, they yield similar results. The study would make use of both approaches.

3.7.3 Pseudo R –square Measures

In addition to the statistical chi-square tests, the study would also use the pseudo R-square value to assess the fit of the model. The value interpreted in a manner similar to the co-efficient of determination in multiple regressions. R- Square value ranges from 0.0 to 1.0. A perfect fit has k-2LL value of 2 and an R- square of 1.0. The pseudo R-square measure as common in most statistical software packages was used in the study.

3.7.4 Determining the Number of Significant Variables to Retain

Since the assessments of the included variable may be delicate to changes in the variable(s) overlooked, a few specialists have decided to hold every one of the variables speaking to the same element if no less than one of them is factually critical and allude to such a model as the full model (Kockelman and Kweon, 2002; Lee and Mannering, 2002; Kim et al., 2008; Tay et al., 2008)while others decided to take out every single irrelevant variable from the model to build proficiency of estimation and allude to such a model as the reduced model (Wang and Abdel- Aty, 2008; Kim and Yamashita, 2007).

The P- Value Criterion: Working with an alpha-value of 5%, that is, confidence interval of 95%, variables with p-value less than or equal to 5%, would be treated as statistically significant. The Z- test or Wald test Criterion: Variables with a Z- value of greater or equal to absolute value of two (2) would be retained in the final model.

3.7.5 STATEMENT OF HYPOTHESIS

The general rule is to reject the null hypothesis that artisans are non-compliant and accept the alternate hypothesis that states that artisans are tax compliant. However the apriori expectation for the independent variable is that they have a significant effect on compliance and as such should exhibit a direct correlation

3.8 VALIDITY AND RELIABILITY OF DATA

Validity of data explains whether the research is measuring what it claims to be measuring whiles reliability is predominantly concerned with verifying the technique for information gathering leads to reliable results. Data collected for the study was based on the premise of giving outcomes that matched up with the objectives of the study. Also the convenience and purposive sampling methods used to solicit the data will produce consistent results if these same methods are used by any group of researchers, thus making the results of this study reliable.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This section presents the discoveries of the study. The information gathered was examined using descriptive statistical tools depicted with the use of tables, bar charts and regression analysis to draw conclusions. For clearness and simple perusing, the analysis was done in connection to the goals of the study. In view of this, this chapter has been separated into five sub-headings: demographic characteristic of respondents, the various categories of artisans in the informal sector of the study area, the factors that lead to tax non-compliance behaviour in the informal sector, challenges encountered in the mobilization of tax revenue from artisans in the informal sector and recommendations that could contribute to tax revenue improvement among artisans in the informal sector.

4.2 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

This area shows biographic insights like gender, marital status and literacy level of the interviewees.

The graph beneath (figure 1) demonstrates the gender positions in the review. (76%) of the interviewees were male whilst (24%), female. This indicates that more male are in the artisan job industry than female. Therefore the outcomes will a little be bias but will truly reflects the entire population.

Figure 4.1 Gender of Interviewee

Gender
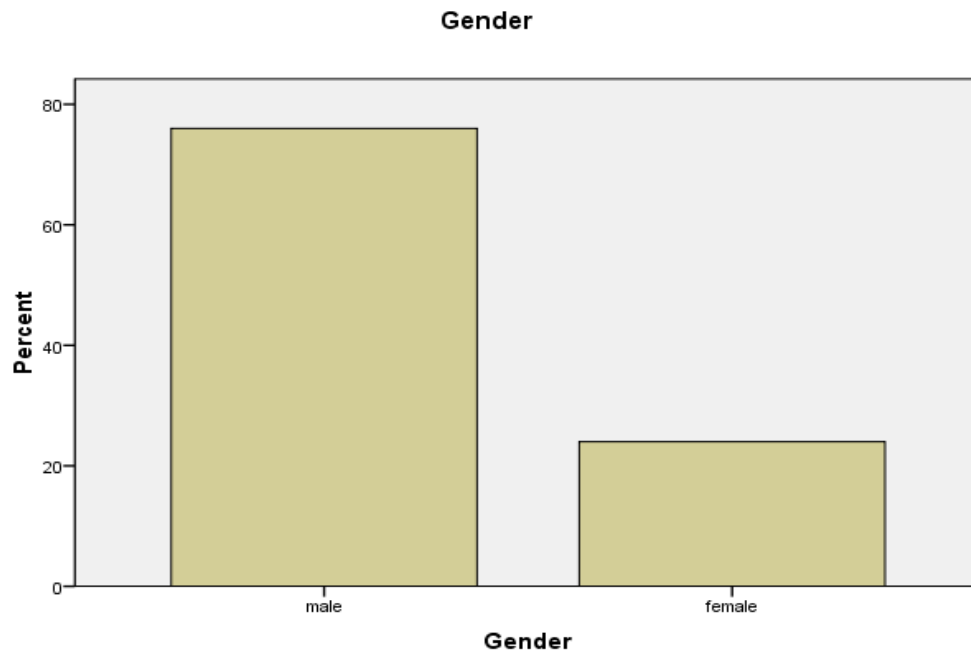
Table 4.1 Educational Level of Interviewee

Educational level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	non-formal education	48	32.0	32.0	32.0
	JHS	71	47.3	47.3	79.3
	SHS	31	20.7	20.7	100.0
	Total	150	100.0	100.0	

The table above shows the educational level of the respondents in the area. Majority of the artisans had obtained basic education, whilst (48%) of them has no formal education and the rest having gain senior high certificate. The educational level of the artisan within this area has serious implication on tax compliance.

Lastly the marital status of respondents also shows that close to (50%) of the artisans are married, (30%) are single the rest been separated as represented by the figure below. Marital status also affects the tax that people pay. Married people with children turns up paying less tax while opposite holds.

Figure 4.2 Marital Statuses of Respondents

Marital status
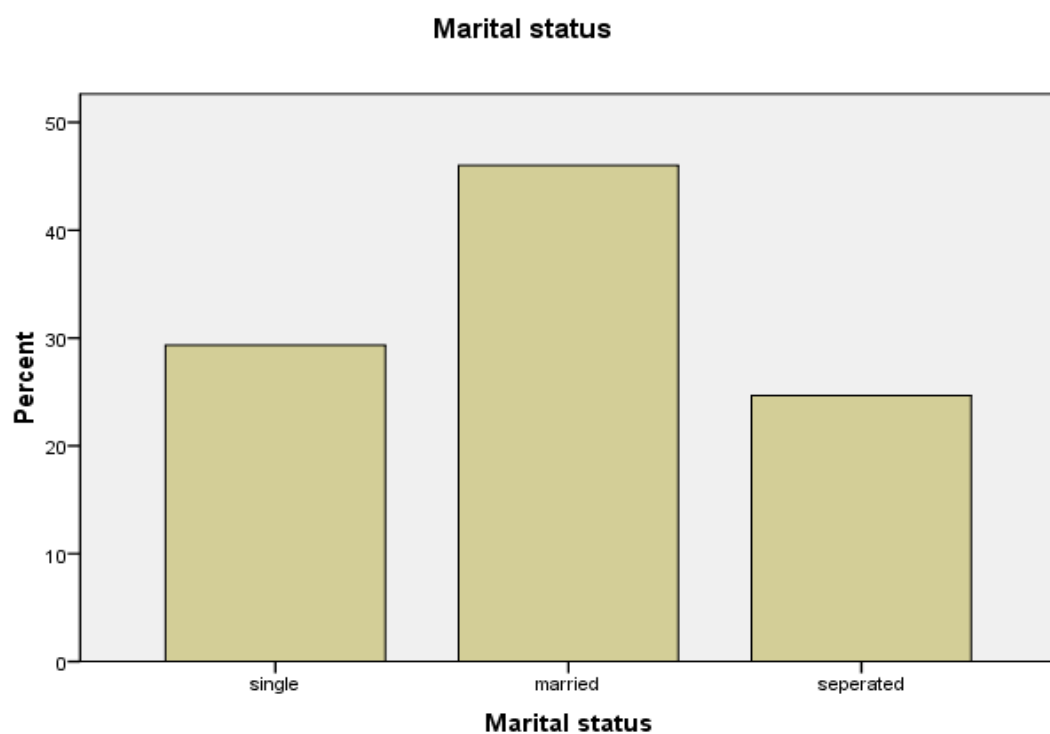
4.3 CATEGORIES OF ARTISANS IN THE INFORMAL SECTOR

The research revealed that the various categories of artisans in the informal sector of the area include blacksmith, carpentry, hairdressing, seamstress, wildering, barberry, mechanic, repairer, artist and the rest. Majority falls under mechanic and hairdressing whilst repairer and barberry also follows in that order as depicted by figure 4.3.

Figure 4.3 The Various Categories of Artisans in the Informal Sector in the Area
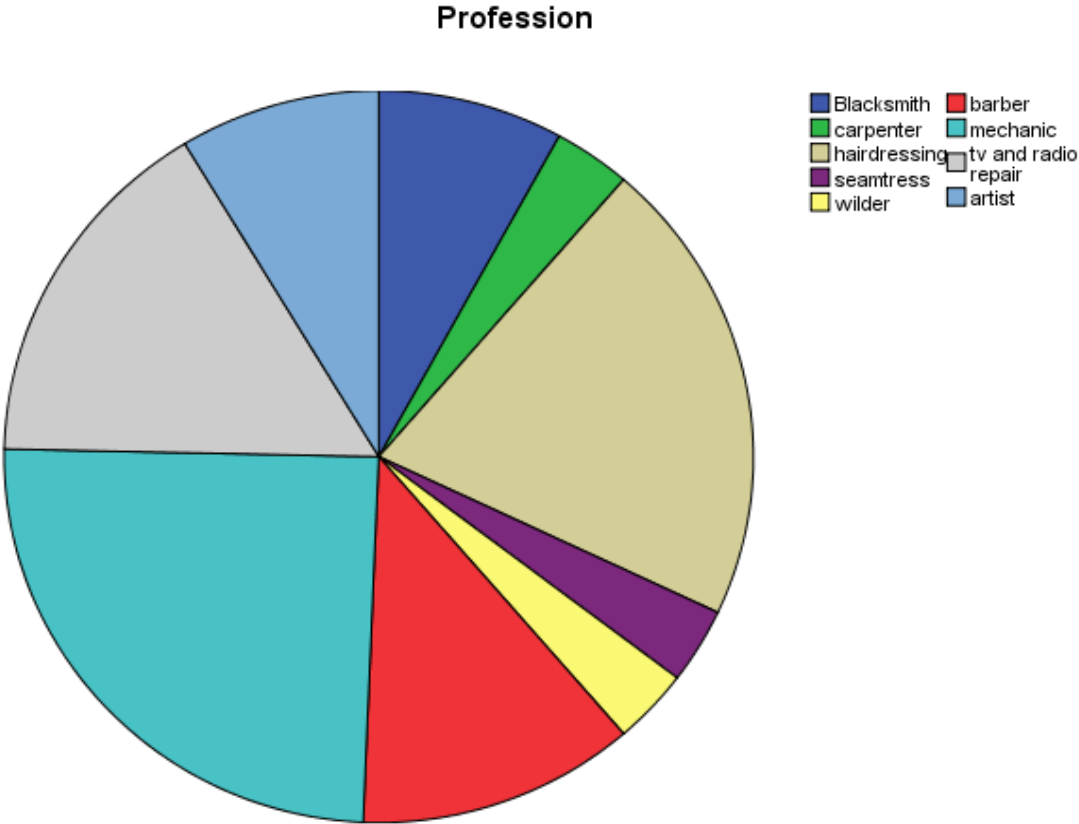
4.4 REASONS THAT LEAD TO TAX NON-COMPLIANCE BEHAVIOR IN THE INFORMAL SECTOR

Before testing the factors that lead to tax non-compliance behaviour in the informal sector, artisans were asked whether in their opinion it is important to pay tax. More than half said it was necessary to pay tax as an artisan whilst the remaining said otherwise as shown above. The various reasons that lead to tax non-compliance behaviour in the informal sector are as follows. Firstly the respondents said they were not applicable in the payment of tax, others also said that they don't trust the government whilst the remaining also came up with the view that the government do

not provide any assistance for the community therefore there was no need to be tax-compliance as represented by the table below.

Opinions On The Importance Of Paying Taxes By Artisans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	86	57.3	57.3	57.3
	no	64	42.7	42.7	100.0
	Total	150	100.0	100.0	

Table 4.2 Reasons Why Paying Of Taxes Are Not Important

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A-	98	65.3	65.3	65.3
	no assistance from government	40	26.7	26.7	92.0
	don't trust the government	12	8.0	8.0	100.0
	Total	150	100.0	100.0	

NB: N/A implies not applicable to payment of taxes.

4.5 FACTORS THAT LEAD TO TAX NON-COMPLIANCE BEHAVIOR IN THE INFORMAL SECTOR.

Regression result

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.12	.312		7.881	.000
Age	.003	.012	.050	.275	.784
Number of children	.231	.064	.748	3.599	.000
Educational level	.452	.080	-.656	-5.632	.000
how many years have you been in the profession (experience)	-.062	.013	-.865	-4.962	.000

a. Dependent Variable: in your opinion do you deem it important to your tax as an artisan (Compliance)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.601[a]	.701	.765	.402

a. Predictors: (Constant), how many years have you been

in the profession(experience), Age, Educational level,

Number of children

The R^2 (Co-efficient of Determination) value of 0.701 means the explanatory

variables accounted for more than 70 percent of the variation in the tax compliance

function. R^2 value of 0.701 indicates the goodness of fit of the model and how well the regression line approximates the real data points.

Interpretation of the intercept and the Coefficients

$\beta_0(0.12)$ represents the intercept and when the independent variables are equated to zero the tax compliance function is 0.12. Age of respondents, the number of children they have and the level of education of respondents all shows a positive relationship to tax compliance. Therefore an increase in any of them will cause the tax compliance function to probably increase. Experience of the respondents had a negative relationship to tax compliance. This means that as the number of years spent in a profession of a particular artisan increases their probability to comply with tax payment reduces. They therefore would probably find ways that will help them not to comply to tax thus probably adopt some tax avoidance strategies.

Beside their relationships all the variables were statistically significant at 5% critical level except the age of respondents which was statistically insignificant. Meaning increase in these variables will not have any effect on the probability of people to comply with tax laws. This gives an indication that the null hypothesis' which states that, the number of children the artisans have, the experience level of respondents and the level of education does not individually have effect on tax compliance are rejected whilst the alternative hypothesis' are accepted. But the hypothesis which states that age has no effect on tax compliance is accepted.

4.6 CHALLENGES ENCOUNTERED IN THE MOBILIZATION OF TAX REVENUE FROM THE INFORMAL SECTOR.

Figure 4.4

what are some of the factors for the non-compliance to taxation in the informal sector
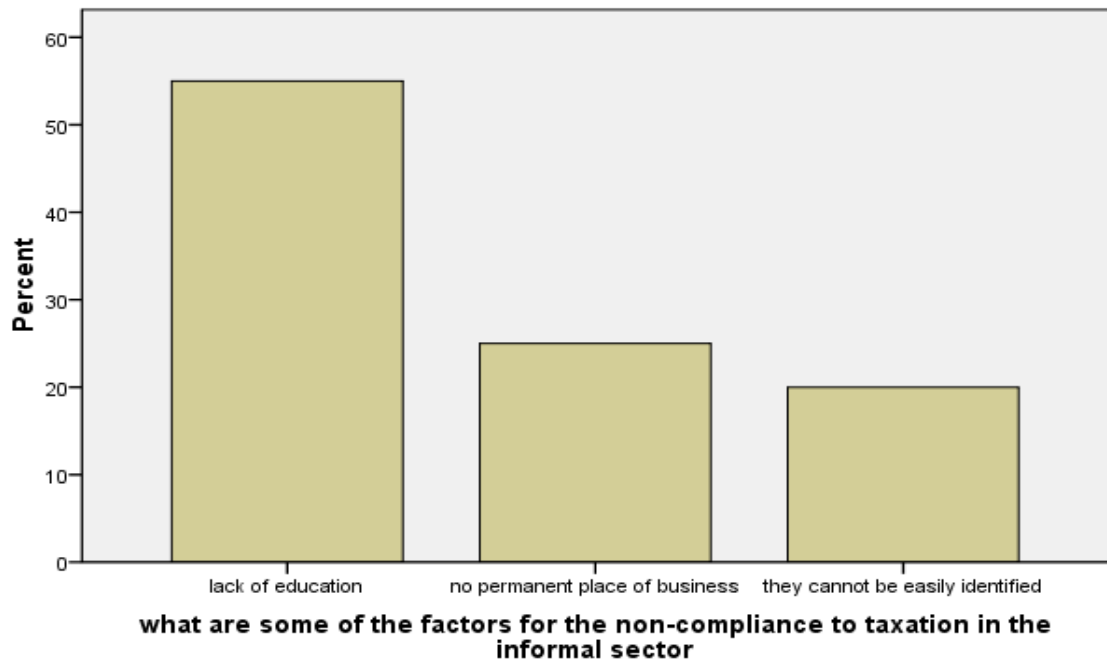
Workers of Ghana Revenue Authority were asked about the factors that causes non-compliance to taxation. Majority agree that lack of education on taxation to the artisans has caused them not to fulfil their duties as citizens. Others also said it was due to no permanent places of business and inability of the workers of Ghana Revenue Authority to easily identify the place of their work as shown by the figure above.

4.7 RECOMMENDATIONS FOR TAX REVENUE IMPROVEMENT IN THE INFORMAL SECTOR.

	Frequency	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Valid educate on the use of their taxes	5	25.0	25.0	25.0
there should be more task force from GRA	5	25.0	25.0	50.0
tax collectors should be effective and efficient	4	20.0	20.0	70.0
employ more workers	6	30.0	30.0	100.0
Total	20	100.0	100.0	

Lastly the workers were asked about some of the measures they think can help improve the revenue collection in the informal sector. Majority said that they should employ more workers to help in the informal sector. From the table above some also said that the artisans should be educated about the use of their taxes, whilst others also came out with the view that there should be more task force to enforce these people to fulfil their duties. Lastly it was brought to light that some of the workers were not efficient and effective, therefore it was recommend that the Ghana Revenue Authority workers should be efficient and effective and make good use of the official working hours.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND

RECOMMENDATIONS

5.1 INTRODUCTION

This part involves a summary of the research discoveries and the techniques utilized as a part of getting the information for the study. It further gives conclusions and proposals identifying with the study objectives.

5.2 SUMMARY OF MAJOR FINDINGS

The discoveries uncovered that the various categories of artisans in the informal sector of the area include blacksmith, carpentry, hairdressing, seamstress, wildering, barberry, mechanic, repairer, artist and the rest. Majority falls under mechanic and hairdressing whilst repairer and barberry also follows in that order.

It was also found out that More than half said it was necessary to pay tax as an artisan whilst the remaining said otherwise. It was also discovered that some artisans are non-compliant to tax because they think they are not applicable in the payment of tax, others also said that they don't trust the government whilst the remaining also came up with the view that the government do not provide any assistance for the community therefore there was no need to be tax-compliant.

It was also realized that age of respondents, the number of children they have and the level of education of respondents all shows a positive relationship to tax compliance, thus are factors that affect an artisans likely to comply to tax laws or otherwise, whilst experience of the respondents had a negative relationship to tax compliance implying

that the likelihood of an artisan paying taxes is reduced the longer the stay in business probably because they may discover ways of avoiding tax payment.

Some of the challenges encountered by the workers in tax collection was lack of education on taxation to the artisans and therefore has made it difficult to collect taxes from them in fulfilment of their duties as citizens. Others also said it was due to no permanent places of business and inability of the workers of Ghana Revenue Authority to easily identify the place of their work. They also added that the mobile nature of some artisans like masons and block manufactures was also a challenge.

Lastly the workers were asked about some of the measures they think can help improve the revenue collection in the informal sector. Some came with the view that the artisans should be educated on the uses of their taxes, whilst others said that more workers should be employed and that officers in the operation wing of GRA should be efficient.

CONCLUSION

The study sought to examine the compliant level of artisans and the factors that contribute to compliance in Brong-Ahafo. Ordinary Least Square regression model was used for the analysis. A total of 170 respondents were interviewed with close and open ended questions. The empirical result obtained from the regression analysis shows that the number of children of artisan, number of years working as an artisan and educational level of artisans had significant effect on the compliance of artisans to taxes. The study also found out that the non-permanent place of work of artisans was a major challenge to GRA workers. The study contributes to the body of knowledge by

providing insight into the factors that have effect on compliance to paying and filing of tax returns

5.3 RECOMMENDATIONS

Based on the premise of the discoveries of the study, the study might want to make a couple of recommendations to Ghana Revenue Authorities, which could be considered by comparable foundations, analysts and law makers.

1. It is recommend that the various artisans should be educated on the importance of paying taxes as citizens through their associations in the form of workshops and seminars

2. The revenue collectors should also be educated on how to be efficient and effective in the process of revenue mobilization by adopting good customer relationship practises and to see the taxpayers as their treasured clients.

3. It is recommended to policy makers in this institution that more workers should be employed to help in the revenue mobilization process. This is due to the fact that these artisans are widely dispersed and will therefore require more staff. It also recommended that management should adopt a "clock-in" system and enforce the use of staff movement register.

4. Again punitive measures such as seizure of business asset should be put in place to deal with artisans who do not fulfil their duties as citizens, thus payment of taxes.

5. For the sake of time, Goaso, Sunyani, Brekum and Techiman were selected. Therefore in terms of future research, researchers can consider by comparing more Districts and Municipal Assemblies in Brong Ahafo

6. One limitation of the study is also is availability of time on the part of the researcher and the informal sector workers, tax officials, logistics and Finance which hinders the researchers to undertake such a broad study. Thus restricted assets on a part of the analyst constrained the quantity of the surveys disseminated. The results of the research were also influenced by the willingness of some of the respondents to provide some vital information for the study.

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KNUST SCHOOL OF BUSINESS

TAXATION IN THE INFORMAL SECTOR: A CASE STUDY OF THE COMPLIANCE LEVEL OF ARTISANS IN BRONG AHAFO

SECTION A
DEMOGRAPHIC DATA

1. Gender: a) Male [   ]   b) Female [   ]

2. How old are you?..

3i. Marital Status: a) Single [   ]   b) Married [   ]   c) Divorced/Separated [   ]

ii. Number of children?..

4i. How many years did you spend in school?..

ii. Educational level: a) No formal Education [   ]   b) JHS leaver [   ]

c) SHS leaver [   ]d) HND/Diploma Holder [   ]   e) First Degree [   ]

Others (please specify)...

5. Religion…………………..……………………………………………………….

6. i. Profession:...

ii. How many years have you been in this profession?...

SECTION B: MEMBERSHIP/CATEGORIES OF THE ASSOCIATION OF ARTISANS

7i.   Are you a member of any Association of Artisans in BrongAhafo metropolis?

a) Yes [   ]   b) No [   ]

ii.   If yes, when did you join the Association of Artisans?

....

……………………………………………………………………………………...

iii. If no, why are you not a member of any Association of Artisans BrongAhafo?

....

……………………………………………………………………………………………….

iv. Which category do you belong to in the Association of Artisans in BrongAhafo?

....

……………………………………………………………………………………………

v. What are some of the benefits derived from joining the Association of Artisans?

....

....

....

SECTION C: ISSUES RELATED TO PAYMENT OF TAXES BY ARTISANS

vi. In your opinion, do you deem it important to pay your tax as an artisan?

a) Yes [   ]   b) No [   ]

vii. If yes, why do you think it is important to pay your tax as an artisan?

....

....

....

viii. If no, why do you think, it is not important to pay your tax as an artisan?

....

....

....

ix. Do you pay your taxes regularly as an artisan?

a) Yes [   ]   b) No [   ]

x.   When was the last time you paid your tax as an artisan?

a) In the past week [   ]   b) Two weeks ago [   ]   c) One month ago [   ]

d) Three months ago [   ]   e) Six months ago [   ]   f) One year ago [   ]

g) Others (please specify)..

xi.   If yes, what is your motivation for paying your tax regularly as an artisan?

....

....

....

xii. If no, what are your reasons for not paying your tax regularly as an artisan?

....

....

....

INTERVIEW GUIDE FOR GHANA REVENUE AUTHORITY

1. What is your general opinion about taxation in the informal sector?

   ....

   ....

   ....

2. What are some of the factors for the non-compliance to taxation in the informal sector?

   ....

   ....

   ....

3. What are some of the measures put in place by the Ghana Revenue Authority to solve the non-compliance of taxes among workers of the informal sector?

   ....

   ....

   ....

4. To what extent will you say that, the measures outlined have been effective in solving the problem of taxation in the informal sector?

....
....
....

5. In your view, how can the taxation problem in the informal sector be solved?

....
....
....