KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

INSTITUTE OF DISTANCE LEARNING

Value Added Tax Audit as a Compliance Tool on Adabraka Traders'

Activities

BY Abdul- Nasir H. Jibril BED.(HONS)

APRIL, 2012
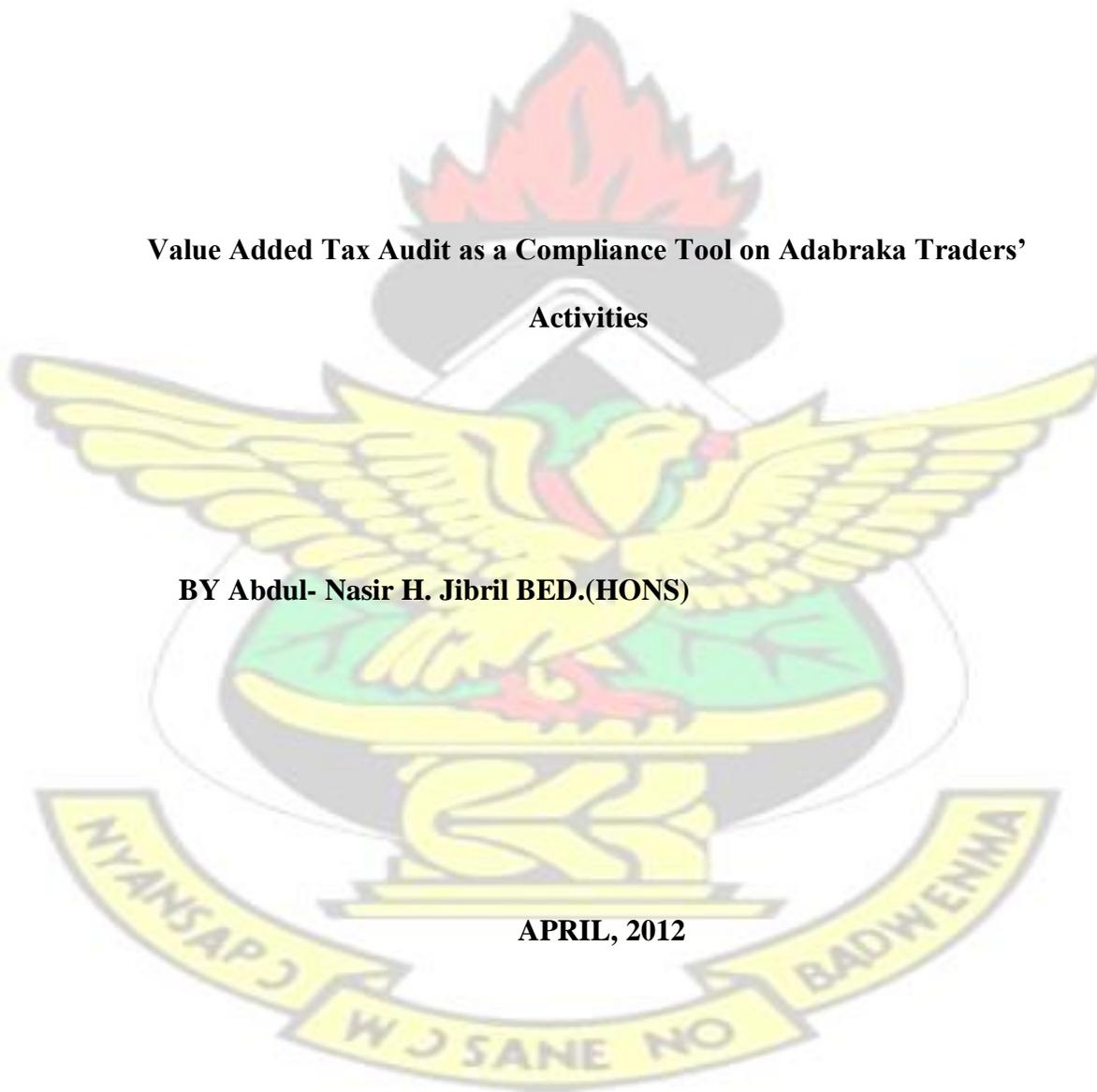
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VALUE ADDED TAX AUDIT AS A COMPLIANCE TOOL ON ADABRAKA

TRADERS' ACTIVITIES

BY ABDUL- NASIR H. JIBRIL BED.(HONS)

A THESIS SUBMITTED TO THE INSTITUTE OF DISTANCE LEARNING, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION

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CERTIFICATION

I hereby declare that this submission is my own work towards the Commonwealth Executive Masters in Business Administration (CEMBA) and that, to the best of my knowledge, it contains no material previously published by other 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.

ABDUL-NASIR H. JIBRIL   ....

....

                        Signature   Date

Certified by

SAMUEL KWESI ENNINFUL   ....

(Supervisor)   Signature   Date

Certified by

Prof. I.K. Dontwi   ....

Dean, IDL   Signature   Date

DEDICATION

This piece of work is dedicated to my wife, children, father and late mother who thought it prudent to send me to school.

ACKNOWLEDGEMENT

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ABSTRACT

Value Added Tax, internally generated revenue is an indirect tax levied on the consumption of goods and services. VAT was introduced in Ghana in1995 and has been the main stay of the nation's internally generated revenue since its reintroduction in 1998. The study aimed at finding out whether VAT audit as a compliance tool conducted on the traders make them tax complaint or not, using Adabraka local VAT office (LVO) as a case study. Data for analysis was gathered through the administration of questionnaires using the stratified random sampling technique to thirty (30) registered traders each operating under both the Flat Rate Scheme and the Standard Rate Scheme respectively. Again twenty

(20) field officers of the LVO responded to another different set of questionnaires. Some supervisors and unit heads of the LVO were also interviewed. The major findings of the study established that most of the traders underdeclare their taxes even after previous VAT audits conducted on them. They do this intentionally. The VAT audit as a tool of compliance has to a large extent not impacted on trader compliance, but has unearthed much tax revenue underdeclared. Also, despite the punitive measures and other compliance tools put in place by the VAT Act1998 Act 546 and LI 1646, most of the traders do not comply with the VAT enactment. The study recommended among the following; Effective and regular tax educational campaigns, intensification of VAT audit at regular intervals as well as improving upon the service condition and welfare of the staff. Fines and penalties enshrined in the act should be reviewed upwards and stiffer sanctions and punitive measures meted out to traders found not to be compliant.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The growth and Development of the economy of a society or a nation to a large extent hinges on both internally and externally generated revenue. Maurice Lauré, Joint Director of the French Tax Authority was first to introduce Value Added Tax (VAT) on April 10, 1954, although German industrialist Dr.Wilhelm Von Siemens proposed the concept in 1918. (http://wapedia.mobi.com)

Tax refers to a compulsory payment made by citizens and other nationals in a country to the government without receiving any direct returns. Taxes, and tax systems, are fundamental components of any attempts to build nations and this is particularly the case in developing nations. Taxes underwrite the capacity of states to carry out their goals; they form one of the central arenas for the conduct of state-society relations, and they shape the balance between accumulation and redistribution that gives states their social character (Margaret and Chris, 2009). This tax or levy is imposed by government on products, incomes of the individuals, corporate bodies and corporations or an activity for which the refusal to pay when due becomes a crime.

Taxation in Ghana dates far back to the colonial era. The Colonial administration imposed a tax of one shilling payable by every citizen resident under British protection (Adom, 2000). Revenue to be collected from this Tax was used for the development of Schools, Roads, Hospitals and other infrastructure. Subsequent Tax Institutions like the Internal Revenue Service (IRS), Customs Excise and Preventive Service (CEPS) and Value Added Tax Service (VATS) were established by the Government of Ghana with sole objective of generating revenue for developmental purposes and to help correct the nation's

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budget deficits (VAT News, 2007).With enactment of the Ghana Revenue Authority Act (2009, Act 791) these revenue institutions are collectively known as Ghana Revenue Authority (GRA).

1.1.2 Value Added Tax (VAT)

VAT is a tax applied on the value added to goods and services at each stage in the production and the distribution chain. It is the consumer who pays the final price for the goods or services (VAT PN 1). The Value Added Tax (VAT) was first introduced in Ghana in 1995 as part of the Tax Reform Programmes that started in 1993 by the International Monetary Fund (IMF)/ World Bank Supported Structural Adjustment Programme led by the Ghana Government in 1983. A joint team of Harvard Institute of International Development (HIID) and Crown Agents were commissioned by the Ghana Government in 1989 to study the feasibility of introducing VAT in Ghana. Their recommendation found Ghana ripe enough for the introduction of VAT (Asante, 2003).

The VAT Act, 1994(Act 486) was enacted by the Ghanaian Parliament in November 1994 and was implemented in March 1995 at the rate of 17.5%. The Act was repealed in June 1995 as a result of resentments from the Civil Society against the sudden increase in the prices of items including food stuffs which were attributed to the introduction of the VAT (Ali-Nakyea, 2008).

Terkper (1996) stated that the failure of the introduction of the VAT in 1995 was as a result of the following:

➢ Taxpayers and consumers claim that they were not given adequate Education on the effect of the VAT on their businesses and consumption decisions.

➢ The administration institutions in the country were not adequately trained to be prepared to implement the tax.

➢ The threshold for small traders was set as GHC 2500.00 which was too low for traders to comply with.

The Value Added Tax (VAT) was successfully reintroduced in December 1998 after the above complaints and other precautions had been addressed. The reintroduction of the value added tax was backed by the VAT Act 546 which was enacted in December1998. As a consumption tax, it replaced the then service and sales tax which were collected by the internal Revenue Service (IRS) and customs Excise and Preventive Service (CEPS) respectively. The VAT system in Ghana operates a self assessment tax system. The Value Added Tax (VAT) at the time of its re-introduction in December 1998 operated at 10% with a threshold or business turnover for retail of goods which exceeds:

(a)   GH¢20,000.00 over a twelve months period; or

(b)   GH¢15, 000.00 over a nine month period; or

(c)   GH¢10,000.00 over a six months period; or

(d)   GH¢5,000.00 over a three month period whichever is achieved first. (VAT Act 1998 Act 546.)

The threshold or business turnover was reduced to

(a)   GH¢10,000.00 over twelve-month period; or

(b)   GH¢7,500.00 over nine-month period; or

(c)   GH¢5000.00 over a six-month period; or

(d)   GH¢2,500.00 over a three-month period; which is achieved earliest. (VAT (Amendment) Act, 2000 Act 595).

This was to widen the tax net to include more taxable persons into the tax net. In June 2000 the VAT rate of 10% was increased to 12.5%, Section 3 of Act 546 amended.

(VAT (Amendment) Act, 2000 Act 579). The additional 2.5% was channelled into the Ghana Education Trust Fund (GETFUND) to support education and educational infrastructure in the country. In August 2004, the National Health Insurance Levy (NHIL) of 2½% was introduced through VAT (Amendment) Act 650. The reason for introducing this levy was to generate funds to secure the provision of basic health care services to persons resident in the country. Government over the years has consistently pursued Tax reform policies which were geared towards the simplification of the tax compliance requirement of the tax laws (VAT News 2008). The concerns raised by executives of Ghana Union of Traders Association (GUTA) over the complexities involved in VAT computation under the VAT Standard Rate Scheme (VSRS) and also the inability of some traders to obtain input tax invoices from some importers as well as the inability of traders to keep proper records brought about the promulgation of the VAT Flat Rate Scheme (VFRS) of 3% in September, 2007. (VAT Amended), Act 2007, (Act 734).

1.1.3 VAT Standard Rate Scheme (VSRS)

The VAT introduced in December 1998 was the VSRS. It started with the rate of 10%. This was amended to 12.5% in June 2000. The 2.5% catered for the GETFUND levy. In August 2004, the VAT Act was further amended following the introduction of the National Health Insurance to charge another rate of 2.5%. This was to cater for the National Health Insurance Levy (NHIL). This brings the total rate to 15% for the VSRS.

The VSRS operates an invoice-credit system comprising two taxes; thus the output tax and input tax. The output tax covers VAT on all taxable transactions or sales made by a VAT

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registered trader and the input tax covers all taxable purchases made by the same VAT registered trader. Under the VSRS, the total input for a month's transaction is deducted from the output tax made from that same month's transaction and the difference is paid to the VAT service. In the event that the input tax for a particular month is greater than the output tax, the trader is said to be in the credit or repayment position. The trader carries the repayment amount forward to the subsequent VAT declaration periods till the credit is exhausted by payment position. (VAT Service Operations Manual, 1999).

1.1.4 VAT Flat Rate Scheme (VFRS)

The VFRS was introduced in September 2007. This was after the deliberations between the Management of VAT service and the Executives of Ghana Union of Traders' Association (GUTA) over the complexities involved in VAT computations under the standard rate scheme and also the latter's inability to obtain input tax invoices from some importers. The Executives of GUTA requested for a flat or fixed amount to be paid to the VAT service at the end of every month but the Management of VAT service settled on a flat rate instead of the flat amount requested by GUTA. The VSRS is therefore a special method of collecting and accounting for VAT/NHIL. It is an alternative to the invoice-credit scheme and is viewed as a simplified method of accounting for VAT. Under this scheme, registered retailers of taxable goods shall charge VAT/NHIL at a marginal rate of three percent (3%) on the value of each item sold. The flat rate was chosen because;

(i)   The effective tax rate of the retail sector averages around 3%
(ii)   The tax payable at a flat rate of 3% is equivalent value to the effective tax payable by retailers under the invoice-credit scheme at the rate of 15% which employs the inputoutput mechanism.

(iii) Given that the flat rate scheme does not allow recovery of input tax from output tax, the flat rate of 3% on the selling price is not likely to cause any loss in the total revenue when compared with transactions under the invoice-credit scheme which requires the application of 12.5% VAT and 2.5% NHIL on sales and simultaneous recovery of input tax.

(iv) The rate of 3% lends itself easily to splitting between VAT (2.5%) and NHIL (0.5%). (VATS publication 2007).

1.1.5 Offences of Value Added Tax and their related Penalties

The VAT Act 1998 Act 546 and the legislative instrument LI 1646 outline some compliance regulations that should be adhered to by the VAT registered traders. The punitive penalties and interest of these compliance regulations are aimed at coercing traders to comply with the VAT law and regulations. Table 1.0 below illustrates some offences and their related penalties.

Table 1.0: Some offences and their related penalties

	OFFENCE	PENALTY
1	Failure to register for VAT	GH¢ 500.00 - GH¢ 1000.00
2	Failure to keep proper records	GH¢ 500.00 - GH¢ 1000.00

3	Failure to file and late filing of returns	GH¢100.00 plus GH¢50.00 for each day the returns remain with the registered trader.
4	Obstruction of VAT service office	GH¢ 50.00 - GH¢ 500.00
5	Evasion of tax payment	3 times amount of tax involved
6	False or misleading statement	GH¢ 500.00 - GH¢1000.00
7	Falsification of documents	GH¢200.00 - GH¢ 1000.00

(Source: VAT 1998 Act 546, Regulation LI 1646).

1.1.6 Administrative and Operational Structure of the VAT Service

Basically the VAT Service has five main departments with other smaller units. These comprises the Enforcement and Debt Management(EDM) department, Operations department, Research, Monitoring and Planning (RM&P) department, the Finance and Administration (F&A) department and the Information System Support Unit(ISSU). The Enforcement and Debt Management Department is responsible for registering eligible and registrable businesses and also see that they comply with the VAT Act requirement. VAT owed to the service by traders is collected by this department. They carry out compliance visit to the traders' premises as well as processing businesses for distress action. The Operation department among its function is to register eligible traders. The department also carry out VAT Audit. This is done by Control and Verification (CV) unit with the view to correcting any action by the trader which has the tendency of reducing the revenue to be generated.

The Research Monitoring and Planning (RMP) department has among its functions as monitoring and evaluating monthly revenue performance, evaluating policies to ascertain their impact on the service as well as traders and providing inputs for setting revenue targets at the National and Local VAT Offices (LVOs) levels. The account Unit of the Finance and Administration department are responsible for the sale of revenue books

(VAT Receipts and Entertainment coupons). The personnel Unit is in charge of employee welfare, Promotions, and Transfers among other duties. The Information System Support Unit (ISSU) serves as the data Bank of the VAT registered traders. They keep and provide information of registered traders. At the various LVOs the ISSU prints and capture monthly returns and VAT registration certificates. Apart from the VAT Service headquarters in Accra, the VAT Administrative set up has twenty six (26) out field offices. These comprise the Local VAT Offices (LVOs), the VAT sub Offices (VSOs), the VAT Set light Station (VSS) and Point of Presence (POP). These Offices are open across the country with the concentration of offices in the region where population and business institutions are high.

1.1.7 Adabraka Local VAT Office

The focus of study for this research is on the Adabraka local VAT office located in Accra. Its operational jurisdiction covers among part of the central business area of Accra, Circle, Newtown and Achimota. It also shares operational boundaries with the Okaishie VSO, Abbosey Okai VSO and Kaneshie LVO to the south, Ring way Estate LVO to the East and Madina VSO to the north. Adabraka LVO has a registered trader population of eight thousand seven hundred (8700) in the four sectors-the Retail sector, Wholesale sector, Manufacturing sector and service providing sector. For the LVO to perform its duties effectively, it is divided into various units and sectors. The units are: Administration, Information Support System Unit (ISSU), Operations and Accounts. The Administration Unit sees to the day to day running and general administrative duties of the LVO. It is headed by the head of the LVO. Under the head of the LVO are other various unit heads who report to the LVO head.

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The ISSU of the LVO serves as the data bank of the VAT registered traders. The Unit keeps and provides information of registered traders. It prints VAT certificates and captures trader's monthly returns.

The operation unit is further divided into sectors. These are the control and verification (CV), Enforcement and Debt Management (EDM) and Client Service. The Control and Verification section is responsible for the periodic auditing of the VAT registered traders; with the view to correcting any action by the traders which has the tendency of reducing the revenue to be generated. In instances where taxes are not properly accounted for, assessments are raised by the control and verification offices for the traders to pay the outstanding tax. The CV officers also educate traders on VAT related issues and register eligible traders. The EDM section is also responsible for registering eligible traders or businesses and also sees to it that the traders comply with the VAT act 546 and regulation LI 1646 requirement. VAT owed to the LVO by traders is collected by the EDM and processes businesses for distress action. The Client Service section receives and addresses VAT enquiries and complaints from the registered traders as well as the general public. This section organises and carries out VAT education seminars for traders.

The Accounts Unit receives all tax payment from traders and issues receipt to cover the payments made. It is also responsible for sale of all Value Books of the LVO as well as collating and documenting and banking all payments made to the LVO.

1.2 Problem Statement

VAT is one of the major sources of revenue for the government. It contributes more than 26% of the country's total tax revenue (VAT News, 2007). While government views VAT as a good tax capable of fetching revenue for development, the general public sees it

as regressive. This has resulted in the culture of non-compliance by some VAT registered traders or agents. James & Alley (2004) describe tax compliance as the extent to which taxpayers comply with tax law. The success of VAT as a self assessment tax system, to a large extent rest on proper record keeping by traders and accounting of the tax to the VAT service. (http://wiki.answers.com).

The 2008 flash report of Adabraka LVO indicates that trader tax compliance is low. This is evident by the assessments raised after VAT audits. Almost all audits yielded an assessment.VAT audit into trader's business activities and records is seen as a tool for uncovering undeclared taxes and also ensuring that traders comply with the compliance provisions of the VAT Act. With low level of record keeping among VAT registered traders, it appears that the government does not get the optimum revenue to be derived from VAT. Why is this so? Is it an act of insobriety or insufficiency in the system? Can there be a way out? It is for this reason that this project seeks to research into the effect of VAT audit on trader compliance.

1.3 Objectives of the Study

The main objective of the study is to establish whether VAT Audit conducted on traders' business activities and records make them tax compliant.

The specific objectives are;

1. To assess the influence of tax audit on compliance among traders in Adabraka
2. To identify the factors affecting tax compliance in Ghana in general

3. To find out the strategies that could be adopted to improve tax compliance

1.4 Research Questions

The study is aimed at answering the following questions.

1. What is the influence of tax audit on compliance among traders in Adabraka?

2. What are the factors affecting tax compliance in Ghana in general?

3. What strategies could be adopted by the VAT service to improve the tax compliance?

1.5 Significance of the study

The findings and recommendations from this study will provide the VAT service with adequate information on measures that can be adopted through VAT audit to address the challenges confronting VAT compliance in Ghana. The outcome of the study will also increase knowledge regarding VAT compliance as it could serve as a reference material for further studies.

1.6 Limitations of the study

The study was restricted to the Adabraka LVO due to resources and time constraints. Although it ought to have covered the entire outfield stations of the VAT service. The VAT operations nationwide being uniform, the researcher hopes the findings and the recommendations would be helpful to the operations of the VAT service. Another limitation was unwillingness of some traders to share their ideas with the researcher. The researcher had to visit them several times to persuade them before they agreed to share their ideas on the questionnaire.

1.7 Brief Methodology

The research adopted primary data and secondary data as the source of information.

Primary data was obtained from questionnaires administered to both selected VAT Standard Rate Scheme (VSRS) traders and VAT Flat Rate Scheme (VFRS) traders through the stratified random sampling approach and the VAT officers. Personal interviews were also granted with some selected unit heads and supervisors. The secondary data was obtained from the monthly flash and status reports as well as data from the Information System Support Unit (ISSU) of the Adabraka LVO. Other relevant published records on VAT audit as well as publications on VAT were also used.

1.8 Organisation of the work

The study is organised into five (5) chapters. Chapter one covers the Introduction, Background to the Study, Problem Statement, Objectives of Study, Research Questions, and significance of the study, Limitations of the study and Chapter disposition. Chapter two reviews the necessary literature concerned with the study. Chapter three looked at the methodology of the study. Chapter four analysed, presented and discussed the data collected for the study.

Finally, chapter five discussed the findings, conclusions and recommendations of the Study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter encompasses a review of the literature relevant to the study. Literature is reviewed under the following topics: Definition of tax, Types of tax, Objectives and Principles of taxation, Tax compliance and reasons for tax non-compliance etc.

2.1.1. The Definition of Tax

Ali-Nakyea (2008) defines taxation as levying compulsory contribution by public authorities having tax jurisdiction to defray the cost of their activities. Taxes can be imposed on earnings, property or the consumption of goods and services. Taxes can be levied on persons or corporate entities. In most countries the refusal to honour one's tax obligation amount to a criminal offence. Taxes could be direct or in direct. Taxes in general have some common characteristics which are enumerated as blow:

➢ They are an enforced contribution.

➢ They are generally payable with money.

➢ They are proportionate in character.

➢ They are levied on persons or property

➢ They are levied by the state which has jurisdiction over the subject ➢ They are levied by the law-making body of the state.

➢ They are normally paid at regular periods or intervals (www.wiki.answers.com)

2.1.3 Types of Tax

There are mainly two types of tax. These are direct and indirect taxes.

Direct Taxes: Direct taxes are taxes are paid directly to the government by the taxpayer who could be an individual or a business entity. Direct taxes are levied on the income of individuals or business. Income tax is the commonest of direct taxes. It is collected from the income of the individual. For example employees and self-employed workers are also taxed. Corporate tax or profit tax is paid by business enterprises based on the profits made. Capital gains tax on the other hand, is a type levied on the increase in values of certain kinds of property on their disposal as compared to their value at a time they were purchased by the owner. (www.finance.mapsofworld.com)

Indirect Tax: Indirect taxes are the taxes that are not paid directly by the taxpayer. The tax is included in the expenditure incurred by consumer. In effect the tax is levied on the consumption of goods and services. (www.finance.mapsofworld.com).

The following are examples of indirect taxes: Sales tax, Value Added tax, Import duties, Special tax, Excise duties, Service tax and Export duties. Import duty is collected on only goods imported in to the country. In other words, there is no equivalent import duty on similar goods produced within Ghana. Raw materials imported into the country may attract import duty (VAT PN 7). The duty usually paid at the point of entry into the country. Excise duty is primarily imposed to discourage the consumption of some products that are considered harmful. In some cases also it imposition is purely for revenue generation. In Ghana Excise duty is levied on petroleum, tobacco, beer, spirits and mineral water. Export duties are levied on cocoa, timber, minerals such as gold, diamond, and recently on non-traditional crops such as bas pepper, foodstuffs, handicrafts and fruits exported to other countries. Special taxes are imposed occasionally for specific reasons. Luxury tax on very

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expensive commodities imported in to the country and which is collected by Customs Excise and Preventive Service is an example of special tax. Another one is purchase tax on imported vehicle (VAT PN 10). Value Added Tax is a tax applied on the value added to goods and services at each stage in the production and distribution chain. It is in the final price the consumer pays for goods or services (VAT PN 1).

2.1.4 Objectives of Taxation

Taxes have two broad objectives. There are revenue and non revenue objectives. Waidyasekera,(2007) outlines the functions of taxation in relation to economic development as follows; for revenue purpose, taxes are collected to raise revenue for the government for its public expenditure. These include defraying the cost of administrative services provided by the state. Secondly, revenue generated from taxes is also used to provide social infrastructure such as roads, hospitals, school and public services. The non-revenue functions of taxations as outlined by Waidyasekera (2007) are:

Re-distribution of income:

Taxes are used to reduce income inequalities. The rich are taxed so high compared to that of the poor. Higher rates of income taxes, capital transfer taxes and wealth taxes are some means adopted for achieving these ends.

Economic Function:

Taxes are used to influence the allocation of resource through:

➢ Transferring resources from the private sector to the government to finance the public investment programmes.

➢ Directing private investment in to desired channels through such measures as regulation of tax rates and the grant of tax incentives. This also includes investment incentives to attract Foreign Direct Investment (FDI) into the country.

➢ Influencing relative factor prices for enhanced use of labour and economising the use of capital and foreign exchange.

Taxes are used to protect local industries from foreign competition. This is through import duties and other tariffs and this has the effect of transferring a certain amount of demand from imported goods to domestically produced goods.

Social function:

Taxes are used for discouraging certain activities which are considered undesirable, the excise taxes on liquor and tobacco, the special excise duties on luxury goods, betting and gaming levies are examples of such taxes.

2.1.5 Principles of Taxation

Taxes are very essential for the smooth functioning of government machinery. For this reason, a good tax system should promote good relations and understanding between the taxpayers and the tax administration. The principles or canons of taxation are the universally accepted guidelines for achieving good relation between taxpayers and tax administrators. These principles propounded by Adam Smith and cited by Ali-Nakyea (2008) are:

Equity: The equity principle implies that taxes must be imposed in accordance with the ability to pay principle. This means that there should be no discrimination between taxpayers who are equally placed.

Certainty: The tax system should be as simple as possible. The amount to be paid by the taxpayer should be certain at all time but not arbitrary. The form of payment, manner of payment and the amount to be paid ought to be clear to the taxpayer and every other person.

Convenient: Payment of the tax should be arranged at a place, times and manner which are convenient to both the taxpayer and the tax administrator. The taxpayer should not be made to pass through stress or difficulties in order to be able to pay the tax.

Economical: The cost of collection should be minimized in order for the revenue raised from the tax to be used for the purpose for which it was imposed. The tax system must be efficient. No amount of sound fiscal policy is effective if the tax administration system is inefficient or corrupt.

2.2 Tax Compliance

The fundamental goal of any revenue authority is to collect taxes and duties payable according to the law. However, when it comes to the obligations imposed on them by law, taxpayers are not always compliant. A compliant taxpayer is one who fulfills every aspect of their tax obligations including:

- registering with the revenue authority as required;
- filing the required returns on time; accurately reporting tax liability (in the required returns) in accordance with the prevailing legislation, rulings, return instructions and court decisions;
- paying any outstanding taxes as they fall due; and
- maintaining all records as required.
- a non-compliant taxpayer is one who fails to satisfy any one or more of these aspects and poses a risk to revenue collection. (Margaret and Chris, 2009).

Onweri et al., (2010) cites Brown and Mazur (2003) as defining tax compliance to consist of three distinct types of compliance. These are payment, filling and reporting compliances. Onweri et al., 2010, stated that, the organisation for Economic Cooperation and Development (2001), advocates separating tax compliance into categories. These categories are administrative compliance and technical compliance. Administrative compliance refers to complying with administrative rules of lodging and payment of taxes. This is in other words known as Reporting compliance, Procedural compliance or Regulatory compliance. Technical compliance in other words refers to complying with technical compliance of the tax law. These are in areas of tax calculations and payments. Frazoni (1999) outlines four duties as constituting tax compliance. These are:

1. True reporting of the tax base.

2. Correct computation of tax liability.

3. Timely filing of the tax Returns.

4. Timely payment of the amount due.

The goal of tax administration is to foster voluntary tax compliance in order to reduce the tax gap between the tax due and the tax paid.

The Organisation for Economic, Co-operation and Development (2008) also outlines tax compliance to consist of:

1. Registration for tax purpose

2. Filing tax returns on time

3. Correctly reporting tax liabilities

4. Paying taxes on time

2.3 Reasons for Tax Non-Compliance

Research has shown that tax non-compliance may be as a result of a deliberate decision by the taxpayer, or it may be unintentional. Further, there is a range of possible compliance outcomes driven by a variety of factors including demographic (including age, gender and level of education), personal (including attitudes, experiences, morale and financial circumstances) and aspects of the tax system itself (including tax rates, penalties, audit probabilities, enforcement strategies, complexity and costs of compliance). As many of these factors are not constant, it is to be expected that compliance behaviour can change over time and a compliant taxpayer one year may be non-compliant the next (Margaret and Chris, 2009).

From the perspective of the revenue authority, the ideal is to have all taxpayers fully compliant at all times. If this were the case, the tax gap (the difference between what a revenue authority theoretically should collect and what it actually does collect) would not exist. The ideal is obviously not attainable. But to be able to work towards this ideal, the revenue authority needs to be able to identify and understand the various types of compliance outcomes and then develop and apply appropriate strategies to modify (or reinforce) taxpayers' behaviour accordingly. As the revenue authority normally has limited resources at its disposal, it needs to be strategic if it is to be efficient and effective in managing its risks. This will require the authority to identify and prioritise its risks, to tailor and target specific activities to each identified risk, and to allocate resources accordingly. This is commonly referred to as a risk management approach to compliance and is widely adopted in many jurisdictions, and in particular where taxpayers are required to self-assess their tax liability (Margaret and Chris, 2009).

According to Inter America Centre of Tax administrators (1973), the following reasons account for non compliance:

- The complexity of tax legislation

- The complications in the procedures that a taxpayer must follow in order to pay taxes

- Unsatisfactory treatment of taxpayers by tax official

- Taxpayer's ignorance of the benefits derived from public revenue.

- Negative image of public administration.

2.4 Theories of Tax Compliance

According to Canada Customs and Revenue Agency, Annual Report to Parliament (2003-2004) tax compliance at the most basic level (filing and remitting on time) is quite satisfactory, while the more significant levels of tax compliance, as measured by the proportion of taxpayers judged to be at "substantive risk of non-compliance," show more problems. Whether an increase in audits and penalties is the best way to deal with this non-compliance depends on the reasons why taxpayers fail to comply. If taxpayers care only about incentives and are "playing the audit lottery," increasing penalty and audit rates should improve compliance. But if psychological factors (including moral and ethical concerns) are important, improved compliance might instead be achieved by strategies that change taxpayers' attitudes toward the tax system, such as increasing its perceived fairness and making it easier to comply with the tax laws. (*CCRA 2003-2004*).

According to Viswanath *et al., (*2005), increasing audits and penalties, being the best way to deal with non tax compliance depends on the reasons why taxpayers comply or fail to comply. According to them, there are two classes of theories. These are:

- Economics-based theories, which emphasize incentives,

- Psychology-based theories, which emphasize attitudes.

Economic theories of compliance suggest that taxpayers "play the audit lottery". That is, they make calculations of the economic consequences of different compliance alternatives (such as whether or not to evade tax) and the probabilities of detection and the consequences of detection, and then they choose the alternative that maximizes their expected after-tax return (possibly after adjustment for the desired level of risk). In contrast, the second class of theories assume that psychological factors including moral and ethical concerns are also important to taxpayers, and therefore taxpayers may comply even when the risk of audit is low. Of course, some taxpayer behaviour may be explained by the economic theories while some may be explained by the psychological theories, and mixed explanations are also possible (*CCRA 2002-2003*).

Viswanath et. al., (2005) opined that the attitude of taxpayers varies considerably. Some comply with the fullest extent required, irrespective of whether the tax authorities are actively auditing them or their industry. Other taxpayers essentially play the audit lottery and either do not prepare contemporaneous documentation or prepare the absolute minimum with the hope of avoiding the imposition of penalties. In a further statement, economic theories generally call for increased audits and penalties as the solution to compliance problems.

Psychological theories generally lead to policy prescriptions that de-emphasize audits and penalties and instead focus on changing individuals' attitudes toward the tax system. Such measures include increasing the system's perceived fairness and making it easy to comply with the tax laws through superior web site information, increased telephone assistance and shorter line ups in revenue or tax offices (Viswanath et al., 2005).

Within an experimental-economics framework, taxpayers receive a certain amount of income, choose how much to report to the tax authority, pay tax accordingly, are possibly audited, and if they are found to have evaded tax, are required to pay the tax evaded plus a penalty. The effects on compliance of changes in policy parameters can be measured by having the participants make repeated tax-reporting decisions within the context of environments with different tax-related parameters (Viswanath et al.,2005)

2.5 Tax Compliance Enforcement

Tax enforcement is an area where the effects of defence and compliance approaches are unknown (Andreoni et al., 1998). They went further to say that, when taxpayers are audited and a penalty imposed, it is unclear whether they learn that they got away with a lot of things that the audit did not detect. The deterrence sign will be positive if this is the bigger lesson than the lesson that cheating will be punished. Sometimes an audit succeeds in deterring cheating in the long run, but in the year or two after, audit taxpayers believe they are unlikely to be audited, and this has a dramatic negative effect on compliance in those two years.

Braithwaite (2001) first argued that compliance is most likely when an agency displays and employs an explicit enforcement pyramid. An example of an enforcement pyramid appears in Figure below. Most regulatory action occurs at the base of the pyramid, where attempts are initially made to coax compliance by persuasion.

Figure 2.1. A Pyramid of Enforcement Responses.
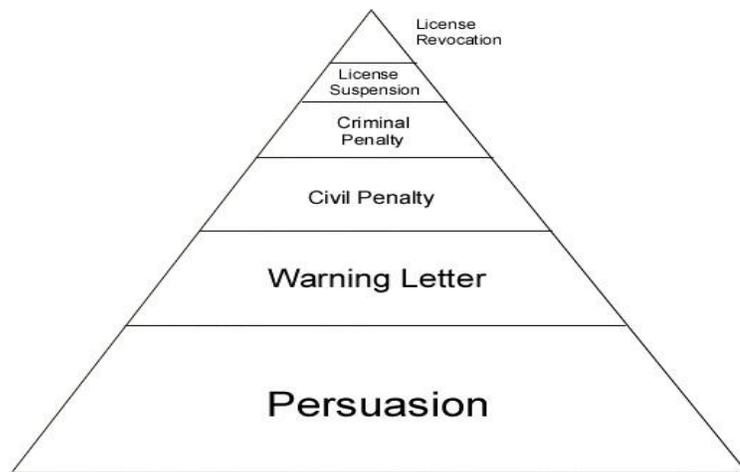
(**Source:** Ian Ayres and John Braithwaite, Responsive Regulation Transcending the Deregulation Debate. New York: Oxford University Press, 1992, page 35)

The next phase of enforcement escalation is a warning letter; if this fails to secure compliance, imposition of civil monetary penalties; if this fails, criminal prosecution; if this fails, plan shutdown or temporary suspension of a license to operate; if this fails, permanent revocation of license. Different kinds of sanctioning are appropriate to different regulatory arenas.

From a rational-actor point of view, the expectation of increased regulatory sanctions with repeated failure to cooperate provides an incentive for all players to economise on time and effort and settle differences sooner rather than later. For the tax officer working from a rational actor perspective, implementing the strategy involves three objectives:

➢ To ensure that the full range of credible sanctions are known to the taxpayer,

➢ To clearly signal a willingness to cooperate initially with the taxpayer, and ➢ To make clear the intention to escalate in the event that cooperation is not forthcoming.

Social theories that understand compliance from the perspective of institutional legitimacy and procedural fairness are also given effect in the formulation of a regulatory pyramid. The argument is that taxpayers will regard tough enforcement action as more

procedurally fair when persuasion has been tried first. Citizen perceptions of procedural fairness are more than just a political asset to an embattled tax authority; they are likely to actually increase voluntary compliance (Tyler, 1990; Makkai and Braithwaite, 1996). Moreover, when regulated actors believe they are treated as someone who is trusted, compliance increases (Braithwaite and Makkai, 1994). Regulatory pyramids provide tax officers a set of tools that can be applied without regard to reasons for non-compliance. One starts with the expectation of cooperation, and escalation on the pyramid occurs only when one on the other hand becomes non-cooperative or defaults. This analysis, however, denies something that is at the core of every regulatory encounter, whether it is personal or impersonal, tax focused or not tax focused, and that is the human quality of making attributions about why others behave as they do.

The non-compliant motivational postures are balanced by two compliant postures, accommodation and capture. Accommodation describes an explicit commitment to doing the right thing, supporting the system, accepting responsibility for compliance, and managing compliance demands conscientiously and effectively. From the perspective of this motivational posture, the tax system would be seen to have power that is legitimate, and that will be used against those who do the wrong thing. At the same time, tax officers would be seen as respectful of taxpayers, treating them as trustworthy, and consulting them when appropriate. While the posture of accommodation involves deliberate and conscious Commitment to satisfying the demands that are being made, the posture of Capture is more laissez faire.

2.6 Fairness of Tax System

It is widely believed by tax administrators and the taxpayers that growing dissatisfaction with the fairness of tax system is the major causes for increasing tax

noncompliance. Tax fairness consists of at least 2 different dimensions. "One dimension appears to involve the equity of the trade - the benefits received for the tax paid. The other dimension appears to involve the equity of the taxpayer's burden in reference to that of other individuals" (Jackson and Milliron, 1986). Thus unfairness of the tax system may reflect taxpayers' perceptions that they are overpaying taxes in relation to the value of the services provided by government or in relation to what other taxpayers pay. Porcano (1984) finds that taxpayers' need and ability to pay are the most significant variables related to perceptions of fairness of the tax system. Other surveys conducted by Scott and Grasmick (1982) and Spicer and Lundstedt (1976) indicate that taxpayers who believe that the tax system is unfair are more likely to commit tax non-compliance behaviour. Richardson (2006) also indicates that perceived unfairness of tax system is significantly related to tax evasion.

2.7 Tax Evasion and Tax Avoidance

Why do people pay taxes? This question has attracted increased attention in the tax compliance literature over the last few years. Allingham and Sandmo (1972) presented a formal model which shows that the extent of tax evasion is negatively correlated with the probability of detection and the degree of punishment. However, this seminal model has been criticized by many authors. The main point connected to the empirical and experimental findings, is that these deterrence models predict far too little compliance and far too much tax evasion as indicated by Alm (1999) and Torgler (2002). In many countries the level of deterrence is too low to explain the high degree of tax compliance.

Moreover, there is a big gap between the amount of risk aversion that is required to guarantee such compliance and the effectively reported degree of risk aversion. Elffers

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(2000) shows that it is a long way before a person become a tax evader. He defines three steps in the staircase to tax evasion:

➢ taxpayers should have the will not to comply,

➢ not everyone with the inclination to evade taxes is able to translate the intention into action, and

➢ individuals inclined to evade taxes check for the opportunity to do so.

In the third staircase standard economic theory comes into play and individuals evaluate the expected value of evasion. Similarly, other researchers argue that many individuals do not even think of tax evasion. Pyle (1991) criticizes the assumption that individuals are a moral utility maximisers: "Casual observation suggests that not all individuals think quite like that. Indeed, it seems that whilst the odds are heavily in favour of evaders getting away with it, the vast majority of taxpayers behave honestly". Frey (1999) uses the expression "impassive possibility set" and shows that there are taxpayers who do not even search for ways to cheat at taxes. Long and Swingen (1991) argue that "some individuals are simply predisposed not to evade".

Experiments indicate that there are individuals who always comply, that is, certain compliance exists even without (low) penalties and audits (Feld and Tyran 2002). There is a persistent theme in the tax compliance literature in the last few years to move away from deterring non-compliance toward positive encouragement for compliance and therefore emphasizing the "carrot" for compliance rather than the "stick" for noncompliance. This insight is especially important because, from the tax collection standpoint, it is extraordinarily expensive to arrange an enforcement regime so that, from a strict cost-benefit calculus, non-compliance does not appear attractive to many citizens" (Slemrod 1992).

Tax evasion is said to occur when individuals deliberately fail to comply with their tax obligations. The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses. Although tax compliance is a major concern for all governments, analytical investigation of tax evasion can be traced. In economic terms, evasion problems originate from the fact that the variables that define the tax base (incomes, sales, revenues, wealth, and so on) are often not 'observable'. That is, an external observer cannot usually see the actual magnitude of an individual's tax base, and hence cannot know his true tax liability. Sometimes this knowledge can be obtained by means of costly audits, in which case we say that the tax base is verifiable (at a cost). In other cases, as when it is related to cash payments, the tax base cannot be verified at all. Taxpayers can take advantage of the imperfect information about their liability and elude taxation. A related concept is tax avoidance (or reduction), by which individuals reduce their own tax in a way that may be unintended by tax legislators but is permissible by law. Avoidance is typically accomplished by structuring transactions so as to minimize tax liability. In some cases, avoidance is encouraged by legislation granting favourable tax treatment to specific activities in contrast to general taxation principles. From a legal standpoint, evasion differs from avoidance in being unlawful, and hence punishable (at least in theory). As far as economic function is concerned, however, evasion and avoidance obviously have very strong similarities; sometimes, indeed, they can hardly be distinguished. This adds to the difficulty of interpreting the real implications of the tax gap. Another problem with the measurement of tax evasion relates to its proper delimitation within the broader set of the informal economy. No taxes are generally levied on transactions in the home and criminal sectors, which are usually beyond the reach of authorities and official statistics. Hence,

proper determination of the boundaries of evasion is a formidable task, in that evasion is often inextricable from other illegal and unrecorded activities. (Tanzi and Shome, 1994).

2.7.1 Probability of Detection and Penalties

In general, higher audit probabilities and severe penalties encourage tax compliance. Probability of detection refers to the likelihood that the tax authorities will discover an individual's non-compliance and seek to remedy the evasion. Individuals normally would like to evade their tax liabilities entirely and the only reason they might not do so is that there is some non-zero probability of being caught (Massimo, 1993). Raising the probability of detection will increase tax compliance and tax audit represents one of the effective detective measures used by tax authorities (Alm, 1992). In fact, tax audits are considered to have both direct deterrent effect on the taxpayers actually audited and indirect deterrent effect on taxpayers not audited (Alm et al., 2004). Witte and Woodbury (1985) find a significant positive relationship between the risk of tax audit and the rate of voluntary tax compliance. However, Beron et al. (1990) reveals that tax audit exert only a modest positive effect on tax compliance. Another important factor affecting tax compliance is the relationship between tax compliance and the severity of sanctions. The idea is that fear of penalties prohibits tax non-compliance behaviour. Establishing an effective system to penalise tax evaders is an important measure to encourage tax compliance. Taxpayers will be more likely to comply if non-compliance may result in severe penalties.

According to the theoretical work conducted by Allingham and Sandmo (1972), tax compliance can be enhanced or improved by increasing the penalties associated with it. To be effective, penalties must be applied speedily and forcefully. Witte and Woodbury (1985)

report a significant relationship between the severity of criminal sanctions and tax compliance. Other studies by Grasmick and Scott (1982) and Tittle (1980) also indicate that respondents acknowledging some form of tax non-compliance are less likely if such acts would result in severe penalties. The experimental studies conducted by Hasseldine et al. (2007) also show that severity of sanctions has significant effects on tax compliance behaviour. Turning to the tax literature, some have argued that social norms affect tax compliance (Wembley, Cole and Eidjar, 2001). Concerning social norms, many studies on tax evasion have found a relationship between one's own tax non-compliance and the perceived non-compliance of others. People who believe that cheating is widespread among their peers tend to have more favourable attitudes towards tax evasion and are more likely to cheat on taxes (Wallschutzky, 1984). Both the perceived level of endorsement and the perceived prevalence of tax cheating among reference groups could affect taxpaying behaviour (Wenzel, 2005).
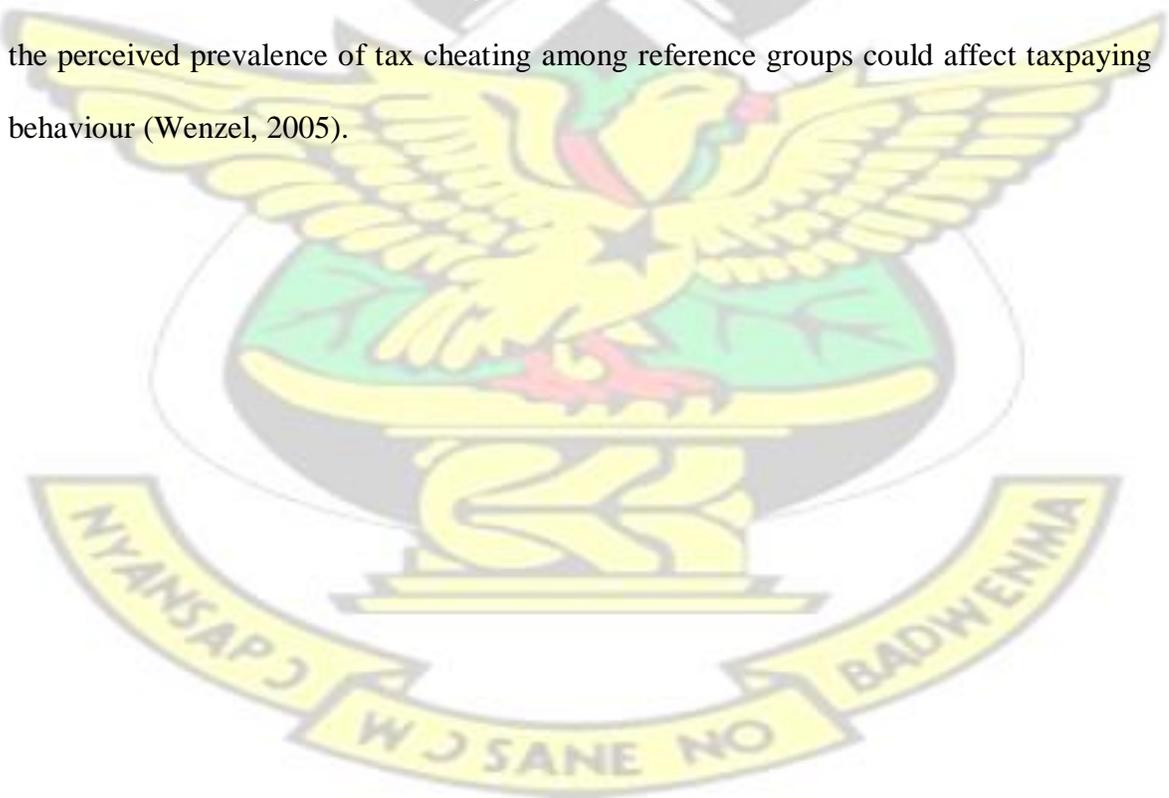
CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter provides a description of the study area, population and Research design. It also talks about sampling procedure, data instrumentation, data collection and data analysis.

3.1 Research Design

A descriptive research design was employed. This describes the real situation on the ground and therefore appropriate for the study. Adabraka LVO was used as case study with VAT registered traders and field officers being the population for the study.

The research relied solely on the data collected from the population sampled.

3.2 Population and Sample

The targeted population was VAT registered traders operating under both VAT Flat Rate Scheme (VFRS) (3%) and the VAT Standard Rate Scheme (VSRS) (15%) within the jurisdiction of the Adabraka Local VAT Office (LVO). The Jurisdiction of the Adabraka Local VAT Office (LVO) covers the central business centre of Accra and beyond with the informal retail trade sector forming a great proportion of the Value Added Tax registered traders.

3.3 Sampling and Sampling Technique

A stratified random sampling procedure was used to select sixty (60) registered traders within the jurisdiction of the Adabraka Local VAT Office (LVO).

The random selection from the strata was: VAT

Standard Rate Scheme (VSRS) traders= 30 and

VAT Flat Rate Scheme (VFRS) = 30.

This procedure gave all units of the targeted population a fair representation for the study. Also a different questionnaire was distributed to twenty (20) audit staff of the Adabraka LVO. This was to give the researcher a fair idea as regards to the level of traders' compliance. A total of eighty questionnaires were distributed.

Three (3) unit heads and four (4) supervisors of the LVO were interviewed to ascertain their perception about the effect of VAT audit and trader compliance within the jurisdiction of the LVO. In all eighty seven (87) respondents were involved in the research.

3.4 Data Instrumentation and Gathering

The main data collection instrument was structured interviews schedules. The questionnaires were developed and administered by the student researcher based on the specific objectives of the study and were made up of both open and close ended questions. Much of the distribution of the questionnaire was done on the field at the traders premises. Few of the questionnaires were distributed to the traders who visited the LVO to carry out their tax assignment. The questionnaires for traders were made up of three sections. These included the bio-data of respondents, Information / knowledge about VAT, and Trader Compliance. The same questionnaire was used as interview guide for traders who do not have formal education. The questionnaire for the staff were also made up of bio-data,

officers' general view about traders, officers' view about trader compliance and officers' view about the VAT service measures for trader compliance.

Some selected unit heads and supervisors were interviewed by the researcher.

3.5 Source of Data

The researcher collected primary data directly from the traders and audit officers. Secondary data were obtained from the monthly flash and status reports as well as the data from the Information system support unit (ISSU) of the Adabraka LVO. Other relevant published records on VAT audit as well as publications on VAT were also used.

The data collection lasted for four (4) weeks.

3.6 Data Analysis

Data collected were grouped, coded and analysed with help of Statistical Product and Services Solutions (SPSS) soft ware and presented in tables and figures for discussion.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

This chapter deals with the analysis and discussion of the data collected from the sampled respondents of VAT officers and traders respondents from the field survey with the view of finding the effect of value added tax audit on trader compliance in Ghana; (Adabraka LVO as a case study).

4.1 Analysis of findings

Tables and charts were used to analyse the data gathered from the field in order to make the findings more meaningful. The analysis shows the responses gathered from the field from the twenty (20) VAT officers and sixty (60) registered VAT traders of the Adabraka Local VAT office. Tables and bar charts are used to analyse the specific and key responses to the questionnaires from both the VAT officers and the VAT registered traders. Responses were also sought from the heads and supervisors of the various units of the LVO.

4.1.1 Analysis and findings from the VAT officers

The findings of the twenty (20) VAT field officers of the Adabraka LVO selected to give responses to the structured questionnaire were as follows;

Table 4.1.: Sex of respondents n=20,

Sex	Frequency	Percentage
Male	14	70.0
Female	6	30.0
Total	20	100

Source: Field Data (July, 2011)

From table 4.1 above, fourteen (14) of the respondents representing 70% were male and six (6) staff representing 30 % of the respondents were female.

Table 4.2: Age of respondent

Age	Frequency	Percentage
18-25	1	5.0
25-35	11	55.0
36-45	8	45.0
Total	20	100

n=20, Source: Field Data (July, 2011)

As shown in table 4.2 above, eleven (11) of the respondent making 55% were between age 25-35 years and eight (8) of the respondents comprising 40% were between

the ages of 36-45 years whereas 5% of the respondents were between the ages of 1825years.

Table 4.3: Level of Education of respondents

Qualification	Frequency	Percentage
Diploma/Degree	15	75.0
Master/PhD.	5	25.0
Total	20	100

n=20, Source: Field Data (July, 2011)

When asked to indicate their educational level in table 4.3 above, fifteen (15) of the respondents representing 75% said they either had diploma or degree and five (5) representing 25% indicated that they have masters' degree or PhD. This shows that majority of the VAT service staffs are well educated and as such can best do their job diligently.

Duration	Frequency	Percentage
Under 1 yr	2	10.0
2-5 yr	3	15.0
6-9 yr	11	55.0
9-12 yr	4	20.0

Total	20	100.0

Table 4.4: Work Experience of respondents n=20,

Source: Field Data (July, 2011)
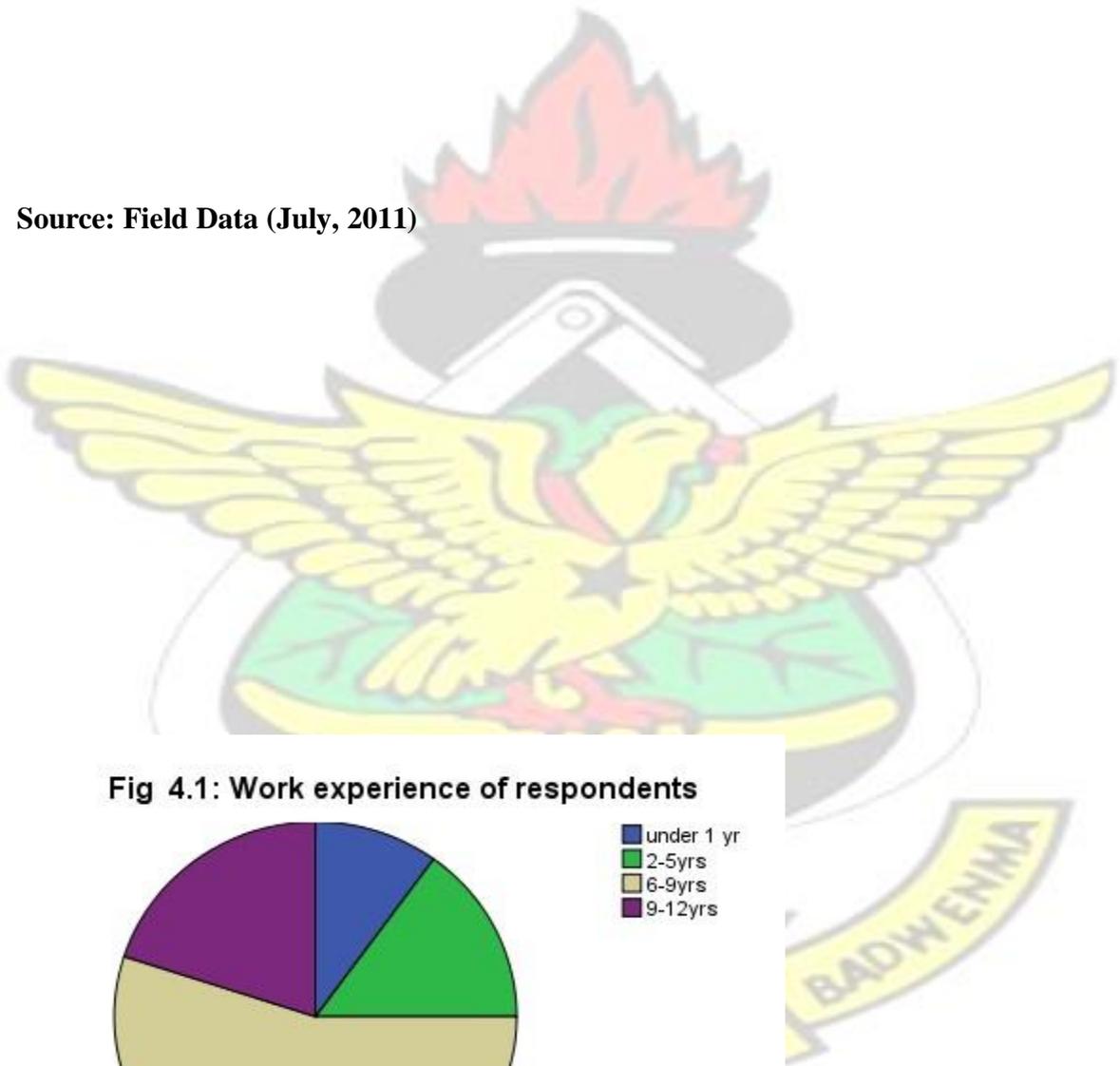
Fig 4.1: Work experience of respondents
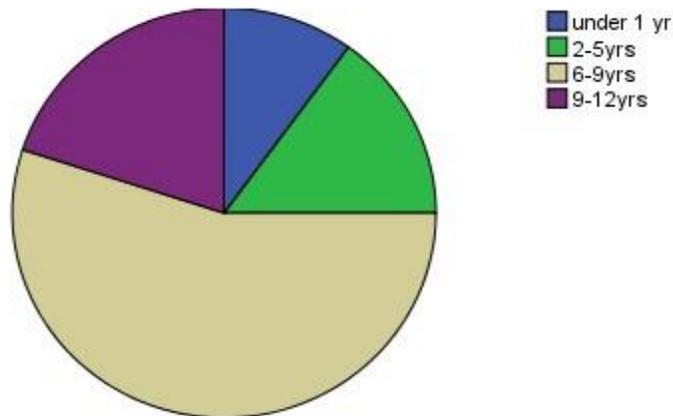
Source: Field Data (July, 2011)

Table 4.4 and figure 4.1 show how long the field officers have been with the VAT service. Fifty five(55%) of the respondents representing the majority said they have worked with the service for six(6) to nine(9) years, four(4) representing 20% of the respondents indicated that they have spent nine(9) to twelve(12) years   and fifteen(15) said they have worked for two(2) to five(5) years. Three (3) of the respondents representing 15% said they have worked for two (2) to five (5) years with the service, whereas only two (2) of the respondents spent less than a year with the service. It can therefore be inferred from the tables 4.3 and 4.4 that the service has people of high calibre who can do their jobs efficiently.

Table 4.5: Respondents' frequent interaction with VAT Registered traders?

Response	Frequency	Percentage
Yes	17	85.0
No	3	15.0
Total	20	100

n=20, Source: Field Data (July, 2011)

On selected officers' interaction with traders, as shown in table 4.5, seventeen (17) of the respondents representing eighty five (85%) forming the majority indicated their work schedule allow them frequent interaction with traders. Three (3) representing fifteen (15%) responded that their work schedule do not allow them to interact with the traders frequently. By implication, the schedule of VAT field staff allow frequent interaction with traders, hence the staff are expected to have some idea about traders perception and understanding of the VAT system.

Table 4.6: Officers rating of traders understanding of the VAT system

Rating	Frequency	Percentage
Good	7	35.0
Average	11	55.0
Poor	2	10.0
Total	20	100.0

n=20, Source: Field Data (July, 2011)

As shown in table 4.6 eleven (11) representing fifty five (55%) of the respondents rated the traders understanding as average, seven (7) representing thirty five (35%) of the respondents rated the traders as good whilst ten (10) of the respondents rated the traders understanding of the VAT system as poor. It can be inferred from the above table that, majority of the traders have some knowledge about the VAT system.

Table 4.7: Officers opinion on whether traders account for all taxes collected.

Response	Frequency	Percentage
Yes	1	5.0
No	19	95.0
Total	20	100.0

n=20, Source: Field Data (July, 2011)

Fig 4.2 Officers' opinion on whether traders account for all taxes collected

■ yes
■ No
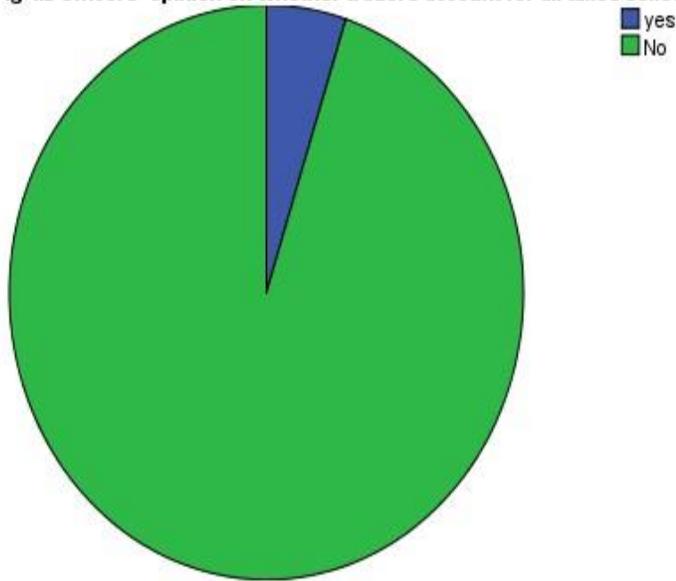
Source: Field Data (July, 2011)

Table 4.7 and figure 4.2 above, show officers' opinion on whether traders account for all taxes collected. A majority of nineteen (19) representing ninety five (95%) of the respondents indicated that traders do not account for all taxes collected. On the contrary, only one (1) representing five (5%) of the respondents indicated that traders account for all taxes collected. It can be inferred from the table that traders generally do not declare their taxes.

Table 4.8: Officers rating of the record keeping system of VAT registered traders under the standard rate scheme (SRS)

Rating	Frequency	Percentage
Good	7	35.0
Average	12	60.0

Poor	1	5.0
Total	20	100.0

n=20, Source: Field Data (July, 2011)

It can be observed from table 4.8 above that sixty (60%) of the respondents rated traders under the standard rate scheme record keeping as average and thirty five (35%) of the respondents rated record keeping as good whilst five (5%) of the respondents rated the record keeping under the SRS as poor.

Table 4.9: Officers' rating the record keeping system of the traders operating under the Flat Rate Scheme

Rating	Frequency	Percentage
Good	2	10.0
Average	11	55.0
Poor	7	35.0
Total	20	100.0

n=20, Source: Field Data (July, 2011)

As indicated from table 4.9 above, eleven (11) of the respondents representing fifty five (55%) of the total respondents rated the record keeping of traders under the flat rate as Average, seven(7) representing thirty five(35%) as poor and two(2) representing ten (10%) as good. Results from table 4.8 and 4.9 above show that, record keeping by traders operating under the flat rate scheme is poor as compared to those operating under the standard rate scheme.

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Table 4.10: Does VAT audit conducted on the traders' business activities have effect on trader compliance?

Response	Frequency	Percentage
Yes	15	75.0
No	5	15.0
Total	20	100.0

n=20, Source: Field Data (July, 2011)

Table 4.10 above depicts that fifteen (15) respondents representing seventy five (75%) of the total respondents indicated that VAT audit conducted on traders has effect on trader compliance whereas five (5) respondents representing twenty five (25%) answered that VAT audit conducted on traders' business has no effect on trader compliance.

Most of the respondents who indicated that VAT audit on traders business has effect on trader compliance stated that traders are given education on record keeping and VAT operating system. Also, where assessment is given, VAT audit serves as deterrent to the traders for subsequent under declaration or evasion of tax. However, those who do not subscribe to this positive effect indicated that though VAT audit raises assessment for traders to pay for the under declared tax most traders continue to under declare their taxes.

Table 4.11: How would you rate the trader's patronage of education and seminars organised by the service?

Rating	Frequency	Percentage
Good	2	10.0
Average	14	70.0
Poor	4	20.0

Total	20	100.0

n=20, Source: Field Data (July, 2011)

It can be observed from table 4.11 above that fourteen (14) respondents representing seventy (70%) percent of the total respondents rated traders' patronage of education and seminars organised by the service as average. Two (2) respondents representing ten (10%) of the respondents rated the patronage as good and four (4) respondents representing twenty (20%) of the respondents rated it as poor. It could be inferred from the table above that the traders patronage of education and seminars organised by the service is not encouraging. This observation may have effect on traders understanding of the VAT system.

Table 4.12: Does your office have adequate staff to meet the challenges of VAT compliance?

Response	Frequency	Percentage
Yes	6	30.0
No	14	70.0
Total	20	100.0

Fig 4.3: Does your office have adequate staff to meet the challenges of VAT compliance?
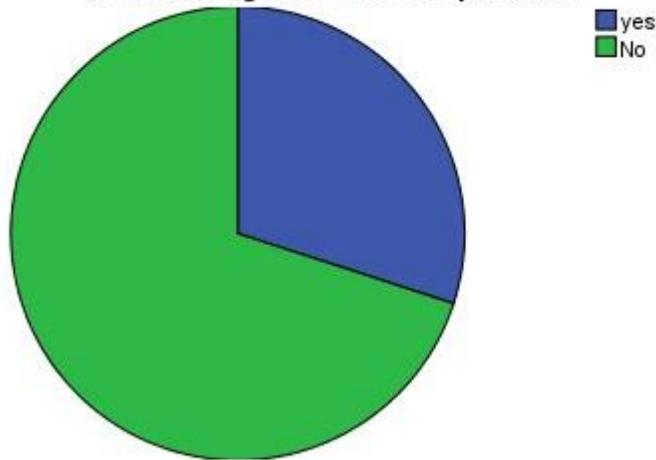
Source: Field Data (July, 2011)

From table 4.12 and figure 4.3 above, on the question of the adequacy of staff to meet the challenges of the VAT compliance, six (6) representing a minority of thirty (30%) answered yes. The majority of fourteen (14) representing seventy (70%) of the total respondents answered no. This situation could lead to low revenue mobilisation by the service.

Table 4.13: Does the service provide the staff with adequate logistics to carry out their official duties?

Response	Frequency	Percentage
Yes	6	30.0
No	14	70.0
Total	20	100.0

From table 4.13 above fourteen (14) staff representing seventy (70%) of the respondents mentioned that the service does not provide them with adequate logistics to carry out their official duties. Whilst six (6) representing thirty percent (30%) indicated that the service provides them with adequate logistics to carry out their official duties efficiently and effectively.

Table 4.14: Are you well motivated by your Employer (VAT Service) to discharge your duties?

Response	Frequency	Percentage
Yes	2	10.0
No	18	90.0
Total	20	100.0

From table 4.14 above, a majority of staff numbering eighteen (18) representing ninety (90%) of the respondents indicated that they were not motivated by their employer to discharge their duties. Two (2) representing ten (10%) indicated that they were well motivated to discharge their duties. It could be established from both tables 4.13 and 4.14 that, the staff are neither provided with adequate logistics nor well motivated enough to discharge their duties. This will go a long way to affect VAT revenue mobilisation, since the officers may feel reluctant to enforce compliance activities on the traders.

4.1.2. Analysis and findings from VAT registered traders.

From the jurisdiction of the Adabraka LVO, a total number of VAT registered traders operating in different business sectors were selected to provide answers to the structured questionnaire. The findings are presented as follows;

Table 4.15 Gender distribution of Traders.

Sex	Frequency	Percentage
Male	40	66.7
Female	20	33.3
Total	60	100.0

n=60, Source: Field data (July, 2011).

Table 4.15 indicates the gender distribution of the respondents. 66.7% of the respondents were males whereas 33.3% of the respondents were females.

Table 4.16: Age distribution of the VAT registered traders

Age	Frequency	Percentage
18-25	3	5.0
26-35	17	28.3
36-45	20	33.3
46-60	20	33.3
Total	60	100.0

n=60, Source: Field data (July, 2011).

As shown from table 4.16 above 3 of the respondents were between the ages of 1825 years, representing 5%, 17 respondents were between the ages of 26-35 representing 28.3% , 20 were also between the ages of 36-45 and 46- 60 representing 20% respectively. It could be realized from the table that majority of the respondent were in their active years and as such will be able to superintend over their businesses.

Table 4.17: Educational background of Traders.

Qualification	Frequency	Percentage
Non	6	10.0
JHS/Middle, Form IV, Vocational	8	13.3
SHS/GCEO L/A	25	41.7
Diploma/University	21	35.0
Total	60	100.0

n=60, Source: Field data (July, 2011).

Fig 4.4: Level of education
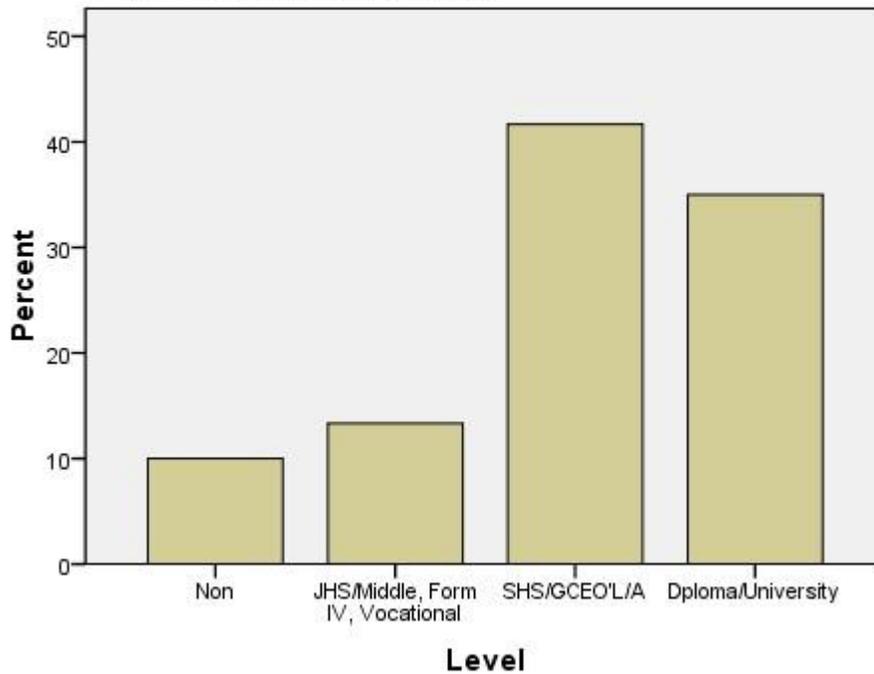
Source: Field data (July, 2011).

Table 4.17 and figure 4.4 show the educational level of the respondents. 6 representing 10% of the respondents indicated they did not have any formal education, eight (8) respondents representing 13.3% had Junior/middle school or Vocational school education, 25 representing 41.7% had Senior/GCEO A/level education and finally 21 representing 35% had a diploma/degree education. The analysis from table 4.17 and figure 4.4 shows that majority of the registered traders have acquired secondary/higher education that is necessary to the understanding of the VAT laws, regulations and its operational system.

Table 4.18: How long have you been registered as VAT Trader?

Duration	Frequency	Percentage
Less than 2 yr	5	8.3
3-5yrs	23	38.3
6-9yrs	16	26.7
10yrs and above	16	26.7
Total	60	100.0

n=60, Source: Field data (July, 2011).

Table 4.18 above shows how long traders have been registered as VAT traders. 38.3% forming a majority of the respondents indicated they have been registered with the VAT service between 3-5 years, 5 representing 8.3 % have been registered less than 2 years, 16 representing 26.7% have been registered between 6-9 years, and finally 16 representing 26.7% have been registered with the service for the past 10 years and above.

Table 4.19: Under which of the following sectors does your business fall?

Sector	Frequency	Percentage
Manufacturing	11	18.3
Retail	25	41.7
Service provider	10	16.7
Wholesale	8	13.3
Export	2	3.3
Import	4	6.7
Total	60	100.0

n=60, Source: Field data (July, 2011).

Fig 4.5: Sectors under which traders businesse fall
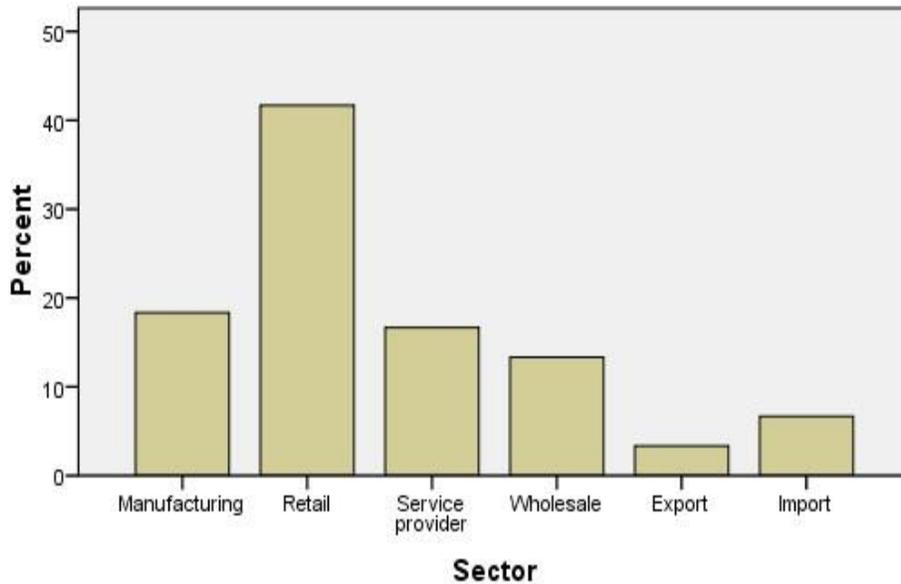
Table 4.19 and figure 4.5 show category of business the registered traders belong. A majority of 25 respondents representing 41.7% indicated they belong to the retail category. 16% of the respondents indicated they belong to the service provider unit, 13% with the wholesale unit, 18.3% with manufacturing unit, 6.7% with the import unit and the least of 2 representing 3.3% of the respondent indicated they were with the export unit.

Table 4.20: Have you receive VAT education from

the VAT service?

Response	Frequency	Percentage
Yes	37	61.7
No	23	38.3
Total	60	100.0

n=60, Source: Field data (July, 2011).

Table 4.20 indicates traders' response to whether they received education from the VAT services. Thirty seven (37) respondents representing (61.7%) responded in the affirmative and twenty three (23) representing (38.3%) responded no to having received any education from the VAT service. The analysis from the above table goes to buttress the assertion from the VAT officers' analysis that the VAT service organises education, seminars and training for VAT registered traders

Table 4.21: How will you rate your understanding of the VAT system?

Rating	Frequency	Percentage
Very good	5	8.3
Good	25	41.7
Average	21	35.0
Poor	9	15.0
Total	60	100.0

n=60, Source: Field data (July, 2011).

Fig. 4.6: Traders' understanding of the VAT system
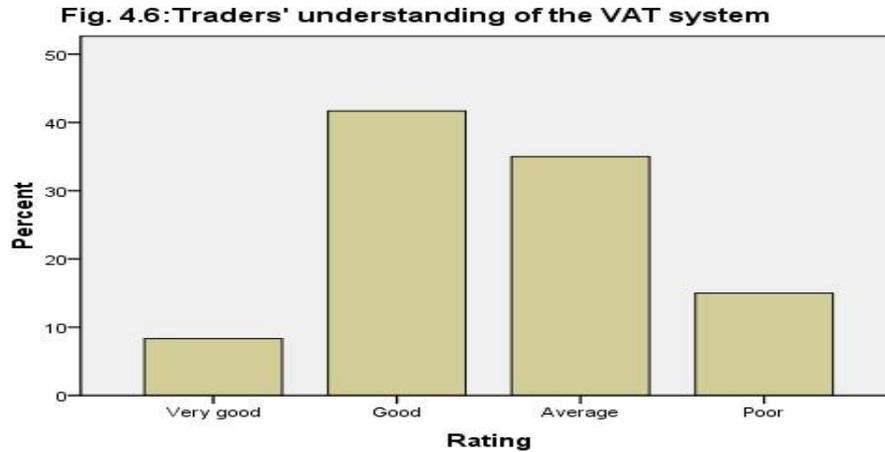
Source: Field data (July, 2011).

Table 4.21 and figure 4.6 show how VAT registered traders rated their understanding of the VAT system. Twenty five (25) representing 41.7% of the respondents indicated that their understanding of the VAT system was good, 8.3% very good, 35% average and nine (9) representing 15% said it was poor. Generally it can be said from the above analysis that VAT registered traders understand the operation of the VAT system.

Table 4.22: Can a trader submit his/her VAT returns at any time?

Response	Frequency	Percentage
Yes	10	16.7
No	32	53.3
No idea	18	30.0
Total	60	100.0

n=60, Source: Field data (July,2011).

Table 4.22 above indicates responses on whether a trader can submit his/ her VAT returns at any time. A majority of (32) respondents representing 53% answered no, ten (10)

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respondents representing 16.7% responded yes whereas eighteen (18) representing 30% also said they had no idea. VAT return forms are submitted at the appropriate periods and where a trader fails to submit a VAT returns at the appropriate period he/she is sanctioned by being given a penalty to pay. It can then be inferred that generally the VAT registered traders understand that returns are filed within a specific period. This indicates trader tax compliance. This is affirmed by Frazoni 1999 and OECD 2008, who indicated that timely filling of tax returns constitute tax compliance.

Table 4.23: Do you issue the VAT invoice to cover all your business transactions?

Response	Frequency	Percentage
Yes	38	63.3
No	22	36.7
Total	60	100.0

n=60, Source: Field data (July, 2011).

Fig.4.7: Traders response on whether they issue VAT invoice to cover all business transactions
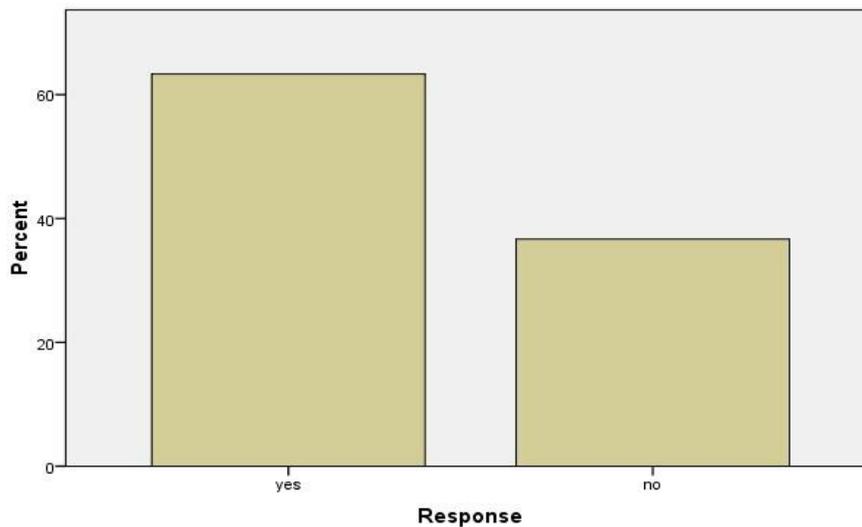
Source: Field data (July, 2011).

From table 4.23 and figure 4.7 above show the response of respondents as to whether they issue VAT invoices to cover all their business transaction. Thirty eight (38) respondent representing 63% said they issue VAT invoices to cover their business transaction. On the contrary only twenty two (22) representing 36% do not issue VAT invoices on their business transactions. Transactions that are not covered by VAT invoices are likely not to be identified by the audit staff if such transactions are not recorded in other sales record of the trader; hence revenue is lost through not issuing VAT invoices to customers.

In a follow up question as to why VAT invoices are not issued to cover all sales, most of the traders stated that the invoices are not user friendly.

Table 4.24: Has your business activities been audited

Response	Frequency	Percentage
Yes	41	68.3
No	19	31.7
Total	60	100.0

by VAT officers/VAT service? n=60, Source: Field

data (July, 2011).

Table 4.24 above indicates respondents' responses on whether their businesses have been

audited by the VAT service staff. A majority of forty one (41) respondents representing

68.3% responded yes with nineteen (19) representing 31.7% saying their businesses have

not been audited by the VAT service. This response indicates that VAT officers are really

doing well in checking traders' business activities.

**Table 4.25: If your answer to Q 15 is yes, how many times have
you been audited?**

Duration	Frequency	Percentage
1-2	17	21.0
2-3	8	9.9

3-4	8	9.9
4-5	6	7.4
6 and above	2	2.5
Total	41	100.0

n=41, Source: Field data (July, 2011).

When asked to indicate the number of times traders were audited, seventeen (17) respondents representing 21% indicated that they have been audited between 1-2 times, eight (8) representing 9.9% for between 2-3 and between 3-4 times respectively. Also six (6) representing 7.4% said they have been audited between 4-5 times with the least of two (2) representing 2.5% indicating that they have been audited for 6 times and above. The analysis above shows that VAT officers are on the average able to visit traders regularly and audit them. According to Viswana et. al., 2005 frequent tax audit and penalties are the best way to deal with non tax compliance. Massimo 1993 also corroborated in his study that in general frequent tax audit and severe penalties on the taxpayer encourages tax compliance.

Table 4.26: Were you given assessment to pay during the tax audit?

Response	**Frequency**	**Percentage**
Yes	35	87.8
No	6	12.2
Total	41	100.0

n=41, Source: Field data (July, 2011).

From the table 4.26 above, thirty five (35) respondents representing 87.8% of the respondents who stated they have been audited by the VAT service indicated that they were given assessments to pay whereas six (6) respondents representing twelve (12.2%) of the respondents responded that they were not given assessment to pay. It can be inferred then that, VAT audit conducted unearths tax under declaration and most traders audited are given assessment to pay.

Table 4.27: Has the tax audit conducted on your

business improved your record keeping system?

Response	Frequency	Percentage
Yes	38	92.6
No	3	7.4
Total	41	100.0

n=41, Source: Field data (July, 2011).

Table 4.27 above shows the responses of traders on whether tax audit conducted on their businesses has improved their record keeping. Whilst thirty eight (38) respondents representing 92.6% indicated that their businesses record keeping has improved, three (3) respondents making up 7.4% indicated it had not improved. These shows the educational impact VAT officers had laid on the respondents. In a follow up question as to what extent the tax audit has improved their record keeping; most traders stated that the VAT audit did improve their record keeping to a large extent with only a few stating it did not improve their record keeping system. This affirms the findings of Witte and Woodbury 1985 who

stated that there is a significant positive relationship between the tax audit, the rate of voluntary compliance and record keeping in the tax payers' activities.

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Table 4.28: Are tax officials able to detect tax under-declared?

Response	Frequency	Percentage
Yes	44	74.6
No	16	25.4
Total	60	100.0

n=60, Source: Field data (July, 2011).

Fig. 4.8: Are tax offices able to detect tax under-declared?
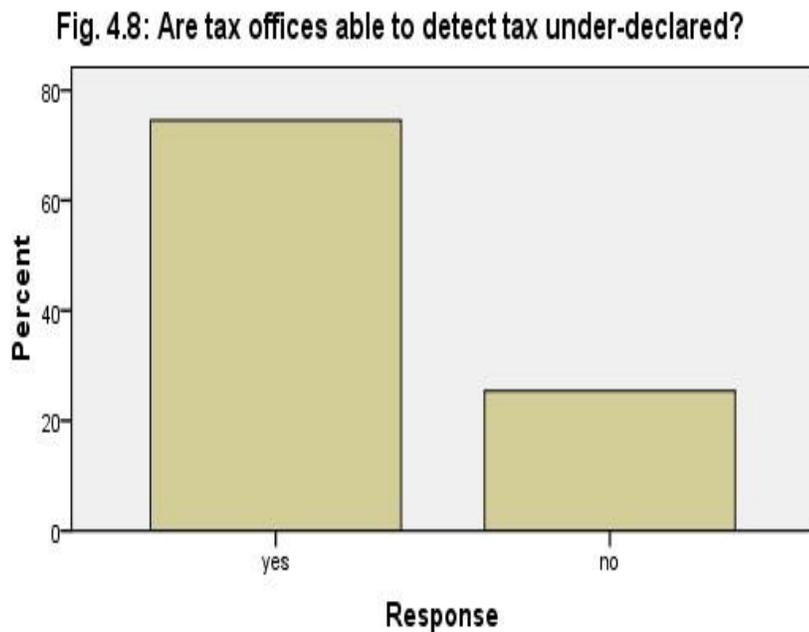
Source: Field data (July, 2011).

Table 4.28 and figure 4.8 above indicate responses on whether tax officials are able to detect tax under declared during the tax audit. Whilst forty four (44) respondents representing 74.6% answered in the affirmative, sixteen (16) of the respondents representing 25.4% answered in the negative. It can also be inferred that majority of the traders are aware that officers would uncover their under declared tax when officers go for tax audit.

In a follow up question as to why some traders still under declare their VAT knowing that tax officials can detect the under declared, some of the traders indicated they do it ignorantly. With others, they do it intentionally with the view that they are paying much which erodes their profit margin. Furthermore, they said they are prepared to pay penalties after ploughing back the profit several times if the tax under declared is detected. Added to above, they also have the view that their competitors are not registered to collect the VAT. As a result of this, their competitors can afford to reduce their prices in order to attract more customers. For this reason, they refuse to pay the correct amount of tax collected and rather under declare their tax collected. This affirms the study of Richardson 2006 which indicates that perceived unfairness of tax system is significantly related to tax evasion.

Finally, they argued that they under declare their taxes intentionally because in most cases where they make supplies to the MMDA's, they are not paid when the tax is due for filing and paying. It can be inferred from the above analysis that, some traders intentionally will refuse to comply. According to the Canadian Customs Revenue Agency and Viswanath et.al.,2005 where tax payers care about the incentives derived from non compliance-under declaration by resorting to" playing the audit lottery" increasing penalties and audit rate should improve compliance.

4.1.3 Responses gathered from unit heads and supervisors

The Unit heads and supervisor from the Adabraka LVO were interviewed to ascertain their views about the effect of VAT audit and trader compliance within the jurisdiction of the LVO .They responded as follows.

➤ Most traders do not declare their correct tax collected to the service, they suppressed their sales leading to unearthing of the tax during CV or VAT audit. The audit staff raise assessment to cover the under declared tax.

➤ The traders do not generally comply with the tax provisions or laws.

➤ The introduction of the VAT Flat Rate Scheme has resulted in the poor record keeping by most traders operating under this Scheme.

➤ With the introduction of the ECR Electronic cash register which is on pilot bases and seeks to replace manual invoicing with electronic system of invoicing traders who are on the ECR resort to under declaring their sales. They do this by not capturing the sales onto the ECR knowing that all sales captured on to the ECR are registered on to the server with the office. This audit staff can have access to. Again where some of the traders make big sales with corresponding VAT component, they cancel their sale which reflects on the server in the Vat office. The main purpose for which the ECR was introduced on the pilot basis is to minimize tax under declaration, but this motive seems to be defeated since most of the traders intentionally fail to capture sales on to the ECR machine.

In response to the issues relating to field officers performance as well as training and development needs that would make officers execute their jobs efficiently, the heads and the supervisors mentioned inadequate logistics such as means of transport for field officers

to carry out field activities of identifying and locating traders for CV and compliance enforcement. They further mentioned that the service organizes training regularly as well as issue the officers with operational directivities and amendment to the VAT law/Act to sharpen their skills in order to keep them abreast with the changes in the laws.

The heads and supervisors also stated that there is the need for the service to employ more staff and liaise with the National Service Secretariat for more service personnel since the service is under staffed. Enforcing compliance therefore is not effective as it ought to be. This is because the traders outnumber the staffs. They further argued that low salaries can make officers succumb to influences leading to accepting gifts and bribes from traders. This in its natural sense would not make the officers enforce effective compliance on traders, resulting in low revenue mobilization.

4.1.4 Assessment of VAT audit outcome on some selected traders

Thirteen (13) traders who have been audited for two (2) times or more were randomly selected from the LVO records and the outcome of the first audit compared to the outcome of the second audit is shown in table 4.29 and 4.30 below;

Table 4.29 : Outcome of first audit on some selected traders (2004)

TRADER	TAX DECLARED	TAX ASSESSED	DEVIATION	DEVIATION IN PERCENTAGE
A	3,722.34	4,563.65	-841.31	18.43
B	733,788.55	835,065.35	- 101,276.80	12.12
C	- 6,228.38	20,084.77	-26,313.15	131.01
D	952,833.23	959,090.03	- 6,256.80	0.65
E	2,350.90	3,495.83	-1,144.93	32.75

F	1,035.68	3,589.79	- 2,554.11	71.15
G	2,085.81	3,588.23	- 1,502.42	41.87
H	67,051.47	493,883.24	- 426,831.77	86.42
I	1,325.55	3,156.85	-1,831.30	58.01
J	10,307.77	12,972.35	- 2,664.58	20.54
K	7,345.84	8,542.72	- 1,196.88	14.01
L	5,251.36	10,487.36	- 5,236.00	49.93
M	15,845.04	19,833.78	- 3,988.74	20.11

(**SOURCE:** VAT Service, Adabraka LVO, CFO)

Fig: 4.9: Graph of the outcome of the first audit
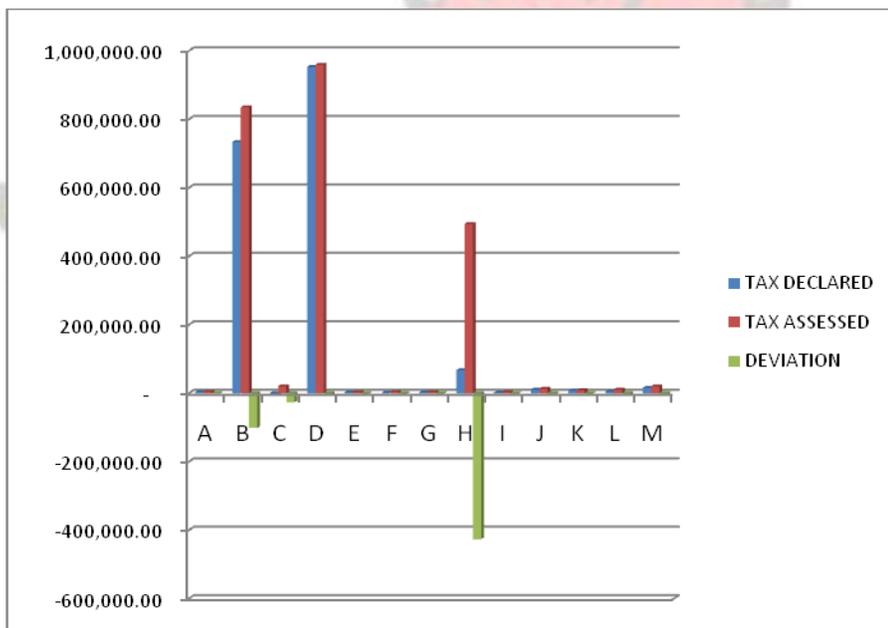
(**SOURCE:** VAT Service, Adabraka LVO, CFO)

Table 4.30: Outcome of second audit on some selected traders (2009).

TRADER	TAX DECLARED	TAX ASSESSED	DEVIATION	DEVIATION IN PERCENTAGE
A	732.90	1,049.55	- 316.65	30.17
B	471,147.01	530,836.95	- 59,689.94	11.24
C	- 6,434.47	- 5,743.81	- 690.66	12.02
D	235,053.76	237,366.81	- 2,313.05	0.97
E	-	410.51	- 410.51	100
F	61.73	61.73	-	-
G	15.89	83.59	- 67.70	80.99
H	111,037.15	161,428.16	- 50,391.01	31.22
I	-15,204.69	-10.66	- 15,194.03	142.53
J	2,150.01	9,518.58	- 7,368.57	77.41
K	- 4,965.31	-3,415.28	-1,550.03	45.39
L	-510.87	3,104.33	- 3,615.20	116.44
M	1,300.00	' 1,300.00	-	-

(**SOURCE:** VAT service, Adabraka LVO, CFO   -

Fig: 4.10: Graph of the outcome of the second audit
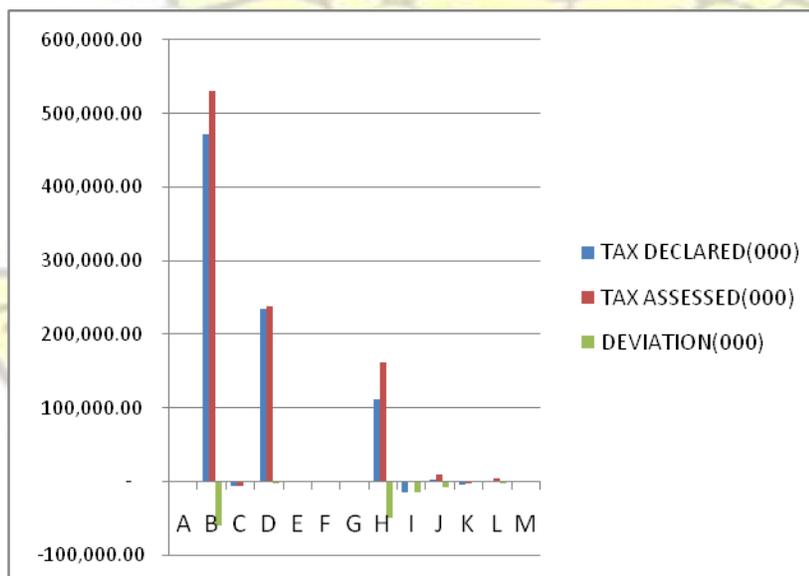
(**SOURCE:** VAT service, Adabraka LVO, CFO

From tables 4.29 and 4.30 above, almost all traders were found to have under declared their taxes from the two (2) separate audits conducted on the same traders' business records and activities. The outcome of the first audit did not serve as deterrent to the traders so as not to under declare their taxes. This was revealed in the second audit on the same traders since it also showed under declarations of their taxes. It can be inferred from the table above that VAT audit as a tool for compliance unearths revenue under declared; it however does not to a large extent deter most of the traders from non compliance.

Generally it is believed that after a trader has been audited for once or more, especially when assessments are given, the trader is expected to comply voluntarily, yet some traders still under declare their taxes to be accounted for. It is in rare instances that VAT audit conducted on traders came out without assessment raised against them. However, the longer the period for the audit the greater the assessment. Also as the business expands in its activities, assessments also become greater despite the number of times the trader has been audited.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 summary of Findings

The research unravelled the effect of VAT audit on traders' compliance and how the tax compliance could be intensified.

The study showed that most of the traders have a fair knowledge about the VAT operation system as a result of their patronage of the tax education and seminars given by the VAT service. It further showed that despite the punitive measures and compliance tools put in place by the VAT ACT1998, ACT546, most of the traders do not comply with the law. They engage in the under declaration of their taxes, non filling and nil filling of their VAT returns. Majority of the respondents indicated that they have been visited by the VAT audit officers and have been given assessment to pay. It was also clear from the study that majority of the respondents were aware that when they under declare their taxes, the VAT audit officers would be able to detect, yet they do so.

The traders stated among their reasons for under declaring of their taxes as follows;

➢ They pay the VAT from their profit and paying the right tax will affect their working capital.

➢ They under declare their taxes with the collaboration of some of the VAT officers ➢ Some believe that their counterparts are not registered with the VAT service to charge and collect the tax. They claim their competitors can afford to reduce the prices of their goods and services in order to win more customers. In view of this, most traders resort to not paying the right tax collected.

➢ Others say they do so out of ignorance.
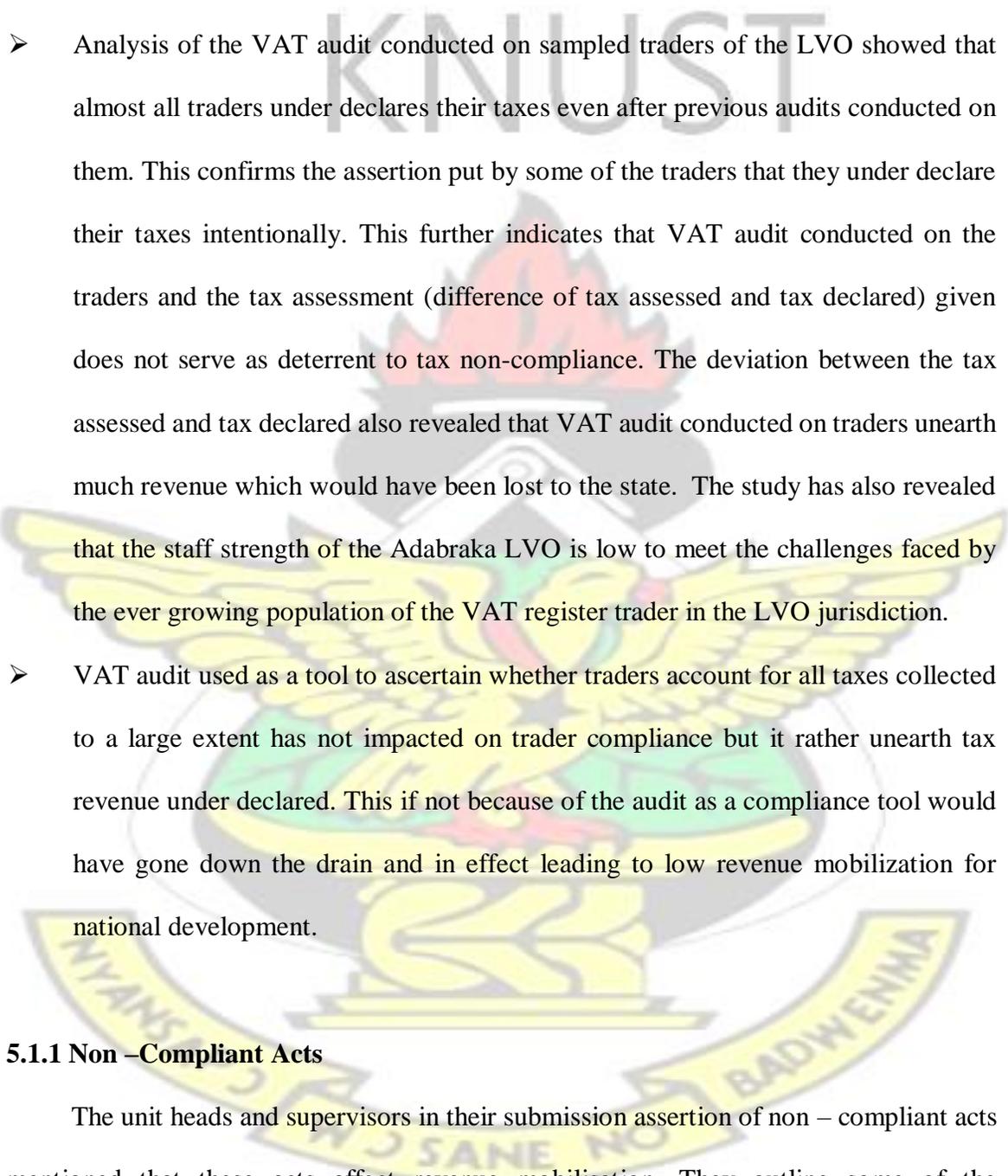
- Responses from unit heads and supervisors of the Adabraka LVO also showed that some of the traders do not keep records and issue VAT invoices on their business transactions. This constitutes non compliance.

- Analysis of the VAT audit conducted on sampled traders of the LVO showed that almost all traders under declares their taxes even after previous audits conducted on them. This confirms the assertion put by some of the traders that they under declare their taxes intentionally. This further indicates that VAT audit conducted on the traders and the tax assessment (difference of tax assessed and tax declared) given does not serve as deterrent to tax non-compliance. The deviation between the tax assessed and tax declared also revealed that VAT audit conducted on traders unearth much revenue which would have been lost to the state. The study has also revealed that the staff strength of the Adabraka LVO is low to meet the challenges faced by the ever growing population of the VAT register trader in the LVO jurisdiction.

- VAT audit used as a tool to ascertain whether traders account for all taxes collected to a large extent has not impacted on trader compliance but it rather unearth tax revenue under declared. This if not because of the audit as a compliance tool would have gone down the drain and in effect leading to low revenue mobilization for national development.

5.1.1 Non –Compliant Acts

The unit heads and supervisors in their submission assertion of non – compliant acts mentioned that these acts affect revenue mobilisation. They outline some of the noncompliant act that VAT registered traders have been found to have engaged in as follows; **Tax under declaration:** it is found from the VAT audit carried on the business

activities and records by the field staff that most traders always under declare their tax to pay to the service. It is in rare instances that VAT audit conducted on the traders come out without assessment raised against the traders.

Nil filing: some VAT registered trades engage in filing nil returns in order to evade the payment of the tax collected. Compliance enforcement and CV activities on nil filers have in most instances shown that some of these traders are in brisk and active business and should make tax payment to the service. Appendix A shows the monthly nil filers against the monthly total registered traders' population of the Adabraka LVO.

Non filing of VAT returns forms: some traders fail to file their monthly returns to the service. Others fail to collect the returns forms from the service and file them as well. Again some traders cease operating their businesses and fail to inform the VAT service to cancel their names from the service register. Others also relocate and they fail to inform the service their new location. Knowing that the service cannot locate them easily, therefore deliberately failing to file their returns. Compliance enforcement and VAT audit conducted on most of these registered traders when located are found to be in active business and have tax payment payments to make. Appendix B shows some variation in traders' non filings.

Non issuance of Tax invoices: The heads and supervisors attested to the fact that most traders do not issue VAT invoices to cover all their sales/transactions made. VAT audit conducted on the traders business activities and records have shown that the taxes declared by most traders are only the tax that is captured or recorded in the VAT invoices. The tax transactions that are not captured in the VAT invoices are not declared.

This leads to tax under declaration and eventually to low revenue mobilisation.

5.2 Conclusion

The compliance level of traders is generally low in Ghana as revealed by the study. Traders' perception that paying VAT from their profit and paying the right tax will affect their working capital is one of the major reasons for under declaring of their taxes. It was revealed that some of the traders have some knowledge about the VAT system but do not keep records and issue VAT invoices on their business transactions which encourages non compliance. VAT audit used as a tool to ascertain whether traders account for all taxes collected to a large extent has not impacted on trader compliance. The study went further to reveal that the staff strength of the Adabraka LVO is low to meet the challenges faced by the ever growing population of the VAT service. Also field officers face few challenges in caring out VAT audit. These challenges include the failure of traders to provide the field officers with all business records to carry out the audit.

5.3. Recommendations

In view of the findings, the researcher makes the following recommendations to the VAT service to bring some improvement in tax non compliance among the VAT registered traders.

There is the need for the service to make sure that traders who meet the threshold are compulsorily registered to charge and collect the VAT on their business transactions. This would make already registered traders to a large extent comply once they have the feeling that all qualified traders are registered to charge and collect the tax.

The service should continue with the education and seminars it organises for the traders. Also the traders should be sensitized to understand that the tax charged and collected is not part of their profit and should declare all taxes collected to the service.

Traders should be educated to issue VAT invoices to take care of all their business transactions. Also the general public should be sensitized and educated to demand VAT service approved invoices on purchases they make from VAT registered traders. The service should continue to organise workshops and training needs for the staff so as to sharpen their skills to effectively and efficiently handle VAT issues.

More staff should be employed to meet the challenges imposed by the evergrowing VAT registered trader population. Also the service should liaise with the national service secretariat for more service personnel to beef up the VAT staff stock. The service personnel are to be deployed for monitoring at shops where the traders use the ECR machines on the pilot bases. The presence of the monitoring personnel would make the traders capture their business transactions on to the ECR machine.

The service should consider improving upon the service conditions and welfare of the staff so as to make the staff frown at bribery attempts made by some traders to the VAT officers.

VAT service should intensify VAT audit. Many traders should be audited at regular intervals. In instances where the traders are aware that come one day or eventually they will be audited, the tendency for them to under declare their taxes is low.

Also the fines and penalties enshrined in the VAT Act, 1998, Act 546 seems not deterrent and they should be reviewed upwards for the sanctions to be punitive enough to deter the traders from non-compliance acts. For example interests should be charged at a particular rate on all assessments emanating from under declarations unearthed during VAT audit visits.

Government should release monies and imprest to the MDA's who make their business transaction with the VAT registered trader in order to pay the traders for such

transactions. Where the amounts on such purchase are not paid on time, some of the traders fail to account for the tax when it is paid to them at later date. In instances where an audit is not conducted on traders' business transactions these amounts would not be unearthed and this leads to low revenue mobilization for the developmental projects of the nation.

The service should verify to ascertain whether the businesses that are involved in non filing and nil filing are operating or not. Those businesses that do not exist should be deregistered from the list of the registered traders with the LVO. This would halt the quarterly printing of the VAT return forms. VAT audit should be carried on the businesses that are found to be in active business but have intentionally decided to indulge in the act of non-filing and nil filing. They should be made to pay the taxes due with high rate penalties imposed on them. Again these traders should be constantly monitored to for stall any non compliance behaviour.

Finally, the researcher recommends for further studies on the topic "the most effective compliance tool in revenue mobilization, VAT audit or monitoring". This will help choose between VAT audit and monitoring as an effective compliance tool.

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APPENDIX A ADABRAKA LVO TRADER POPULATION AND NIL-FILERS

STATUS

PERIOD	2008		2009		2010	
	TRADERS	NIL FILERS	TRADERS	NIL FILERS	TRADERS	NIL FILERS
JAN	6,005	1,351	6,838	1,357	7,957	1,399
FEB	6,079	1,315	6,917	1,335	8,056	1,601
MAR	6,155	1,304	7,022	1,378	8,149	1,613
APR	6,239	1,328	7,081	1,447	8,238	1,656
MAY	6,314	1,301	7,149	1,438	8,306	1,686
JUN	6,390	1,336	7,265	1,432	8,393	1,632
JUL	6,450	1,273	7,369	1,399	8,454	1,644
AUG	6,524	1,171	7,485	1,465	8,523	1,655
SEP	6,615	1,338	7,608	1,503	8,598	1,643
OCT	6,688	1,330	7,711	1,500	8,649	1,611
NOV	6,735	1,290	7,784	1,523	8,667	1,562
DEC	6,791	1,332	7,852	1,474	8,737	1,575

(**Source: Adabraka LVO Flash and Status reports.**)

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APPENDIX B ADABRAKA LVO TRADER POPULATION AND NON-FILING STATUS

PERIOD	2008		2009		2010	
	TRADERS	NON FILERS	TRADERS	NON FILERS	TRADERS	NON FILERS
JAN	6,005	1,723	6,838	1,755	7,957	1,645
FEB	6,079	1,781	6,917	1,835	8,056	1,729
MAR	6,155	1,844	7,220	1,894	8,149	1,813
APR	6,239	1,888	7,081	1,891	8,238	1,881
MAY	6,314	1,956	7,149	1,939	8,306	1,869
JUN	6,390	1,991	7,265	2,004	8,393	1,999
JUL	6,450	2,062	7,369	2,107	8,454	2,063
AUG	6,524	2,284	7,485	2,181	8,523	2,113
SEP	6,615	2,179	7,608	1,623	8,598	2,218
OCT	6,688	2,206	7,711	1,484	8,649	2,335
NOV	6,735	2,408	7,784	1,493	8,667	2,343
DEC	6,791	2,330	7,852	1,646	8,737	2,359

(**Source:** Adabraka LVO Flash and status reports)

APPENDIX C

RESEARCH QUESTIONAIRE FOR VAT OFFICERS

The purpose of this questionnaire is to find out the impact of VAT audit on trader compliance in Ghana. It is purely for academic exercise. You are therefore entreated to provide frank and dispassionate information/answers to the questionnaire items. Information provided would be treated as confidential as possible. Thank you.

SECTION A: BIO DATA

1. Sex: Male [   ]   Female [   ]

2. Age: a. 18-25yrs [   ]   b. 25-35yrs [   ]   c. 36-45yrs[   ]

   d. 46-60yrs[   ]

3. Level of education: a. SSS/GCEO'L/AL[   ]   b. Diploma/Degree[   ]

     c. Master/PHD [   ]

4. How long have been working with the VAT services? a. Under 1year

      b. 2- 5years   c. 6-9yeasrs   d. 9-12years

SECTION B: OFFICERS' GENRAL VIEW ABOUT TRADERS

5. Based on your work schedule, do you often interact with the VAT registered traders? a. Yes [ ] b. No [   ]

6. How would you rate the VAT registered traders understanding of the VAT system? a. Very good[   ] b. Good[ ] c. Average[ ] d. Poor[   ]

7. How would you rate the issuance of VAT invoices of VAT registered traders to cover their transactions? a. Very good[   ] b. Good[   ] c. Average[   ] d. Poor [   ]

8. Do you think traders account for all taxes collected? a. Yes   b. No   c. No idea

9. How would you rate the record keeping system of VAT registered traders in general? ? a. Very good[   ] b. Good[   ] c. Average[ ] d. Poor [   ]

10. How would you rate the record keeping system of the traders operating under the standard rate scheme (SRS)? ? a. Very good[   ] b. Good[   ] c. Average [ ] d. Poor [   ]

11. How would you rate the record keeping system of the traders operating under the Flat Rate Scheme (FRS)? ? a. Very good[   ] b. Good[   ] c. Average [   ] d. Poor [   ]

12. Does VAT audit conducted on the trader's business activities have effect on trader compliance? a. Yes [ ] b. No [   ]

13. If yes to question 12, state some of the effects.

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14. If NO to the question 12, Sate reasons

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15. How does non compliance affect the mobilization of VAT revenue?

a. Positively [　] b .Negatively [　] c. No effect [　] d .No idea [　]

SECTION C: OFFICERS VIEW ABOUT TARDER COMPLIANCE

16. Does your office/VAT service give education and training seminars for traders?

a. Yes [　] b. No [　]

17. What were the training seminars about?

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18. How often are those seminars and trainings organised or held?

a. Often b. Most often c. Very often

19. How would you rate the traders' patronage of those education and seminars?

a. Very good [　] b. Good [　] c. Average [　] d. Poor [　]

SECTION D: OFICERS' VIEW ABOUT THE VAT SERVICE MEASURES FOR TRADER COMPLIANCE

20. Does your office have adequate staff to meet the challenges of VAT compliance?

a. Yes [　] b. No [　]

21. Does the service provide the staff with adequate logistics to carry out their official duties? a. Yes [　] b. No [　]

22. Are you well motivated by your employer (VAT Service) to discharge your duties effectively? a. Yes [　] b. No [　]

23. Please suggest measures in your view the office(VAT Service) should adopt to improve VAT compliance.

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APPENDIX D

RESEARCH QUESTIONAIRE FOR VAT REGISTERED TRADERS

The purpose of this questionnaire is to find out the impact of VAT audit on trader compliance in Ghana. It is purely for academic exercise. You are therefore entreated to provide frank and dispassionate information/answers to the questionnaire items. Information provided would be treated as confidential as possible. Thank you.

SECTION A:

1. Sex: Male [   ]   Female [   ]

2. Age: a. 18-25yrs [   ]   b. 25-35yrs [   ]   c. 36-45yrs[   ]   d. 46-60yrs[   ]

3. Level of education: a. Non [   ]   b. JHS/Middle, Form IV, Vocational[ ] c. SHS/GCE O'L/A 'Level [   ]   d. Diploma/University [   ]   e. Others [   ]

4. How long have you been registered as VAT trader? a. Less than 2years
    b. 3- 5years [   ]   c. 6-9years [   ]   d. 10years and above [   ]

SECTION B: Information/ knowledge about VAT

5. Under which of the following sectors does your business fall?

a. Manufacturing [   ] b. Retail [   ]   c. Service Provider [   ]

d. Whole sail[   ]   e. Export[   ]   f. Import[   ] 6.

Under which VAT scheme does your business operate?

a. Standard rate scheme (15%) [   ] b. Flat rate scheme (3%) [   ]

7. Have you receive VAT education from the VAT service?

a. Yes [   ]   b. No [   ]

8. If yes from question (7), was the education beneficial?

a. Yes [   ]   b. No [   ]

9. On what were you educated?

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10. How would you rate your understanding of the VAT service?

a. Very good [   ] b. Good [   ]   c. Average [   ]   d. Poor [   ]

11. Can a trader submit his VAT returns at any time?

a. Yes [   ]   b. No [   ]   c. No idea [   ]

SECTION D: Trader Compliance

12. Do you issue the VAT invoice to cover all your business transactions?

a. Yes [   ]   b. No [   ]

13. Do you find it convenient to use the VAT invoices?   a. Yes [   ] b. No[   ]   14.If

your answer to question (13) is No, state your reasons

please...

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15. Has your business activities been audited by VAT officers/VAT service?

    a. Yes [ ]   b. No [ ]

16. If your answer to question (15) is yes, how many times have you been audited?

    a.1-2[ ] b.2-3[   ] c. 3-4[ ] d. 4-5[ ] e. 6 and above [   ]
17. Where you given assessment to pay during the tax audit?   a. Yes [   ]   b. No [   ]

18. Has the tax audit conducted on your business improved your record keeping system?

    a. Yes [ ]   b. No [   ]

19. If yes to question (18) to what extent?   a. To a larger extent [   ]

 b. To a large extent [   ]   c. To less extent [   ]

d. To a larger extent [   ]

20. Have you ever paid penalty for late submission of VAT returns?

    a. Yes [ ]   b. No [   ]

21. Are VAT officers able to detect tax under declared?   a. Yes [   ] b. No [   ]

22. If yes to question (21) why do some traders still under declare their VAT?

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23. Are there challenges being encountered in complying with the VAT Act and

    regulations?   a. Yes [ ]   b. No [   ]

24. If yes question (23) state some of the challenges

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25. In your opinion, what measures should the VAT service about to help traders to

improve upon their tax compliance level?

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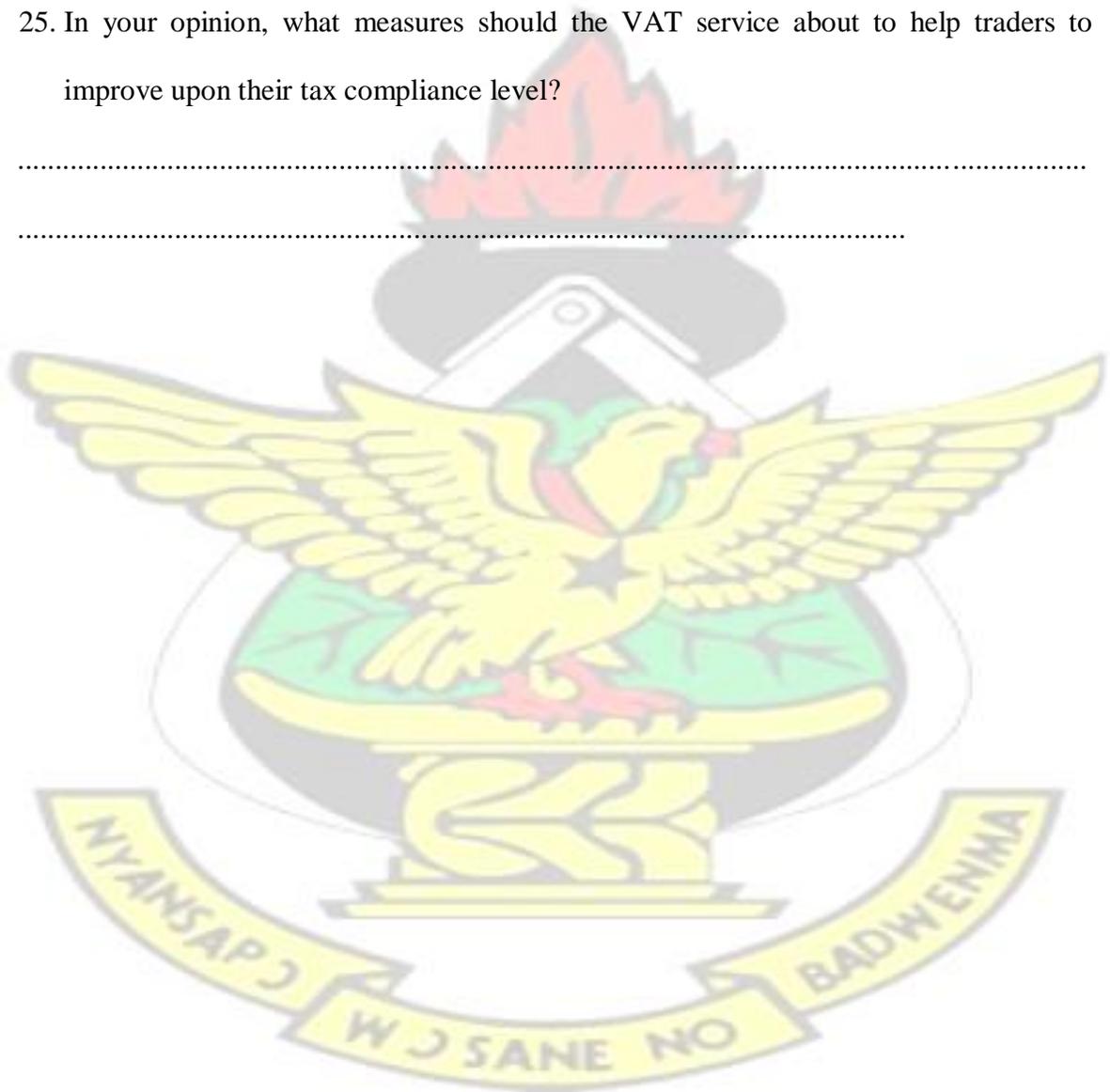
LIST OF ABBREVAITIONS

CCRA	Canada Customs and Revenue Agency
CFO	Central Filing Office
CV	Control and Verification
CEPS	Customs Excise and Preventive Service
GETFUND	Ghana Education Trust Fund
ECR	Electronic Cash Register
EDM	Enforcement and Debt Management
FDI	Foreign Direct Investment
GRA	Ghana Revenue Authority
GUTA	Ghana Union of Traders Association
GPRS	Government Poverty Reduction Strategy
HIID	Harvard Institute of International Development
ISSU	Information System Support Unit
IRS	Internal Revenue Service
IMF	International Monetary Fund
LI	Legislative Instrument
LVO	Local VAT Office
MDA	Ministries, Development and Agencies
OECD	Organisation for Economic Cooperation and Development
POP	Point of Presence
RMP	Research, Monitoring and Planning

SPSS	Statistical Product and Service Solution
VAT	Value Added Tax
VAT PN	Value Added Tax Public Notice
VATS	Value Added Tax Service
VFRS	Value Added Tax Satellite Station
VSRS	Value Added Tax Standard Rate Scheme
VSO	Value Added Tax Sub office