

**AN ASSESSMENT OF TAX COMPLIANCE BY THE
SELF-EMPLOYED IN THE NEW JUABEN MUNICIPALITY**

by

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**A Thesis submitted to the Department of Institute of Distance Learning,
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INSTITUTE OF DISTANCE LEARNING (IDL)

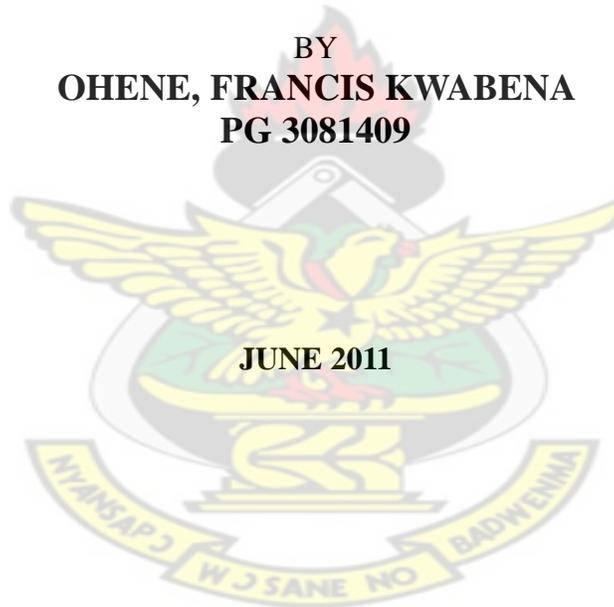


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NCE BY THE SELF-EMPLOYED
EN MUNICIPALITY

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JUNE 2011

DECLARATION

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

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Signature Date

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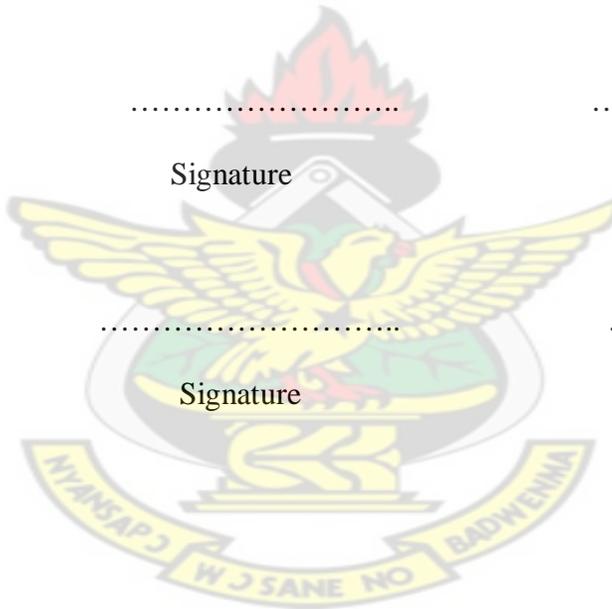
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ABSTRACT

Government needs funds to provide social amenities and infrastructures, among other things, for its citizenry and ensuring good governance. It is mandatory for every resident of Ghana to pay a fraction of his or her incomes to the state in a form of tax. (IRS Act 2000, Act 592).

In undertaking a study of this nature there was the need to choose a reasonable number of tax payers (self employed) to form the target population so as a concise research could be carried out with reasonable probability of success. In view of this, the researcher chose two hundred and seventy (270) self-employed persons. The researcher used the stratified random sampling methods in administering the questionnaires. Due to the fact that there are so many self employed individuals across the various occupational divide ranging from artisans to traders, and used his personal judgement to select Auto Mechanics, Carpenters and Joiners and Masons for data collection. Self –employed have improved in their tax payment because most literatures on taxing informal sector have shown otherwise. Again the self employed do not attend seminars organized by the Domestic Revenue Service, although those who attend the seminars said it was beneficial and educative which improved their knowledge base on the need to comply with their tax obligation. Finally the self-employed believed their tax liabilities were too high for them to fulfil as they want to comply with their tax obligation. From the research conducted, it can be decisively concluded that the level of income tax compliance in the informal sector is not satisfactory. It is therefore recommended that the IRS educate the public on understanding the tax system, the basis of computing their tax liability and more importantly the need to pay income tax for national growth and development among other things so as to ensure full understanding of the tax system by the self employed.

DEDICATION

This dissertation is dedicated to Matilda Dzotefe Ohene, whose motivation, encouragement and tireless effort saw me through this course.

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ACKNOWLEDGEMENT

There is virtually no field of human endeavor, which does not depend on effective communication both verbal and written for its success.

In a work of this nature, covering a span of many months of learning and working, it is very difficult indeed, if not impossible; to recollect all the sources of ideas used or adequately acknowledge debts where they are due. Any observed failure of such acknowledgement should not be taken as instances of intellectual dishonesty. On the contrary, such ideas have become so completely absorbed in the authors' own thinking that they pass unnoticed as his own.

I am most grateful to Dr. Frank Bamfo of Koforidua Polytechnic my supervisor for the tireless effort in taking time off his heavy schedule to supervise with fruitful comments and helpful suggestion to make this work complete.

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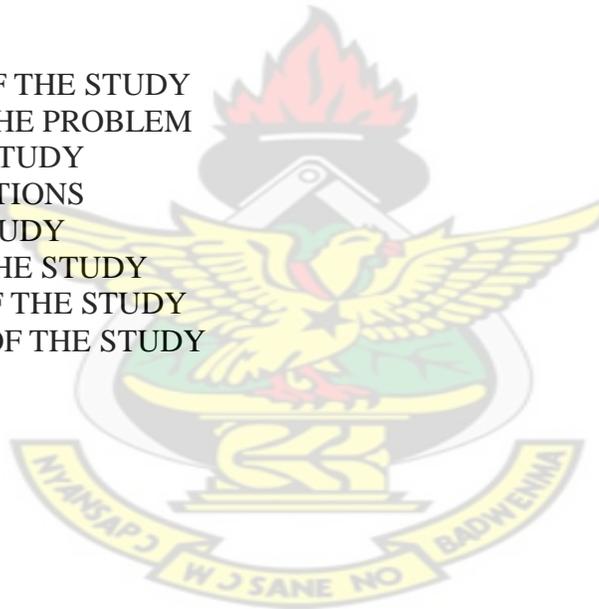
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I take responsibility for any deficiencies, which undoubtedly exist in this work.

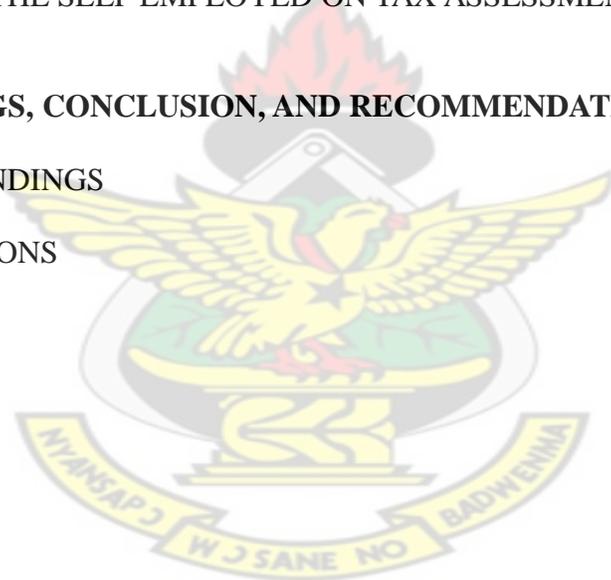
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CHAPTER ONE

INTRODUCTION

Chapter one discusses the background of the study on Tax Compliance of the self-employed in the New Juaben Municipality, the problem statement, objectives of the study, research questions, scope of study, limitation of study and finally the significances of the thesis topic “An Assessment of Tax Compliance of the Self Employed in the New Juaben Municipality”.

1.1 BACKGROUND OF THE STUDY

The government of Ghana needs funds to provide social amenities and infrastructures, among other things, for its citizenry and ensure good governance. The government is able to finance and provide public goods be it justice, security, or social services independent of the conditionality of external donors. The underlying assumption is that there exists a close link between mobilising internal revenue and good governance'. Sources of government revenue include grants, loans, divestiture, fees and tax revenues, among others. Appreciating the need for tax revenue for good governance and to undertake developmental projects in the Ghana, the colonial era saw the introduction of the income tax collection in 1943 under the Income Tax Ordinance 1943 (Ordinance No. 27), and the practice has since then continued through an evolutionary process which now puts the tax collection under the running of the Internal Revenue Service, established by an act of parliament the Internal Revenue Act, 2000 (Act 592), and now integrated with VAT and CEPS to form the Ghana Revenue Authority in 2009. Tax revenue is an underpinning factor to economic growth and development worldwide. It is estimated that tax revenue formed about 73% of total government revenue generated in the economy in the 2007 fiscal year. (The State of the Ghanaian Economy, 2007)

Tax revenue which constitutes a higher percentage of the total government revenue generated in the economy consists of a varying components ranging from direct to indirect and international trade taxes

among others; and varying class of payers ranging from employees in the public sector, private formal sector and the self employed, also referred to as private informal sector. According to the Ghana Living Standard Survey (GLSS) 2000, the economy of Ghana is invariably dominated by the activities of enterprises in the informal sector. It is estimated that, in terms of economic activities, about 86.3% is carried out by the self-employed sector mostly operating informal structures. Despite the fact that the highest percentage of the labour force is engaged in the private informal sector form of employment, the contribution of the sector to government revenue remains the least on the list. According to the state of The Ghanaian Economy (2007), tax income from the self-employed has generally averaged about 5.4% to total direct taxes'. This figure represents the lowest contribution to revenue generated from taxes. This shows the abysmal performance of the largest employment sector to the economy in terms of revenue generation.

Many have attributed the poor performance of the sector in question to invasion of tax, particularly with respect to the self-employed, which results from lack of compliance by the prospective taxpayers. In his paper presented at the Foreign Investment Advisory Service (FIAS) of the World Bank Group Regional Conference on the theme "Enterprise Formalisation in Africa", held at the Alisa Hotel in Accra on January 10 –11,2007. Accra. Aryee (2007) noted that the informal sector have been the worst income tax evaders. The evasion takes three forms, namely, non-declaration of income, under-declaration and inflation of deductions from income.'

Tax non-compliance has, for a long time, been a challenge to tax officials in executing their role as revenue collectors for the state. Failure to comply with tax regulations in the country is not only a denial of the state of its needed revenue for developmental projects, but also a discouragement to others to comply. According to Terkper (2003), legitimate taxpayers in the formal sector perceive the state as being unfair in pursuing them for taxes while the informal sector continues to operate untaxed. Ignoring informal sector activities will lower compliance morale and increase the risk of generalized non-compliance. There is some evidence from Latin America suggesting that tax compliance in the formal

sector is higher in countries, which have a relatively small informal sector Torgler (2003). It can therefore be inferred that, due to the low level of formal sector employment, there is high level of tax non-compliance leading to lower tax revenue.

Official from the Internal Revenue Service often put in strenuous efforts in getting the self employed honour their tax obligations. In an informal interaction with some officers at the Koforidua office of the Internal Revenue Service, it was discovered that in some cases, officers had to lock up shops of artisans and stores as a mechanism to get the owners pay their tax obligation. A sheer failure to pay ones tax on income earned amounts to non-compliance of the tax laws, which eventually lead to a loss of revenue to the government. This study therefore, assesses the tax compliance of the self-employed in the New Juaben Municipality. Findings from the study could serve as a springboard for a future nationwide study regarding the tax compliance by the self-employed in Ghana. The Internal Revenue Service and the state as a whole could then draw a comparative analysis to influence policy decisions.

1.2 STATEMENT OF THE PROBLEM

It is mandatory for every resident of Ghana to pay a fraction of his or her income to the state in a form of tax. IRS Act 2000, (Act 592). However, some citizens especially the segments of the labour force that finds them in the informal sector feel reluctant to honour their tax obligations. This was acknowledged in the 2006 budget statement when the minister of finance stated “the government will develop and implement a system to assess and collect income tax using the value of vehicles registered, because a significant percentage of vehicle registrations are from informal sector operators most of whom are not taxpayers” (Republic of Ghana Budget Statement, 2006).

According to the budget statement (2007) ‘one of the major challenges facing Ghana is how to broaden the tax net. Out of a pool of 5 million potential taxpayers, only 1 million are paying income taxes.

Apart from employees on the Government payroll, only about 350,000 employees in the private formal

sector pay taxes'. The fact that the vast majority of Ghanaians are in the informal sector make revenue generation a daunting task.

Employees in the formal sector (private and public) can hardly evade or under pay their tax liability because there are records on them since they operate in a formalise organizations. Perhaps this is because there is a comprehensive data of employees in formalised organisations, which makes it possible to track their incomes and tax them accordingly. This is not the case in the informal sector, otherwise known as the self-employed.

In the New Juaben Municipality, many self employed either do not honour their tax obligation or do but understate their revenue, leading to underpayment of their tax liability. Although in some cases targets set by tax offices are achieved, it is not a reflection of full utilisation of the taxable capacity of the state and that tax compliance can be achieved if the state widens its tax net and put mechanism in place to ensure taxable capacity.

On the next page is a table showing income tax figures under the self-employed and the PAYE systems relating to the New Juaben Municipality.

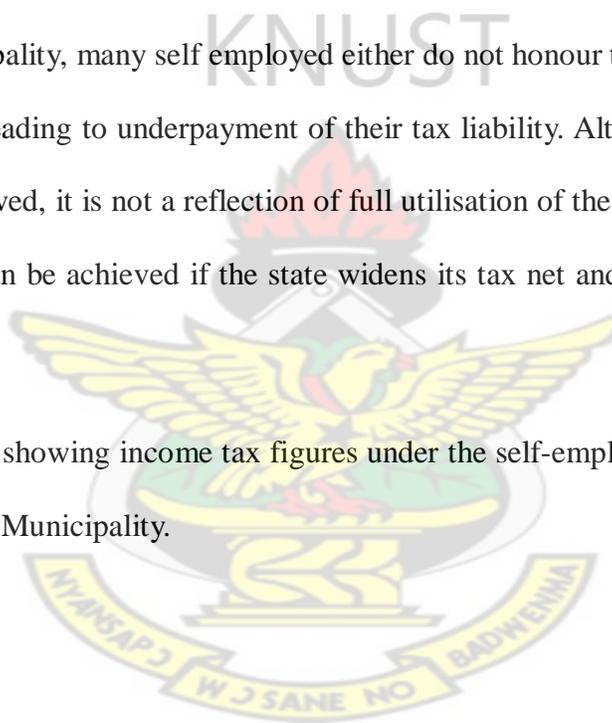


Table.1.1 Comparative data between Self Employed and PAYE Tax Compliance

SELF EMPLOYED TAX COMPLIANCE				
Year	Budgeted	Actual	Variance	Percentage
2007	1,152,011.07	1,109,578.83	(42,432.24)	-3.68
2008	1,511,917.00	1,285,592.52	(226,324.48)	-14.97
2009	2,038,058.81	2,290,638.88	252,580.07	12.39
2010	2,117,312.94	2,453,050.89	335,737.95	15.86
PAYE COMPLIANCE, 2007 – 2010				
2007	1,780,690.62	2,094,552.04	313,861.42	17.63
2008	2,577,081.00	2,897,169.63	320,088.63	12.42
2009	4,734,505.58	4,834,606.01	100,100.43	2.11
2010	5,051,782.27	5,173,708.17	121,925.90	2.41

Source: Regional Statistician, Domestic Revenue Division of Ghana Revenue Authority, Eastern Region.

In 2007, budgeted revenue collection was set at GH¢ 1,152,011.07 but only GH¢1,109,578.83 was actualized. This shows a shortfall of GH¢ 42,432.24 representing a 3.68% of budgeted revenue collection for the period for the self employed. As compared to the revenue collection under the same period for the PAYE, government loses so much revenue under the self-employed category of taxpayers. In the period under review, budgeted revenue collection was GH¢1,780,690.00 but GH¢ 2,094,525.04 was actualized, leading to a variance of GH¢313,861.42, a 17.63% increase in revenue collection over the set target.

Similar observations can be made in 2008, where an actual revenue of GH¢1,285,592.52 as against budgeted revenue of GH¢ 1,511,917.00 leading to a variance of GH¢ -226,324.48 representing a shortfall of 14.97% in tax revenue under the self employed category of the taxpayers, while over the

same period under the PAYE, tax revenue collection of GH¢ 2,897,169.63 was realized as against a budgeted revenue of GH¢ 2,577,081.00, an excess of 12.42%.

The situation does not pertain to the New Juaben Municipality alone but a nationwide phenomenon as Aryee acknowledged in his presentation which explained ‘the difficulties faced in constructing a culture of compliance among informal or partially formal enterprises beyond the technical issues of simplification and administration, drawing experiences from the Ghanaian context’. In his presentation, he addressed some key questions as follows:

- i. What makes people willing to pay tax?
- ii. How is taxing the informal sector different from taxing other enterprises?
- iii. What institutional mechanisms might be useful beyond the usual government apparatus – business associations, trade unions?

Following the research works done by several researchers, and the analysis made through this presentation, it is evident that the problem of lack of compliance among the informal sector or the self employed does not only exist, but also has created a rich avenue for loss of tax revenue to the state, hence, the assessment of tax compliance of the self employed in the New Juaben Municipality.

1.3 OBJECTIVES OF THE STUDY

The objectives of the study are set out primarily to:

1. Assess the level of tax compliance by the self-employed in New Juaben Municipality.
2. Determine the knowledge of the self-employed on tax incentives and tax reliefs.
3. Identify how often tax education is conducted on income tax administration.
4. Find out the perception of the self-employed on Income tax assessment/tax administration.

1.4 RESEARCH QUESTIONS

The study therefore produced empirical evidence addressing the following questions under these research objectives:

1. Do the self-employed file their tax returns at the tax offices periodically?
2. Do the self-employed know that after filing his tax returns he has tax incentives and tax reliefs to enjoy?
3. How often are the self-employed educated on tax administration?
4. How do the self employed assess tax assessment/tax administration?

1.5 SCOPE OF THE STUDY

The area of consideration is the New Juaben Municipality, which has a population of about 142,072 lying in the south-eastern part of the eastern region of Ghana, with a self-employed of 36,992. The commercial activities commonly found in this municipality are; Pharmacy Shops, Chemical/Drugs Store Operators, Seamstress and Tailors, Plumbers and Pipe fitters, Hairdressers and beauticians, Auto Mechanics, Carpenters & Joiners and Masons.

Out of these operators, the Auto Mechanics, Carpenters & Joiners, and Masons were chosen for the purpose of this research. According to officials at IRS these classes of artisans are not registered and feel reluctant to honour their tax obligation

1.6 LIMITATION OF THE STUDY

It well known that, no job or occupation whether small or big may be very easy to undertake. Finance is a major problem for many undertakings; as a lot of funds are needed to come out with a very

comprehensive research work like this. There is the problem of getting the needed data both primary and secondary, as in the case of primary data the potential interviewees have the notion that they would be exposed to the tax officials, since the area under study is a semi illiterate there isn't going to be maximum co-operation.

As regards secondary data, books, journals and magazines on taxation are difficult to come by. Since the time allotted for the submission of this work is limited, the researcher finds it difficult combing office duties, field investigation and data collection. It therefore lays a heavy burden on the student worker-researcher; anyway with the above mention factors a very comprehensive note will be attained.

1.7 SIGNIFICANCE OF THE STUDY

At the end of every year, as government prepares budget for the ensuing year, forecasting what it expects to receive and what it tends to spend. The bulk of receipts, which are through taxation, serve as a source of government revenue. These revenues are used to develop both human and infrastructure of the country in the form of hospitals, schools, roads and to carry out essential services like electricity, water and sanitation, but sadly enough majority of the citizenry who by statutory provision are qualified to honour their tax obligation to the state fail to do so thus denying the state the needed revenue to carry out these classes of projects. It is assumed that these categories of people would come to understand the purpose of taxation.

And the arguments that, the tax authorities are inefficient and are therefore not proactive in collecting taxes are thought of sound reasoning, but however, the culture of the Ghanaian not to pay tax and even not hear the word 'tax' is so rooted in the Ghanaian from the colonial days to modern day Ghana.

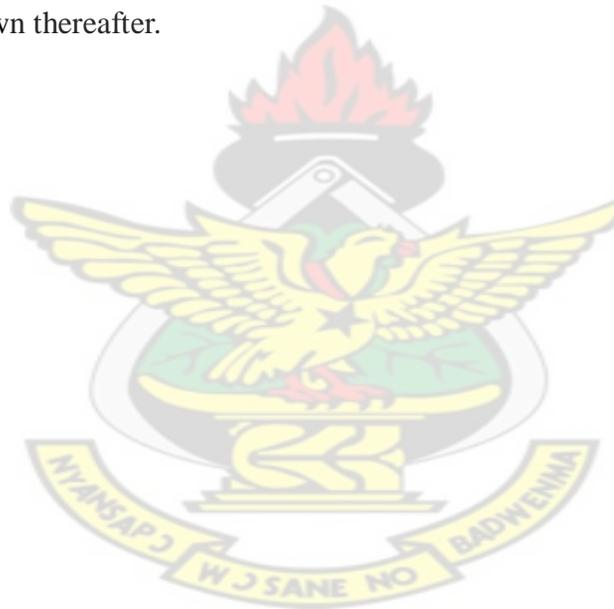
This research would enhance the self-employed to honour their tax obligation for the government to honour its responsibility. It is assumed that all things being equal, at the end of this research the citizenry will not be antagonistic about the tax collection system and thus honour their tax obligation.

1.8 ORGANISATION OF THE STUDY

This work is organized into five chapters. Chapter one discussed the background of the study on tax compliance of the self employed taken into consideration of the problem statement, objectives of study and scope of study. Chapter two dealt with the literature review in context of defining employment, taxation and the concept of tax compliance.

Chapter three also discussed the research design adopted for the study, sources of data, instrument for data collection, the study population and sample size. Chapter four analysed the views of masons, carpenters & joiners and auto mechanics on income tax and administration in Ghana.

Finally, chapter five discussed the summary of main findings from the analysis and conclusions and recommendation were drawn thereafter.



CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Chapter two discusses the literature review in the context of defining Employment, Taxation and the concepts of Tax Compliance. It looks at various concepts and theoretical framework concerning tax. The chapter again looks at Income tax returns, the various assessments, and tax reliefs and finally tax incentives that the taxpayer is suppose to enjoy.

2.1 THE CONCEPT AND DEFINITION OF TAX COMPLIANCE

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though 'tax laws are not always precise' (James and Alley, 2004).

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni, Erard, and Feinstein (1998) claimed that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. A wider definition of tax compliance, defined in 1978 by Song and Yarbrough suggested that due to the remarkable aspect of the operation of the tax system in the United States and that it is largely based on self assessment and voluntary compliance, tax compliance should be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to

comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (Internal Revenue Service Act, 2000 Act592).

Alm (1991) and Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority Singh (2003). Furthermore, tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns Chow (2004) and Harris (1989).

Compliance in pure administrative terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames Ming Ling et al (2005). In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Singh and Bhupalan, (2001). In line with Singh, Bhupalan and Somasundram (2003, 2005a and 2005b) claimed that the wider perspective of compliance becomes a major issue in a self assessment system since the total amount tax payable is highly dependent on the levels of tax compliance this perspective reveals, although it is inevitable that tax authorities will seek to 'influence' the areas taxpayers have influence over determining to reduce the risks of non-compliant behaviour they face otherwise e.g. through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education. Some authors have viewed tax compliance from a different perspective. For example, Allingham and Sandmo (1972) described tax compliance as an issue of 'reporting an actual income' and also claimed that tax compliance behaviour was influenced by a situation whereby taxpayers have to make a decision under uncertainty Clotfelter (1983) i.e. either taxpayers would enjoy tax savings due to under-reporting income or have to pay tax on the undeclared

amount at a penalty rate which is higher than they would have paid had the income been fully declared at the correct time.

McBarnet (2001) suggested tax compliance should be perceived in three ways, namely;

- a) Committed compliance - taxpayers' willingness to pay taxes without complaint;
 - b) Capitulative compliance - reluctantly giving in and paying taxes and
 - c) Creative compliance – engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the bracket of tax laws
- Spicer and Lundstedt (1976) perceived degrees of tax compliance as 'a special form of gambling' (which, may involve likelihood of detection and penalties) which requires the tax authority to understand the factors underlying taxpayers' decision to comply with tax laws.

Some literatures like Allingham and Sandmo (1972), Spicer and Lundstedt (1976), Lewis (1982) and Andreoni, Erard, and Feinstein (1998) therefore characterize and explain tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views). Tax enforcement aspects like penalties and the probability of detection also relate to tax compliance while other labor market behaviour factors including an individual's wages and tax bracket also contribute to tax compliance (Kirchler 2007).

Based on previous authors' definitions, there are some keywords, which were widely and interchangeably used to define tax compliance. For example, the words 'obey', 'ability' and 'willingness' McBarnet, (2001); Andreoni *et al.* (1998); Kirchler (2007); Song and Yarbrough (1978); IRS (2009). Other keywords were also relevant in defining tax compliance i.e. 'reporting all income' Alm, (1991); Jackson and Milliron, (1986), 'act of filing tax returns' Singh, (2003), 'declare the correct income' IRS, (2000). In addition, some authors also included 'timeliness', 'right amount of tax' Song and Yarbrough (1978) Ming Ling, et al (2005) as part of their definitions. The wider perspective of tax compliance was also illustrated in the definition provided by Andreoni *et al.* (1998) in which they included the desired outcome as a result of obedience to tax laws – 'to obtain an economic

equilibrium'; Allingham and Sandmo (1972) and Spicer and Lundstedt (1976) 'enjoy tax saving' or 'penalty'. Singh (2003) described tax compliance as voluntary action – 'without having to wait for follow up actions from tax authority'. Apart from these, Song and Yarbrough (1978) included some factors of compliance in their definition i.e. 'determined by ethics, legal environment and other situational factors'. Since there have been many empirical studies attempts made to define tax compliance, for the purpose of this study, based on Alm (1991); Jackson and Milliron (1986) and Kirchler (2007)), tax compliance is defined as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes on time.

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In contrast with tax compliance, tax non-compliance is defined as taxpayer's failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure Jackson and Milliron, (1986), Kesselman (1994), Kasipillai and Jabbar, (2003). Non-compliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time Kirchler (2007). Some studies also segmented income tax non-compliance into unintentional and intentional behaviour e.g Loo (2006), Mohani (2001) Kesselman, (1994) and Allingham and Sandmo, (1972). Thus, in conclusion, based on Jackson and Milliron (1986), Kesselman (1994), Kasipillai and Jabbar (2003) non-compliance is defined for the purpose of this study as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions, relief and rebates and/or paying the incorrect amount of tax beyond the stipulated time frame.

Tax compliance is a wide concept and can be viewed from many perspectives, including public finance, economic, legal and also psychological. James and Alley (2004) suggested two contrasting approaches pertaining to tax compliance as a summary of the extremes of ways of defining this topic.

A final definition of compliance might therefore be: the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without

the application of enforcement activity. There is no measure of such a definition that is both simple and accurate. However, this definition does indicate the main features, which should be considered in judging the compliance of taxpayers with the tax system.

2.2 TAX EDUCATIONS AND TAX COMPLIANCE

This discusses the importance and the role of tax education particularly in determining taxpayers' attitudes towards taxation. A significant amount of literature from various countries, different approaches, a range of variables and findings are also discussed in this section.

The influence of knowledge on compliance behaviour has been proven in various researches Mohamad Ali *et al* (2007). Harris (1989) divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation Eriksen and Fallan (1996). Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them Singh, (2003). Given evidence that tax knowledge affects understanding of taxpayers, an obvious explanation that has been raised by previous researchers e.g. Singh, (2003), Eriksen and Fallan, (1996) Harris (1989) is whether enhancement of tax knowledge will increase tax compliance. Thus, the remainder of this section describes the relationship between tax knowledge and tax compliance. Eriksen and Fallan (1996 p387) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. There is little research that explicitly considers how attitude towards taxation is influenced by specific knowledge of tax regulations'. The research done by Eriksen and Fallan has illustrated the importance of tax education in a tax system. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behaviour can be improved by a better understanding of tax laws. Eriksen and Fallan's

study is divided into three main parts. Firstly, the investigation is focused on taxpayers' knowledge. Secondly, the research tries to reveal the overall impact of tax knowledge on tax compliance behaviour among individual taxpayers and thirdly, the research involves tax agents in order to determine their influence in determining taxpayers' behaviour, tax agents are assumed to be involved more in preparing, declaring and calculating tax liability on behalf of individual taxpayers than in the directly assessed system. Eriksen and Fallan (1996) attempted to determine the relationship between the level of tax knowledge and attitudes toward taxation; whether specific tax knowledge influences attitudes in general (not only tax attitudes) and investigate people's behaviour toward traditional crime. The study was conducted through quasi-experiment with pre-testing and post-testing of two student groups in Norway. The results of the study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion.

2.3 PERCEPTIONS OF THE SELF-EMPLOYED ON TAX ADMINISTRATION

Studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion, are very limited. Logically, taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely. However, in most developed countries like the United Kingdom, which implement Pay as You Earned (PAYE), it is quite difficult to evade much of their tax liability as deductions are made at source for the majority of many taxpayers' liabilities. Unlike the United Kingdom, in other countries where PAYE is not extensively used, taxpayers have a larger opportunity to under report their income and therefore pay less tax.

Lewis (1982) suggests that attitudes should be examined for the degree to which they are a product of myth and misperception. He argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation would occur even if the taxpayers' basic ideology and values remain unchanged and the tax law is unchanged. He also claimed that misperception probably plays a

major role shaping fairness evaluations. Meanwhile, Roberts, Hite and Bradley (1994) also suggest that attitude to one's own tax evasion (tax ethics), and attitude to other people's tax evasion are important. If the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade.

In summary, the government should prudently spend taxpayers' money because the way in which the government spends the money produces different levels of compliance. Taxpayer's perceptions are potentially important in determining their compliance behaviour.

2.3.1 Perceptions of equity or fairness

As mentioned by Smith (1776), one of the main principles of the taxation system design is equity or fairness, which can be perceived via two-dimensional views –horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes) and vertical equity (taxes paid increase with the amount of the tax base). The driving principle behind vertical equity is the notion that those who are more able to pay taxes should contribute more than those who are not. Wenzel (2003) suggested three areas of fairness from the taxpayers' point of view (social psychology): 1) distributive justice (viewed as the exchange of resources i.e. benefit and cost); 2) procedural justice (viewed as the process of resource distribution) and 3) retributive justice (viewed as the appropriateness of sanctions when norm-breaking occurs).

In distributive justice, an individual is concerned about the fairness of their actions, and wants to be treated in relation to his merits, efforts and needs Kirchler *et. al*, (2008). If he feels that his tax burden is higher than other people within the same income group, his tax compliance probably decreases more widely at group levels; taxpayers want a fair treatment of their group relative to other income groups. If a specific group perceives that their tax liability is higher than other groups, then tax evasion might

occur among the group members Spicer and Becker (1980). At a society-wide level, tax compliance is less likely if the perception is held that the tax system is unfair; wide scale tax evasion is likely to occur. Allingham and Sandmo (1972) and Barjoiyai (1987). In contrast, if the society perceives that the tax system is equitable and fair, voluntary compliance is expected to increase. With regard to procedural justice, the main elements for perceived fairness are neutrality of procedures used, trustworthiness of the tax authorities, and the polite, dignified, and respectful treatment of taxpayers as individuals or groups. Tyler and Lind,(1992). Taxpayers expect that tax authorities will provide sufficient information about the tax law and regulations so that they can complete their tax return as accurately as possible. It is argued therefore that increased information about tax law and regulations can increase fairness perception and compliance Wartick (1994). Retributive justice, unreasonable and intrusive audits and unfair penalties lead to stressful and dissatisfied taxpayers Spicer and Lundsted (1976). Unfavorable retributive justice perceptions could lead to non-compliant behaviour and consequently increase tax evasion and inflate the tax gap.

Spicer and Becker (1980) examined the relationship between fiscal inequity and tax evasion. An experiment (simulation of completing a tax return) of 57 University of Colorado students revealed that high-income groups (“high-tax group”) had the highest percentage of tax evasion cases compared to other groups (“low tax and medium tax group”). Variables like perceived relative tax rates, gender mean tax resistance score, age and income correlated significantly with tax evasion. Furthermore, they also suggested that tax evasion increases (decrease (this doesn’t seem to make sense – why increase and then decrease?)) when taxpayers perceive fiscal inequity (equity) because they feel to be victimized by an imbalance of income redistributions.

In summary, the beneficiaries of income equity and what forms of inequity are likely to affect evasion behaviour are still unclear and debatable based on results of prior research.

The perceived fairness of the tax system also has an influence on the inclination towards tax evasion (Jackson & Milliron, 1986 and Richardson, 2008).

2.4 INCOME TAX CONCEPTS

Income tax is based on a system of rules and regulation that determine the treatment of various items of income and expenses. The key point to be made is that income taxation is based on a system. As such, it shares the characteristics of any type of system. Income tax system has been developed around general concepts that guide in its application to various types of transactions. There are, of course, exceptions that do not follow from the application of the general concepts. These exceptions generally stem from the desire to use the tax system to promote some social, economic or political goals.

Income tax concepts can be grouped into their major functions within the income tax system. Before beginning the discussion of the concepts, it is necessary to introduce a bit of terminology. A concept is a broad principle that provides guidance on the income tax treatment of transaction. A construct is a mechanism that has been developed to implement a concept. A doctrine is a construct that has been developed by the courts. Thus, construct and doctrines are the interpretive devices necessary to apply a concept.

2.4.1 General Concepts

General concepts provide guidance on the overall operation and implementation of the income tax system. As such, these concepts apply to almost every aspect of the system, be it an accounting issue, an income issue or a deduction issue ability-to-pay concept.

A fundamental concept underlying the income tax structure is the ability-to-pay concept. This concepts state that the tax levied on a taxpayer should be based on the amount that the taxpayer can afford to pay. The first result of this concept is that the income tax base is a net income number (i.e. income minus deductions and losses) rather than a gross figure such as total income received. Therefore, the tax base recognizes different deduction levels incurred by taxpayers as well as different levels of income.

2.4.2 Accounting Concepts

This guides the proper accounting for and recording of transactions that affect the tax liability of taxpayers. Without these concepts, taxpayers could manipulate their affairs so as to avoid paying taxes for many years.

2.4.3 Entity concepts

According to the entity concept each tax unit must keep separate records and report the results of its operations separate and apart from other tax units. This tax law requires that all tax units be classified as one of two basic entity types: taxable or conduit.

Taxable entities are those that are liable for payment of tax. That is taxable entities must pay a tax based on their taxable income. The four entities responsible for the payment of income tax are individuals; regular or corporation.

Conduit entities are non-taxable reporting entities. A conduit entity is one in which the tax attributes (income, deduction, losses, credit) of the entity flow through the entity to the owner(s) of the entity for tax purposes. The entities record transaction undertaken by the entity and report the result to the government.

2.4.4 Realization Concepts

This concepts states that no income is recognized for tax purposes until it has been realized by the taxpayer. A crucial question regarding income items is when to recognize the income (i.e. in which accounting period it should be taxed.) In this regard, the taxpayer's accounting method resolves many of the problems.

2.5 THE THEORY OF TAXATION

Taxation has existed since the birth of early civilization, and it could be said that it is part of the price to be paid for living in an organized society.

However, taxation is not just a means of transferring money to the government, to spend as it thinks fit, and it also has a tendency to reflect prevailing social values and priorities. In this respect it could be

argued that a system of taxation is a socioeconomic model, representing society's political and economic needs at any one time; changes in these needs often being reflected by changes to the system of taxation. This characteristic explains why no two countries' tax systems will be identical in every respect and indeed why the UK tax system is continually changing. (Nightingale, 2000).

2.5.1 The Objectives of Taxation

The rationale for imposing taxes in a market economy such as the Ghanaian stems from the government responsibilities listed below.

1. To provide public goods

A pure public good is one that displays the following characteristics:

- a. Displays zero marginal cost, i.e. no extra cost is incurred in supply the good to more than one person;
- b. Individuals cannot be excluded from consuming the good, even if they have no desire for it;
- c. All members of society must consume the same amount, it cannot be rejected, e.g. law and order.

A good example of a pure public good is defence. The provision of national defence protects all members of society from hostilities at zero marginal cost, no individual can be excluded and those who disagree in principle, e.g. pacifists, cannot reject it.

If left to the market, individuals with no desire for the good would be unwilling to pay the price, yet at the same time they could not be excluded from benefiting; as a consequence a free market would be inefficient in the provision of public goods, and as a result they become the responsibility of the state.

2. Redistribution of income and wealth

The mechanism for the redistribution of income and wealth by the use of transfer payments and benefits to those members of society who are less well off promotes social equality.

3. To promote social and economic welfare

Government often takes on a paternalistic role by providing 'merit' goods, e.g. health and education. Merit goods, unlike public goods, can be provided privately, but if left completely to market forces merit goods would be under consumed, and so there is some merit in the state providing such goods as everyone benefits from living in a healthy and educated society, i.e. there are external benefits in the provision of merit goods. In the same respect demerit goods, e.g. government discourages alcohol and cigarettes in order to reduce the external costs to society, e.g. health risks and pollution.

4. Economic stability

The government is responsible for avoiding high levels of inflation and unemployment in order to promote economic stability and sustainable growth.

2.6 THE CLASSIFICATION OF TAXES

A tax is a compulsory contribution, imposed by government, and while taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society. Taxes can be classified in the following ways:

2.6.1 Tax Base

Taxes have to be levied on some basis or other, and a convenient way of classifying a tax is to do so according to what is being taxed. Three main tax bases are used in the present Ghana tax system.

Using the tax base is a convenient classification for economic analysis, for example, in examining who exactly bears the burden of a tax, known as the incidence of taxation; but the tax base can cause problems in terms of definition how, for example, should income be defined? These issues will be considered later in this section.

2.6.2 Direct/indirect

A direct tax is one levied directly on the person who is intended to pay the tax, whereas an indirect tax is borne by a person other than the one from whom the tax is collected. This classification can prove to be misleading at times as the incidence of some direct taxes, for example, corporation tax, can easily be shifted.

2.6.3 Distribution of the tax burden

The way in which the burden of tax is distributed among the taxpaying community is another way in which taxes may be classified. The rates of tax can be set in such a way so that they are:

- a. Progressive: Progressive taxes take an increasing portion as the value of the tax base rises and depend on the marginal rate of tax being greater than the average rate of tax.
- b. Proportional: Proportional taxes take a constant portion of the value of the tax base and depend on the marginal and average rates of tax being equal.
- c. Regressive: Regressive taxes take a declining portion as the value of the tax base rises and depends on the average rate of tax being greater than the marginal rate of tax.

The Marginal Rate of Tax = $\frac{\text{change in tax paid}}{\text{change in income}}$

The Average Rate of Tax = $\frac{\text{total tax paid}}{\text{total income}}$

2.6.4 The principles of an 'ideal' tax

No one really likes paying taxes, yet they are inevitable for the provision of social welfare. Would anyone really like to put the clock back to the days when healthcare and education were not freely available, and the fate of old people without any private means of support was the workhouse? Despite the need for taxes in a modern society, the tax system adopted must be acceptable to the general public if dissension is to be avoided, an example is the unrest caused by the introduction of the community charge in the UK in 1990. Indeed, it was the introduction of a poll tax that caused the Peasants Revolt in the fourteenth century, and throughout history, unfair or seemingly unfair systems of taxation have been at the heart of many such conflicts.

In his book, *The Wealth of Nations*, Adam Smith (1776) proposed that a 'good' tax should display the following characteristics:

- It should reflect a person's ability to pay;
- It should be certain;
- It should be convenient, and
- It should be administratively efficient and not cause economic distortion.

These principles still hold good today, and in a modern tax system an 'ideal' tax should conform as far as possible to the following criteria:

2.6.5 Simple, certain and convenient

The tax should be relatively simple for taxpayers to understand their liability, and it should be administered in such a way that they are aware of the amount they should pay, and the due date for payment. Finally, the method of payment should not be inconvenient.

2.6.6 Flexible

The structure and rate of a tax should be capable of being altered without too much difficulty to cope

with changes in circumstances if the system of taxation is to be used as a means of regulating the economy, which is one of the stated aims of taxation.

2.6.7 Equitable

Taxes must not only be fair they must also be seen to be fair if the taxpaying public is to find them acceptable. There is also a greater tendency for tax evasion when the tax system is perceived to be inequitable; it is often said that if there is widespread tax evasion, then it is the system of taxation that is at fault, and not the taxpayer.

There are two types of equity to be considered:

- a. Horizontal equity – requires that people in similar situations be treated in a similar way.
- b. Vertical equity – requires that people in unequal situations be treated with the necessary degree of inequality. Vertical equity would require the rich to pay more than the poor, which advocates a progressive system of taxation.

Horizontal equity is easier to achieve through the tax system than vertical equity, as there are different attitudes as to what is a necessary degree of inequality. Equity is concerned with the distribution of the tax burden.

2.7 THE BENEFIT THEORY OF TAXATION

This theory is based on the idea that taxes should be levied in proportion to the benefit received. On the face of it, this approach would seem to be fair. However, in practice the benefit is difficult to measure, for example, childless couples may not always feel they should contribute to the provision of state education, and yet indirectly they will derive a benefit from living in an educated community.

In a market economy there will always be poor people who must be supported by the state by means of transfer payments paid for out of taxation, and here the benefit theory is of little use, as the benefits

received by the poor by redistribution cannot then be subjected to taxation. By and large the general public does not always see public spending on social goods and taxation as synonymous; there is always a large percentage of the population who feel that more money should be sent on health and education while at the same time perceives that taxes are too high. The benefit approach, which advocates that taxes should be paid by those who benefit the most from the expenditure, suggests a case for earmarking taxes for specific goods and services, for example, government expenditure on roads should be financed from taxes on car ownership such as the vehicle excise license and taxes on fuel, etc. In the absence of earmarked taxes, the road user would always wish to see money spent on roads and lower taxes on vehicle ownership. In fact the vehicle excise license was originally to be an earmarked tax, but currently finds its way into the general pool of tax revenue.

According to Musgrave earmarked taxes, or hypothecation, could increase efficiency and equity and lead to better expenditure decisions. The arguments in favour of earmarked taxes put forward are that earmarking:

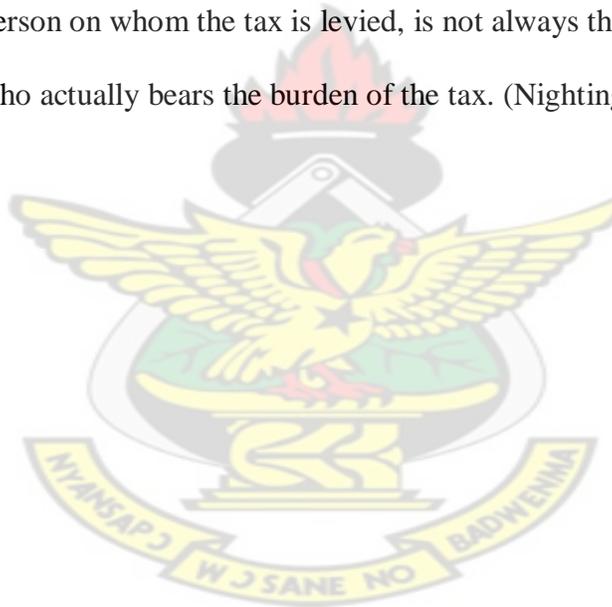
- Applies the benefit theory of taxation;
- Assures the minimum level of expenditure for government functions;
- Can reduce the costs of specific projects by assuring continuity; and
- Can overcome resistance to new taxes or increased rates or increased rates of tax.

2.7.1 Ability to Pay

Unlike the benefit approach, which would seek to match government expenditure with taxation in proportion to the benefit received, this approach is based on the idea that the burden of taxation should be spread in such a way as to give rise to an equality of sacrifice among the taxpaying community, e.g. £1 is less of a sacrifice to a person earning £25,000 than to one earning £15,000 all other things being equal. In principle the ability-to-pay approach would tend to satisfy vertical equity in that people in

different situations should be treated differently and it would tend to satisfy vertical equity in that people in different situations should be treated differently and it would require a progressive system of taxation. If the tax system is to provide for both types of equity, items such as gifts and inheritances should logically be included in the tax base, e.g. horizontal equity would require that a person who invests £10 000 in shares and another who invests £10 000 in non-income producing assets should be treated equally.

The main problem with this approach is deciding on the best indication of a person's ability to pay; in reality it is no more helpful than the benefit theory in formulating tax policy. As equity is concerned with the fair distribution of the tax burden, it is also important to consider the incidence of a tax, as the formal incidence, i.e. the person on whom the tax is levied, is not always the same as the effective incidence, i.e. the person who actually bears the burden of the tax. (Nightingale, 2000)



2.8 EMPLOYMENT

Internal Revenue Service Act, 2000 (Act 592) defines employment as:

- (a) The position of an individual in the employment of another person;
- (b) The holding of or acting in any office or a position entitling the holder to a fixed or ascertainable remuneration other than an office or position as director of a company or manager of a body of persons.

Further the Act defines employee as individual engaged in employment; and employer as a person who employs or remunerates an employee. These definitions seem rather too narrow.

Employment exists where there is a legal relationship of master and servant. This may be evidence by a contract of employment or may be implied by conduct. Employment signifies something in the nature of a “post”.

An individual may hold an office or employment and carry on a profession at the same time, in which case the rules of taxable emoluments apply to the office or employment. In *IRC v. Brander & Cruickshank* a firm of advocates in Scotland, although not holding themselves out as professional registrars acted as secretaries and registrars for companies and performed the duties imposed on the holders of such offices by the Companies Acts. The registrarships were acquired in the ordinary course of the firm’s practice as advocates. It was held that the registrarships were offices and that a payment of £2,500 on the termination of a registrarship was a payment to which the Schedule E rules applied, and being less than £5,000 was accordingly exempt from tax.

In practice, and as a matter of convenience, receipts from offices held by persons carrying on a profession are often treated as receipts of the profession. Hence accountants bring in their fees from auditorships in computing profits chargeable under profession and vocation. (Dua-Agyeman, 2005)

2.8.1 Nature of employment

It is often necessary to decide whether an activity carried on by an individual amounts to a profession or to an employment. Any contract or agreement (whether or not expressed in writing), which establishes the legal relationship of master and servant, should normally be regarded as creating an employment for income tax purposes. Whether a contract is one of service depends upon the facts of

the case. There several considerations that may be material but, as a rule, it may be taken that a contract which gives to one party (the employer) the power of controlling the acts of the other party (the employee) to the extent of directing not only the work which he is to do, but the manner in which it is to be done, is a contract of service.

One important element in a definition of employment is that the person employed works for the employer. Another element is when it can be established that there is mutual obligation between the two parties. This means that the employer has to fulfil certain obligations, such as an obligation to provide work and the employee also has to fulfil his part by performing the work in a required manner, and not sending another to do the work on his behalf.

Tests which are considered indicative of employment are where the individual:

- (a) Has to do the work himself or herself;
- (b) Can be told at any time what to do or when and how to do it;
- (c) Is paid by the hour, week or month, or may be paid overtime;
- (d) Works set hours, or a given number of hours per week or month;
- (e) Has to work at the premises of the person for whom the work is done, or at a place decided by that person.

Those, which are usually considered to indicate self-employment, are where the individual concerned:

- (a) Has the final say in how the business is run;
- (b) Risks his or her own money in the business;

- (c) Is responsible for losses as well as profits;
- (d) Provides the necessary main items of equipment to carry out the engagement;
- (e) Is free to hire other people on his or her own terms to carry out the employment;
- (f) Has to correct unsatisfactory work in his or her own time and at his or her own expense.

The English Court of Appeal in 2005 set out its analysis of the legal test to use when applying it to a real work situation in a case brought before the court by James Bryson, a model maker on The Lord of the Rings movie.

- (i) Is the worker providing services as part of his or her own businesses? A “yes” answer indicates the worker is a contractor. Look at who controls what the worker does on a day-to-day basis; who provides the equipment for the job; if the worker can hire helpers; if the worker has taken any financial risk for the job; if the worker has any responsibility for management decisions; and the degree, if any, to which the worker can profit from sound management in the job.
- (ii) If there is a written contract, the way its terms have actually been followed will be relevant. Consider how the worker has been paid – by wages, or on receipt of an invoice? How has income tax been dealt with?
- (iii) What is the normal industry practice for hiring workers? The Court of Appeal strongly influenced by the industry practice of engaging contractors for roles such as Mr. Bryson’s, decided that he was a contractor.

2.8.2 Contract for services or self-employed

On the other hand, where a person works from his own premises in his own way and has no obligation to any one continuing employer, then he would be self-responsibility. The individual is responsible only to himself and also for such things as finding his own work and clients, financing the business himself, controlling the way in which the business is carried on and providing his own equipments etc. Social Security Law 1991 PNDCL.247 defines a self-employed person as a person who has no other employer but himself and works on his own account.

If a person is engaged by two or more employers it is a question of fact depending on the circumstances of the case whether he is exercising several separate employments, the emoluments of each of which would be assessable as income from employment or whether he is carrying on a number of activities constituting a trade, business, profession or vocation, the gains of which would be assessable as such. The other distinction seems to be that an employment has that element of stability, which gives it the characteristics of an office whereas a series of engagements or a concurrence of engagements of a fluctuating character, such as a freelance journalist, together gives rise to a trade, profession or vocation. Modern cases show that the test for distinguishing a contract of service from a contract for services is whether the person carries on business on his own account. *Ready Mixed Concrete (South-East) Ltd. v. Minister of Pensions and National Insurance*; *Market Investigations Ltd. v. Minister of Social Security*; *Global Plants Ltd v Secretary of State for Social Services*.

The distinction between employment and self-employed is important because it is difficult to claim any tax-allowable personal expenses against employment earnings, whereas a number of expense may be allowed as deduction against income from trade, business, profession or vocation. (Dua Agyeman, 2005).

2.8.3 Self-employment is working for one's self. Self-employed people can also be referred to as a person who works for himself/herself instead of an [employer](#), but drawing income from a [trade](#) or [business](#) that they operate personally.

To be self-employed is not the same as being a [business owner](#): A business owner is not required to be hands-on with the day-to-day operations of his or her company,

while a self-employed person has to utilize a very hands-on approach in order to survive. According to the US Bureau of Labour Statistics, only 44% of businesses survive the first 4 years in business.

2.9 EMOLUMENTS

Emoluments are defined as including salaries, fees, wages, perquisites and profits whatsoever. Act 592 defines a person's "total cash emoluments" as the total of all income derived by the person during the year of assessment from any and all employment and the total of any amount required being included in that person's income under section 53 as may be applicable. The inclusion of perquisites and profits shows that the word emoluments are not limited to remuneration in the sense of a reward for specific services.

The emoluments must derive from the office or employment. In other words, the office or employment must be the source of the payment. Lord Templeman in *Shilton vs. Wilmshurst* (House of Lords) set out the test to be applied in determining whether a payment should be treated as an emolument. He said: "Section 181 is not confined to emoluments from the employer but embraces all emoluments from employment; the section must therefore comprehend an emolument provided by a third party, a person who is not the employer. Section 181 is not limited to emoluments provided in the course of the employment' the section must therefore apply first to an emolument which is paid as a reward for past services and as an inducement to continue to perform services and, second, to an emolument which is paid as an inducement to enter into a contract of emolument from employment means an employment

from being or becoming an employee. (Dua Agyeman, 2005).

2.10 INCOME TAX RETURNS

2.10.1 Purpose and Reason for Filing Returns

Apart from giving information about one's total income and other relevant information for a fair assessment, a tax return affords the tax authorities the opportunity to know the individual circumstances of taxpayers for the necessary adjustments to be made in assessing their tax liabilities.

It also serves as a source of information to the Tax Office to get people liable to tax into the tax net, for example, information on landlords, moneylenders, people buying assets, etc. Completion of Return Forms is a statutory requirement of the taxpayer to do. It is in the interest of the taxpayer to file his/her return because without the return no assessment can be made to determine the actual tax liability and to know whether any refund is due or not.

Tax is on total income earned within a year of assessment and since employers do not know of income from other sources of their employees, the taxes deducted are on employment income only. The employee has to disclose that he or she does not have any other source of income or give details of any such income by filing a return. It is only when this declaration is given that actual tax liability can be determined.

(Abdallah, 2006)

2.10.2 Submission dates for filling return

- i.** In the case of a company, returns must be submitted not more than four months after the end of the company's financial year.

- ii. In the case of employees, employers are required to finalize the returns and file them not later than 31st March (i.e. three months after the year's end). This is where the employee has no other sources of income aside his employment income.

All other persons are to furnish their returns within four months after the end of a basis period, which ends within the assessment year. (Abdallah, 2006)

2.10.3 Keeping necessary accounts and records

Unless otherwise authorized by the Commissioner, a person liable to tax under the Act other than an employee with respect to his employment income shall maintain in Ghana the necessary records to explain the information to be provided in a return or in any other document to be furnished to the Commissioner to enable an accurate determination of the tax payable by that person.

Where a person does not maintain records as required by the Act, the Commissioner may adjust that person's liability to tax in a manner that is consistent with the intention of the Act. The records referred to shall be retained for a period of not less than six years unless the Commissioner otherwise specifies in writing. The records to be maintained by a business shall include a record of all receipts and payments, all revenue and expenditure, and all assets and liability of the business.

Where a book, record, or computer-stored information referred to above is not in English, the Commissioner may, by notice in writing, require the person keeping the book, record, or computer-stored information to provide, at that person's expense, a translation into English by a translator approved by the Commissioner. (Dua Agyeman, 2005)

2.10.4 Furnishing of return of income

Delivery of returns of income by taxpayers to the Commissioner has always been a problem for the government. Taxpayers feel very reluctant, particularly employees and individual traders, to submit

their returns regularly for the Commissioner to make accurate assessment. Individual taxpayers have not been properly educated on the benefits of delivering returns regularly to take advantage of claiming the various reliefs and allowances. Where taxpayers do not claim such reliefs, it becomes difficult for the government to assess the impact of the reliefs on the taxpayer's motivation to work harder. More importantly the purpose of the reliefs to assist the low-income earners, the aged and the disabled is then defeated.

Section 72 of the IRS 2000, (Act 592) provides that a person shall furnish a return of income for a year of assessment of that person not later than four months after the end of a basis period of that person ending within the year. The return shall be in a form prescribed by the Commissioner. It shall state the information required and furnished in the manner prescribed by the Commissioner. The return shall include a declaration that the return is complete and accurate and shall be signed by the person making the return.

A person carrying on a business shall furnish with that person's return of income a separate statement of income and expenditure and a statement of assets and liabilities for each business undertaking carried on within that business by that person.

A person who, for remuneration, prepares or assists in the preparation of a return of income, or a balance sheet, statement of income and expenditure, or any other document submitted in support of a return of another person, other than as employee of the other person, shall sign the return, certifying:

- a) That the books of account and other relevant documentation of the other person have been examined, and
- b) That to the best of the examiner's knowledge, the return or document correctly reflects the data and transactions to which it relates.

Where a person who prepares or assists in the preparation of a return of income refuses to sign a certificate as above, that person shall furnish a statement in writing to the owner of the returns the reasons for the refusal and that statement shall be included with the return of income to which the refusal relates.

Where, during a basis period any of the following conditions occur:

A person dies

A person becomes bankrupt, is wound-up or goes into liquidation;

A person is about to leave Ghana indefinitely;

A person is otherwise about to cease activity in Ghana; or

The Commissioner otherwise consider it appropriate;

The Commissioner may, by notice in writing, require that person or that person's trustee, to furnish, by a date specified by the Commissioner, a return of income for that person for a period less than the basis period.

Where a person fails to furnish a return of income as required by the Act, the Commissioner may, by notice in writing, appoint another person to prepare and furnish the return and the return so furnished is deemed to be the return of the person originally required to furnish the return. The Commissioner may, by notice in writing, require the person who furnished the return to provide a fuller or further return of income. (Dua Agyeman ,2005)

2.11 WHAT IS A TAX RELIEF?

A tax relief is an approved deductible allowance intended to reduce your taxable income and thereby lessen your tax burden. Your personal circumstances are always taken into consideration. For example, a married person with children attending school will normally be harder pressed than a single person with no dependants. Therefore in all progressive tax administrations, as obtains in Ghana, your position in relation to your commitments is considered by granting you reliefs to lighten the tax burden.

2.11.1 Types of reliefs

The following reliefs are allowed under Act 592

Marriage/responsibility

The relief is GH¢100.00 per annum, and granted to any person with a dependant spouse or any person with at least two dependent children. (Business& Financial Times, 2011)

Disabled

This relief is limited to 25% of income from business and/or employment only and granted to a person who is certified to be disabled by the Department of Social Welfare only (. (Business& Financial Times, 2011)

Old age

The relief is GH¢100.00 per annum or the total income, whichever is less and this relief is granted to persons who are sixty (60) years and above and are in receipt of income from business and/or employment. (Business& Financial Times, 2011)

Child education

The relief is GH¢100.00 per child per annum up to a maximum of three years. This relief is granted to persons who have children/wards in recognized educational institutions in Ghana, both parents cannot claim this relief in respect of the same child. (Business& Financial Times, 2011.)

Aged-dependant

A taxpayer who provides the necessities of life for an aged relative who is 60 years and above (other than a spouse or child) qualifies for a relief of GH¢50.00 per aged relative the relief is granted up to a maximum of two aged-dependants and only one person can claim this relief in respect of the same aged relative.

(Business & Financial Times, 2011)

Cost of training/self-improvement

Any individual taxpayer who undergoes training to update his professional, technical or vocational skills or knowledge is eligible for a relief of GH¢200.00 or the cost training whichever is less.

(Business & Financial Times, 2011)

Social security

This relief is granted to persons who contribute to the Social Security Scheme in Ghana the relief is 5.5% of your income from employment or 18½% of income from business.

Life assurance

The scheme must be invested in Ghana and annual premium paid is allowed as relief provided it does not exceed 10% of the capital sum assured or 10% of total income.

Who Qualifies for a Tax Relief?

Every individual taxpayer is qualified to put in a claim for a Tax Relief. The taxpayer must complete and submit his/her tax returns to the Internal Revenue Service to qualify for a tax relief.

2.12 TAX INCENTIVES

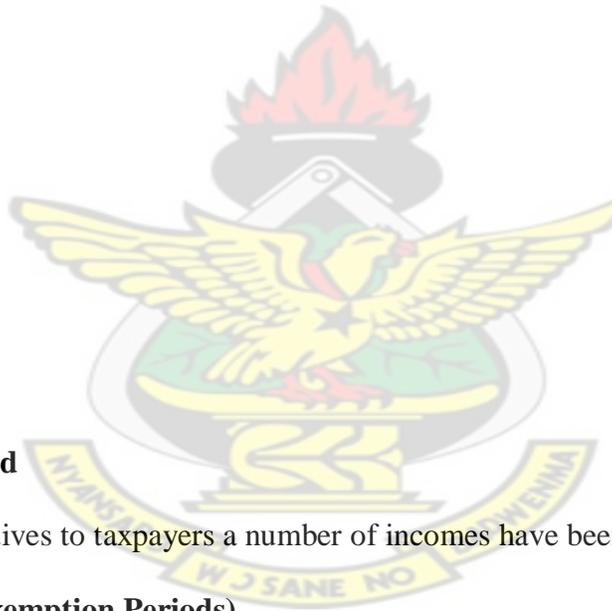
Tax incentives are concessions, provisions and conditions made available to taxpayers and to serve as:

- a) Motivations and encouragement
- b) Means of reducing the tax liability and also lessens the tax burden on taxpayers

Types of Incentives

1. Incomes Exempted
2. Tax Holidays / Exemption Periods
3. Tax Rates
4. Reliefs
5. Expenses (Deductions Allowed)
6. Carryover of losses
7. Tax Rebates
8. Capital Allowances
9. Settlement of Disputes
10. Dividends
11. Free Zones

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2.12.1 Income Exempted

In an attempt to give incentives to taxpayers a number of incomes have been exempted from tax.

2.12.2 Tax Holidays (Exemption Periods)

Some businesses are granted tax holidays or exemptions periods. These include farming, processing businesses as well as agro processing business.

The rest are Rural Banks, Real Estates Developers, Ghana Stock Exchange and Free Zones.

2.12.3 Tax Rates

The tax rates for individuals mainly employees and self-employed persons, companies as well as bodies of persons as indicated in the page on Tax Rates also serve as types of incentives to taxpayers.

i. Individual Tax Rates

With regards to the individual tax rates, the marginal tax rate is the same for employees and self-employed persons.

The marginal rate in the year 2000 was GH¢90. This was revised to GH¢120 in the year 2001 and was again increased to GH¢150 in the year 2004 to date.

Similarly, the top marginal rate has been raised from GH¢4,800 and above at a rate of 30% to GH¢9,600 and above at the rate of 25% in the year 2004 to date.

ii. Company Tax Rate

Company tax rate at present is 25%. However, concessionary rates are enjoyed by some businesses. The income tax rate applicable to a company engaged in the hotel industry is 22% and that of export of “Non-traditional goods” is 8%.

Companies listed on the Ghana Stock Exchange are taxed at 22%. Concessionary rate of 20% is enjoyed by Financial Institutions that derive their incomes from loans granted to Farming Enterprises and Leasing Companies.

iii. The Rate for Bodies of Persons

The income tax rate applicable to bodies of persons is 25%.

2.12.4 Tax Relief's

Tax reliefs are granted to individuals so as to lessen their tax burdens. Some reliefs are now granted upfront. The details could be obtained from the page on Reliefs.

2.12.5 Deductions Allowed / Expenses

All expenses made in relation to the production of the income from any business, employment or investment is allowed or deducted in respect of:

- i. The expenses wholly, exclusively and necessarily incurred in the production of the income
- ii. Any other deductions as may be allowed by the Minister of Finance.

Deductions Allowed

- i. Interest on Loans
- ii. Rent
- iii. Repairs
- iv. Deductions in relation to Rental of premises
- v. Bad Debts
- vi. Research and Development Expenditure
- vii. Capital Allowance
- viii. Foreign Currency Exchange Losses

Carryover of Losses (Restricting to farming, manufacturing, mining, agro processing, tourism, ICT industries (Software), venture capital financing companies)

2.12.6 Carry Over of Losses

For the purposes of ascertaining the income of a person from farming, mining, or manufacturing business which mainly produce for export, the losses incurred can be carried over or deducted for five years.

2.12.7 Tax Rebates (location Tax Incentives)

Manufacturing business which is located outside Accra / Tema enjoys tax rebate as follows:

Location Rebate

Regional Capitals 25%

Elsewhere in Ghana 50%

2.12.8 Capital Allowance

Capital allowance is a deduction allowed and it is granted in respect of depreciation of assets used in the course of production of the income by enterprises.

2.12.9 Settlement of Disputes

The Commissioner is the first appellate authority. Thereafter appeals can be made to the courts as far as Supreme Court for settlement of disputes.

2.12.10 Dividends

Dividends are taxed at the rate of 8% and it is a final tax that granted to shareholders.

2.12.11 Free Zones

The Free Zones Act 504 provides tax holiday of 10 years for companies operating in areas demarcated as Free Zones.

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CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

The methodology discusses the research design adopted for the study, sources of data, instrument for data collection, the study population and sample size, as well as the sampling procedures and data analysis was considered.

3.1 RESEARCH DESIGN

The researcher used the survey approaches to understand some of the specific problems, have an idea and to locate individuals and groups under consideration. The major purpose of surveys is to describe the characteristics of a population. In essence, what researchers want to find out is how the numbers of a population distribute themselves on one or more variables (attitude towards tax compliance.)

3.2 SOURCES OF DATA

Two main sources of data, comprising the Primary and Secondary data were used. The target population comprising auto mechanics, carpenters & joiners and masons were the primary source of data, while the secondary data comprises of research works done by other people that were considered useful to the study and Internal Revenue Service, newsletters, textbooks.

3.3 THE STUDY POPULATION

In undertaking a study of this nature there was the need to choose a reasonable number of tax payers (self employed) to form the target population so as a concise research could be carried out with reasonable probability of success. In view of this, the researcher chose two hundred and seventy (270) self-employed persons.

3.4 INSTRUMENT FOR DATA COLLECTION

The researcher administrated questionnaires containing both closed-ended questions and open-ended questions. In this case the questionnaires made room for the use of follow-up questions and probes, which had a high rate of response because all that the respondent had to do was to make a cross against an answer.

3.5 SAMPLING TECHNIQUE

The researcher used the stratified random sampling methods in administering the questionnaires. Due to the fact that there are so many self employed individuals across the various occupational divide ranging from artisans to traders, etc, it is extremely difficult to consider all self employed in the New Juaben Municipality for data collection. The researcher therefore deemed it fit to employ the stratified random sampling method to classify all self employed by their specific occupation (by product/service they produce/provide) and used his personal judgement to select Auto Mechanics, Carpenters and Joiners and Masons for data collection. Having stratified the self employed by occupation and arrived at which occupational group to select the samples from, the researcher randomly selects samples from the categories selected to respond to the questions in the questionnaires are then selected from the stratified groups randomly. These methods were used, in order that each of the strata or category of target population had an equal chance or probability of being included or excluded in the final sample. The use of these sampling methods is justified by the fact that they were quicker and less costly to

employ and had the ability to represent a high degree of spread in the data collection. (Kumekpor, 2002 and Marchal &Wathen, 2003)

3.6 ANALYSIS OF DATA

To ensure accuracy in the data processing, the researcher did data editing and cleansing of the data before analyzing the data. As the analyses were done electronically, it was necessary to codify the data collected in order to make possible inputting into the data processor. The codes were transformed into units to facilitate their description and analyses. Diagrammatic presentation was done by means of tables and graphs and analyzed by means of percentages.

Although there were several electronic means of analyzing data, the researcher used Statistical Package for Social Sciences (SPSS) for this analysis. This is because SPSS is one of the most frequently used research tools in the social sciences and other related field of research.



CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.0 INTRODUCTION

This chapter seeks to analyze the views of Masons, Carpenters and Joineries, and Mechanic on income tax and income tax administration in Ghana.

As part of the research tools, questionnaires were administered to respondents to seek the views of the self-employed regarding tax compliance. Interviews were conducted where necessary.

4.1 BACKGROUND OF RESPONDENTS

Table 4.1 on page 55 illustrates respondents whom the questionnaires were administered to were made up of Carpenters & Joiners representing 42.2% been the highest, Masons 32.2% and Auto Mechanics 25.6%. However 81 out of 114 of the artisans in the Carpentry & Joinery category operated on sole proprietorship whilst masons and auto mechanics were into partnership representing 57 out of 87 and 45 out of 69 respectively.

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Table 4.1 Occupation of Respondents and Ownership Type

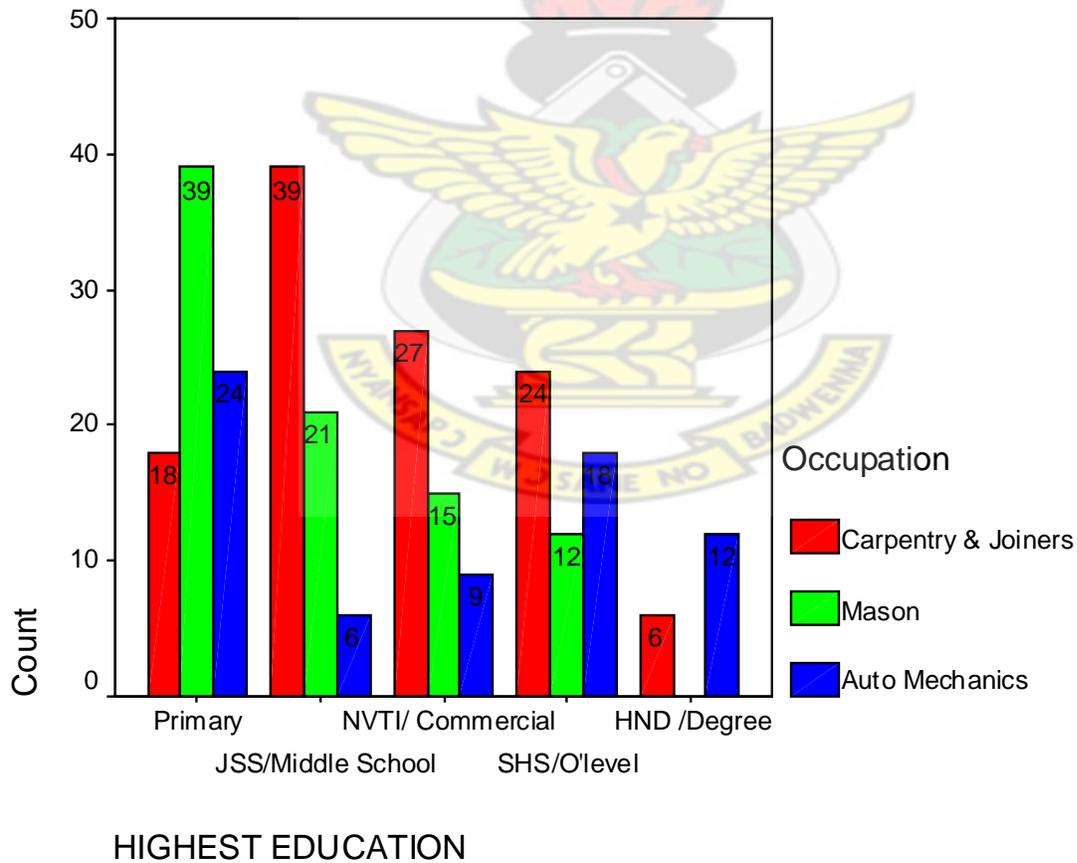
Occupation		OWNERSHIP TYPE		Total
		SOLE PROPRIETOR	PARTNERSHIP	
Carpentry & Joiners	Count	81	33	114
	% of Total	30.0%	12.2%	42.2%
Mason	Count	30	57	87
	% of Total	11.1%	21.1%	32.2%
Auto Mechanics	Count	24	45	69
	% of Total	8.9%	16.7%	25.6%
Total	Count	135	135	270
	% of Total	50.0%	50.0%	100.0%

Source: Field Work Survey, June 2011

4.1.1 Comparison of Education and Occupation

From figure 4.1 on page 56 the highest education the artisans obtained was primary education which represented 81 out of 270 target population or 30.0% followed by those who had JSS/Middle School education representing 24.4 % made up of 66 out of 270 of target group. This implies that there is semi literacy rate among these groups of artisans in the New Juaben Municipality. A pictorial view is shown on the next page

Figure 4.1 Comparison of Education and Occupation



Source: Field Work Survey, June2011

4.1.2 REGISTRATION OF BUSINESS

This assessment was done to find out the level at which the self-employed have registered their businesses. If the businesses are registered, it will mean that there are records on them, and this will enable the tax collecting agency to capture them into the tax net and the reverse will be the case if the businesses are not registered.

Table 4.2 Business Registration

Occupation	IS YOUR BUSINESS A REGISTERED ONE?		Total	
	YES	NO		
Carpentry & Joiners	Count	54	60	114
	% of Total	20.9%	23.3%	44.2%
Mason	Count	18	60	78
	% of Total	7.0%	23.3%	30.2%
Auto Mechanics	Count	24	42	66
	% of Total	9.3%	16.3%	25.6%
Total	Count	96	162	258
	% of Total	37.2%	62.8%	100.0%

Source: Field Work, June 2011.

From the analyses in the table 4.2 above only 54 out of 114 respondents representing 20.9% have registered their businesses in the case of carpenters & joiners. For mason 18 out of 78 representing 7.0% have their businesses registered, while 24 out of 66 respondents, representing 9.3% have their

businesses registered. In sum, only 96 respondents, representing 37.2% of all respondents had their businesses registered.

4.1.3 Financial records keeping

To be able to comply appropriately with one's tax obligations, one should have reliable systems of record keeping. This assessment was done to find out whether or not carpenters & joiners, masons and mechanics kept financial records. If they kept financial records, it will mean that they will be able to produce financial statements upon which their income will be determined and subsequently charge income tax.

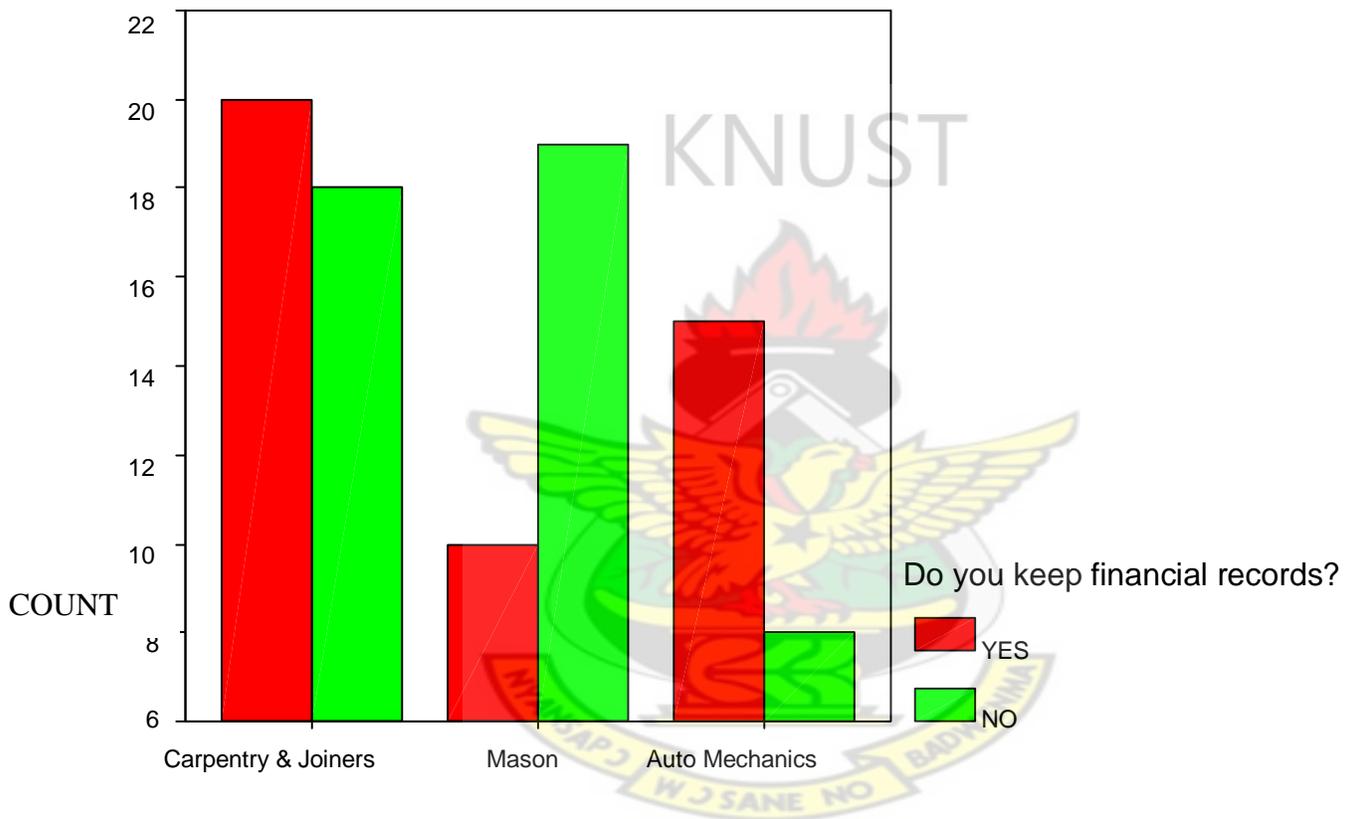
Table 4.3 Keeping of Financial Records

Occupation		DO YOU KEEP FINANCIAL RECORDS OF YOUR ACTIVITIES?		Total
		YES	NO	
Carpentry & Joiners	Count	60	54	114
	% of Total	22.2%	20.0%	42.2%
Mason	Count	30	57	87
	% of Total	11.1%	21.1%	32.2%
Auto Mechanics	Count	45	24	69
	% of Total	16.7%	8.9%	25.6%
Total	Count	135	135	270
	% of Total	50.0%	50.0%	100.0%

Source: Field Work, June 2011.

From table 4.3 above, 135 out of 270 respondents, representing 50% of all respondents responded 'Yes' to the question 'Do you keep financial records?' 60 carpenters & joiners, 30 masons and 45 auto mechanics representing 22.2%, 11.1% and 16.7% respectively said they kept financial records of their activities. On the next page is a pictorial view of table 4.3.

Figure 4.2 Keeping of Financial Records and Occupation



Source: Field Work, June 2011

4.2 ASSESSING THE LEVEL OF TAX COMPLIANCE BY THE SELF EMPLOYED

4.2.1 Payment of Income Tax

This analysis is made to assess the level of tax compliance of the self-employed. The more respondents that respond 'yes' to will mean that the self-employed pay their tax on condition that they are not being

economical with the truth. The table 4.4 on page 60 shows the responses of respondents to this question.

Table 4.4 Payment of Income Tax

Occupation		HAVE YOU EVER PAID INCOME TAX?		Total
		YES	NO	
Carpentry & Joiners	Count	81	33	114
	% of Total	30.0%	12.2%	42.2%
Mason	Count	72	15	87
	% of Total	26.7%	5.6%	32.2%
Auto Mechanics	Count	45	24	69
	% of Total	16.7%	8.9%	25.6%
Total	Count	198	72	270
	% of Total	73.3%	26.7%	100.0%

Source: Field Work, June 2011.

From the table 4.4 above, 198 out of 270, representing 73.3% sampled Carpenters and Joiners, Masons and auto mechanics responded 'Yes' to this question. 81 carpenters & joiners, 72 masons and 45 Auto Mechanics claimed they have ever paid taxes. If the claim is actually the truth and the sample size is representative enough of the population, then it can be said that the self-employed have improved in their tax payments because most literatures on taxing the informal sector have shown otherwise.

4.2.2 Organization Respondents Pay Tax to

This analysis is done to ascertain which organisation the self-employed pay their taxes to. It will also help to know whether what they call income tax is really an income tax or some other levy. The more people who pay some kind of money to the IRS will mean that the money they pay is indeed an income tax because the IRS charges tax on individuals' incomes. If the self employed stated that they pay their tax to the VAT service, it will mean that they do not pay income tax because the VAT service do not collect income tax, instead, an indirect tax which is only paid if s/he buys the product or service on which VAT is levied. If the self-employed pay their tax to the district assembly, it will mean that they pay district assembly levy or rates instead, but not income tax. This is because the district assembly levy is not levied on one's income. The table on the next page shows the responses the sampled self-employed gave to the question.



Table 4.5 Organization to which tax is paid

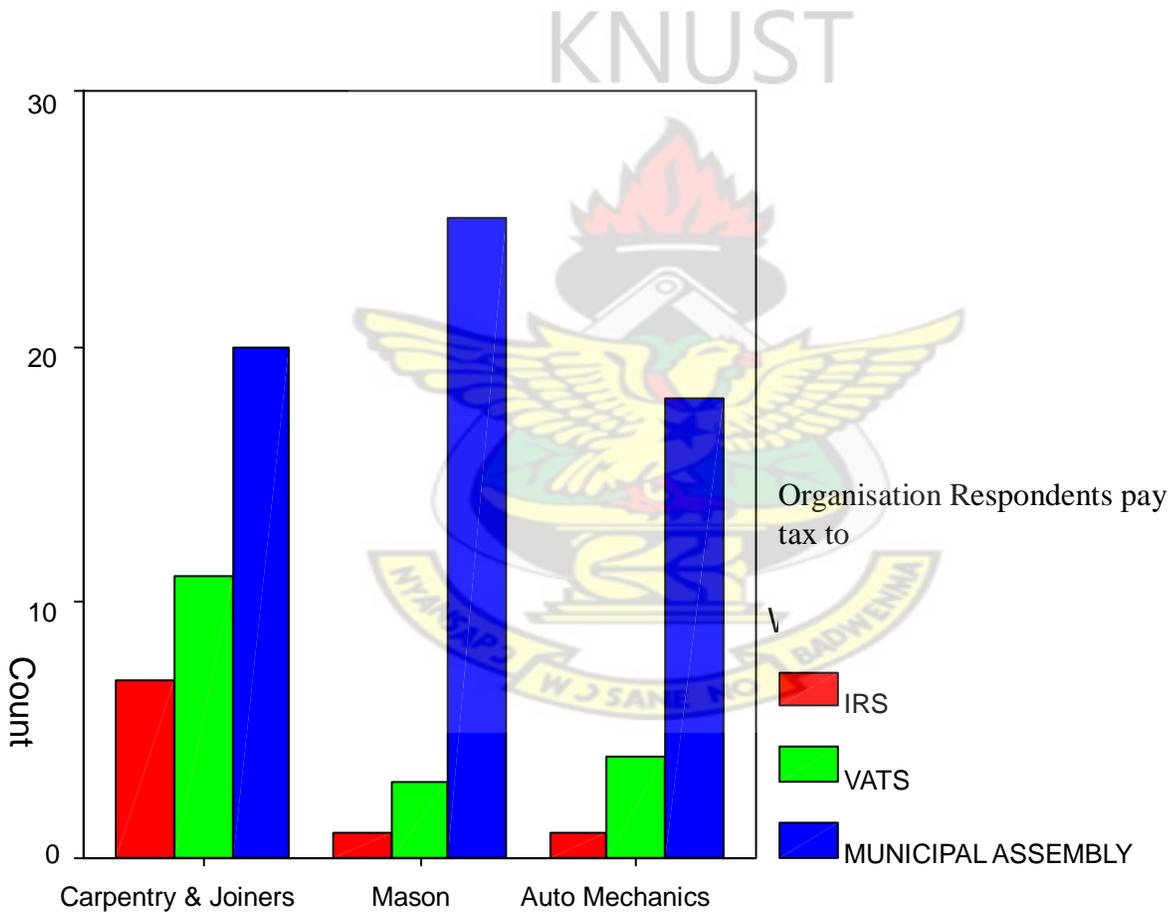
Occupation		WHICH ORGANIZATION DO YOU PAY TAX TO?			Total
		IRS	VATS	MUNICIPAL ASSEMBLY	
Carpentry & Joiners	Count	21	33	60	114
	% of Total	7.8%	12.2%	22.2%	42.2%
Mason	Count	3	9	75	87
	% of Total	1.1%	3.3%	27.8%	32.2%
Auto Mechanics	Count	3	12	54	69
	% of Total	1.1%	4.4%	20.0%	25.6%
Total	Count	27	54	189	270
	% of Total	10.0%	20.0%	70.0%	100.0%

Source: Field Work, June 2011.

According to table 4.5 above, only twenty-seven out of two hundred and seventy sampled self-employed pay their taxes to the IRS. This represents only 10% of the total respondents. 21 Carpenters & Joiners, 3 Mason and 3 Auto Mechanic said they pay their taxes to the IRS. On the other hand, 33 and 60 carpenters & joiners pay their taxes to

VATS and Municipal Assembly respectively; 9 and 75 masons pay their taxes to VATS and the Municipal Assembly respectively and 12 and 189 auto mechanics also pay their taxes to the VATS and the Municipal Assembly respectively. Below is a graphical presentation of the analysis above.

Figure 4.3 Comparison of occupation and Organization Respondents pay tax to



Source: Field Work Survey, June 2011

4.2.3 Frequency of tax paying

Table 4.6 How often do you pay your tax?

Occupation	HOW OFTEN DO YOU PAY YOUR TAX?				Total
	MONTHLY	QUARTERLY	BIANNUAL	ANNUALLY	
Carpentry & Joiners	72	6	12	24	114
% of Total	26.7%	2.2%	4.4%	8.9%	42.2%
Mason	24	51	6	6	87
% of Total	8.9%	18.9%	2.2%	2.2%	32.2%
Auto Mechanics	27	21	9	12	69
% of Total	10.0%	7.8%	3.3%	4.4%	25.6%

SOURCE:
Field Work Survey June 2011

From table 4.6 on page 63 it can be said that 45.6% of the artisans comprising

carpenters & joiners, masons and auto mechanics pay either rates or levies to the municipal council monthly which they recognized as income tax paid on their earnings but which is not. However 10.0% of the artisans pay biannual.

4.3 THE KNOWLEDGE OF THE SELF-EMPLOYED ON TAX INCENTIVES AND TAX RELIEFS

4.3.1 Knowledge of Tax Reliefs

This assessment of knowledge on tax reliefs was done to find the knowledge of the self-employed taxpayer regarding tax reliefs. The more 'yes' response will mean that the self-employed taxpayers are knowledgeable of tax reliefs while 'no' responses will mean otherwise. The knowledge of tax reliefs by the self employed will indicate that the self employed do file their tax returns and intend to apply for the various reliefs under Internal Revenue Service Act 2000 Act 592 section 39. The Act provides that the self employed is granted personal reliefs and allowances to reduce the assessable income, these reliefs are available to the self employed in any year of assessment.

The table 4.7 on the next page shows the responses of respondents to this question.

Table 4.7 Knowledge of Tax Reliefs

Occupation		DO YOU KNOW OF ANY TAX RELIEF?		Total
		YES	NO	
Carpentry & Joiners	Count	57	57	114
	% of Total	21.1%	21.1%	42.2%
Mason	Count	24	63	87
	% of Total	8.9%	23.3%	32.2%
Auto Mechanics	Count	18	51	69
	% of Total	6.7%	18.9%	25.6%
Total	Count	99	171	270
	% of Total	36.7%	63.3%	100.0%

Source: Field Work, June 2011.

Of two hundred and seventy respondents, only 99 respondents, representing 36.7 % responded ‘YES’ to this question. This means that a majority of the self-employed are not knowledgeable of existing tax reliefs in the tax administration in Ghana. 57 carpenters & joiners, 24 masons and 18 auto mechanics said they are knowledgeable of tax reliefs while the remaining do not know of any tax reliefs.

Table 4.8 Knowledge of tax incentive

Occupation		DO YOU KNOW OF ANY TAX INCENTIVE?		Total
		YES	NO	
Carpentry & Joiners	Count	33	81	114
	% of Total	12.2%	30.0%	42.2%
Mason	Count	27	60	87
	% of Total	10.0%	22.2%	32.2%
Auto Mechanics	Count	21	48	69
	% of Total	7.8%	17.8%	25.6%
Total	Count	81	189	270
	% of Total	30.0%	70.0%	100.0%

SOURCE: Field Work Survey June 2011

4.3.2 Knowledge of tax incentive

From table 4.8 on page 65, 70% of the respondents do not know of any tax incentive as enshrined in the IRS Act 2000, Act 592.81 out of 114 respondents of carpenter & joiners representing 30.0% do not know of the tax incentives while 60 out of 87 respondents of masons representing 22.2% also not know of tax incentives and finally 48 out of 69 of auto mechanics representing 17.8% again do not know of tax incentives.

4.4 TAX EDUCATION ON INCOME TAX ADMINISTRATION

This analysis is made to ascertain whether or not tax education programmes are organised for the self-employed categories of taxpayers in the new Juaben Municipality. Tax education or tax knowledge is important in assessing the level of tax compliance of the self-employed. The nature of tax education requires sufficient knowledge of current tax laws and regulations in order to compute actual income reporting make true deductions and relief's' claims and finally, make accurate tax calculations and payments. The table

below shows the responses given by the self-employed sampled on the question on tax education programmes.

Table 4.9 Comparison of respondents' occupation to Seminars Attended

Occupation		Have you attended any tax seminars by Ghana revenue authority?		Total
		YES	NO	
Carpentry & Joiners	Count	0	87	87
	% of Total	.0%	46.0%	46.0%
Mason	Count	27	30	57
	% of Total	14.3%	15.9%	30.2%
Auto Mechanics	Count	0	45	45
	% of Total	.0%	23.8%	23.8%
Total	Count	27	162	189
	% of Total	14.3%	85.7%	100.0%

Source: Field Work, June 2011.

Out of the one hundred and eighty nine (189) respondents who responded to the question on IRS seminars, only 27 self employed representing 14.3% responded that they have ever attended IRS seminars. No carpenters and joiners and auto mechanics have ever attended any seminar of tax. However, twenty-seven masons said they have attended tax seminars organised by the IRS.

Respondents were asked the benefit they have derived from seminars they attended, it was revealed that there was the need to keep financial records, which enable them to do self-assessment of their tax liability due to the state. Also, respondents believed seminars they attend improve their knowledge base on the need to comply with tax obligation.

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4.5 PERCEPTION OF THE SELF-EMPLOYED ON TAX ASSESSMENT

4.5.1 Are you given an assessment before tax liabilities are fulfilled?

This assessment is done to find out whether the self employed who pay income tax are fairly charged their tax liability. If respondents respond 'No' to this question, it will mean that the IRS is not being fair to the self employed category of the taxpayers. A 'Yes' response to this question implies fairness in charging tax liability. However, further information will be required to ascertain whether or not assessment is based on profit as per financial statement or assessment is done arbitrary.

As suggested by previous studies Kirchler *et. al*, (2008); Orviska and Hudson (2002); Trivedi *et.al*.(2004); Jackson and Milliron (1986)), attitudes and ethics remain important in determining the level of tax compliance. Based on Ajzen (1991) the theory of reasoned action or the intention to evade would encourage a taxpayer to behave negatively toward taxation and thus attempt to under-report income. On the other hand, attitudes towards the tax authority are also important as tax attitudes and ethics generally depend on perceived use of the money collected by the government Kirchler *et. al.*,(2008). For many aspects of tax compliance, there is a debate in the literature as to how the effective operation of the tax system by the tax authorities influences taxpayers' compliance behaviour as researchers from different countries have been unable to achieve agreement about this issue which

appear to differ from country to country.

Therefore different countries have proposed and develop different solution to the relationship between taxpayer compliance and their operation of the tax system. In the US for example, the IRS views tax non-compliance as a big challenge.

The table on the next page shows the responses of the respondents to this question.

Table 4.10 Assessment of tax liability and Occupation

Occupation		ARE YOU GIVEN AN ASSESSMENT BEFORE TAX LIABILITY IS FULFILLED?		Total
		YES	NO	
Carpentry & Joiners	Count	81	33	114
	% of Total	30.0%	12.2%	42.2%
Mason	Count	60	27	87
	% of Total	22.2%	10.0%	32.2%
Auto Mechanics	Count	48	21	69
	% of Total	17.8%	7.8%	25.6%
Total	Count	189	81	270
	% of Total	70.0%	30.0%	100.0%

Source: Field Work, June 2011.

From table 4.10, as many as 189 respondents representing 70% of the respondents said they are given an assessment of their tax liabilities before they are fulfilled. Out of 189 respondents 81 Carpenters & Joiners; 60 Masons and 48 Auto Mechanics representing 30%, 22.2% and 17.8% respectively, said they are given assessments before they fulfil their tax obligation. The question of whether the assessments

are made based upon their net income as per their financial statement is another area of concern. From the previous analyses on whether the self employed keep financial records of their activities, it was revealed that only 50% of the respondents kept financial records of their business activities (refer to table 4.2). It implies that, 20% of the assessments given to the taxpayers are computed arbitrarily.

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4.4.2 How do you rate your tax liability?

The objective of making this analysis is to find out whether or not the self-employed agree on how much they pay as taxes on their income. A 'too high' response shows a strong disagreement of how much they pay as tax. A 'moderate' response implies agreement with the amount they pay as tax, while a 'too low' response is an indication of the taxpayers' willingness to pay more tax than they are paying now. The table below shows the responses of the respondents on the question of rating their tax liability.

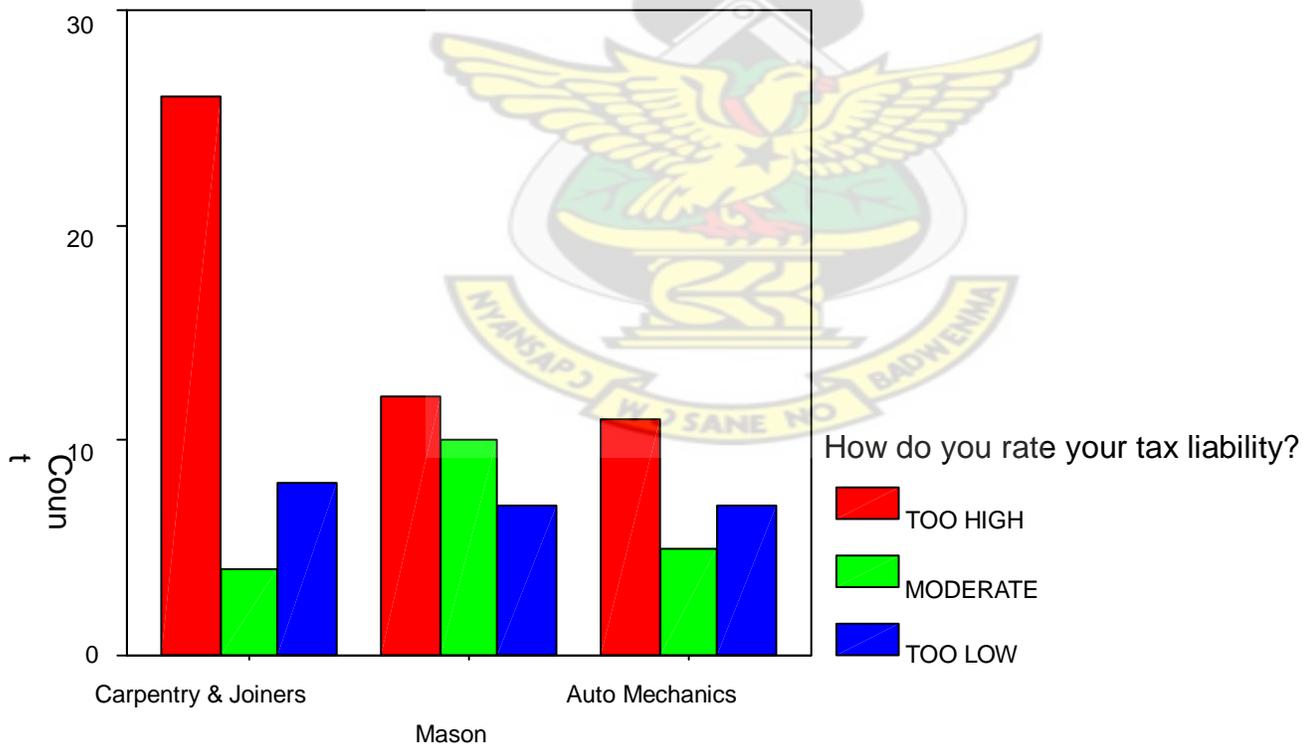
Table 4.11 Rating of tax liability and Occupation

Occupation		HOW DO YOU RATE YOUR TAX LIABILITY?			Total
		TOO HIGH	MODERATE	TOO LOW	
Carpentry & Joiners	Count	78	12	24	114
	% of Total	28.9%	4.4%	8.9%	42.2%
Mason	Count	36	30	21	87
	% of Total	13.3%	11.1%	7.8%	32.2%
Auto Mechanics	Count	33	15	21	69
	% of Total	12.20%	5.6%	7.8%	25.6%
Total	Count	147	57	66	270
	% of Total	54.4%	21.1%	24.4%	100.0%

Source: Field Work, June 2011.

According to the table 4.11, only 57 out of 270 sampled self employed, representing 21.1% of the respondents responded ‘moderate’ to the question, indicating their agreement with the amount they pay as tax. As many as 147 respondents, representing 54.4% felt that their tax liability is too high, while 66 representing 7.8% responded ‘too low’ to the question, indicating their willingness to pay more tax, although this is an unlikely situation. Below is a graphical presentation of the self-employed views on rating their tax liabilities.

Figure 4.4 **Rating of tax liability and Occupation**



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This final chapter discusses the summary of main findings from the analyses in the preceding chapter. Discussions will also be made on recommendations and conclusions drawn thereafter. Summary of the main findings is drawn from analyses on level of tax compliance, knowledge of tax reliefs and tax incentives, tax education and perception on tax assessment.

5.1 Summary of findings

Assessing the level of tax compliance is the central focus of the study as indicated in the first objective of the study. In assessing the level of tax compliance, many factors such as business registration, keeping of financial records on the activities of the self-employed and payment of tax on income generated from their business activities. Presentation of summary of findings of the study under level of tax compliance will therefore border on the factors mention above.

5.1.1 Registration of Business

The analysis of the findings revealed that, only 96 out of 258, representing 37.2% of respondents have registered their businesses. This emphasises the claim as highlighted in the problem statement. It is attributed to the inability of the IRS to appropriately tax the informal sector to among other things, lack of records on them. The analyses above reiterate a point. If the sample size is representative enough of the population, then we can conclude that lack of records on the self-employed is a contributing factor to tax non-compliance by the informal sector.

5.1.2 Financial Records Keeping

Many have asserted that lack of and improper bookkeeping by the self-employed is another factor militating against the IRS effort in collecting tax from the informal sector.. From the analyses made in

the preceding chapter, it was revealed that only 50% of the self-employed keep financial records on their business activities. This goes a long way to reemphasise the point that the self-employed do not keep records. To buttress the point of Aryees's report stated in the problem statement, lack of bookkeeping and improper bookkeeping lead to understatement of income and overstatement of expenses leading to understatement of net profit, hence, underpayment of one's tax liability as income tax is charged on net profit of businesses. Failure to keep financial records and prepare financial statement will lead to the use of arbitrary means to compute income tax on the income of the self-employed, the result usually being underpayment of one's tax liability – hence, low level of compliance.

5.1.3 Respondents who paid tax

In assessing the level of tax compliance, the study revealed that, 73.3% of the self-employed sampled for the research claimed they pay taxes on their incomes, while only 26.7% said they do not pay tax. If this were honest response to the question, it is a great contradiction to popular claims that the self-employed do not pay their income tax. However, from the analyses the self employed pay their taxes, it was discovered that 70% of them pay Municipal Assembly Levies and rate, which is not calculated on one's income. It was revealed that, only 10% pay taxes to the IRS, the body tasked with income tax collection. Drawing inferences from these two scenarios, it is difficult, if not impossible to accept the claim that 70% of the self employed pay income tax.

5.1.4 Knowledge of tax education of the self-employed

Knowledge of the self-employed on the tax system of the country is another key factor to successful tax administration. In determining the of knowledge of the self employed on tax laws, the discussion focuses on whether or not the self employed know their right to enjoy tax reliefs and incentives.

5.1.5 Knowledge of Tax Reliefs

From the analysis in the preceding chapter, it is important to note that, only 99 out of 270 respondents who responded to this particular question were knowledgeable of tax reliefs. The figure represents only 36.7%. This is a manifestation of lack of or inadequate education for the taxpayers.

5.1.6 Knowledge of Tax Incentives

From the analyses presented in chapter four on whether or not the self employed have adequate knowledge on tax reliefs and incentives, it was revealed that as many as 189 of the 270 respondents, representing 70% of the respondents do not know of any tax incentive as enshrined in the IRS Act 2000, Act 592. 81 out of 114 respondents of carpenter & joiners representing 30.0% do not know of the tax incentives while 60 out of 87 respondents of masons representing 22.2% also not know of tax incentives and finally 48 out of 69 of auto mechanics representing 17.8% again do not know of tax incentives.

By generalisation, we can therefore conclude that most self-employed in informal sector are not aware of the existence of the tax incentives. This could affect their level of compliance since they do not know the direct benefits of honouring their tax obligation.

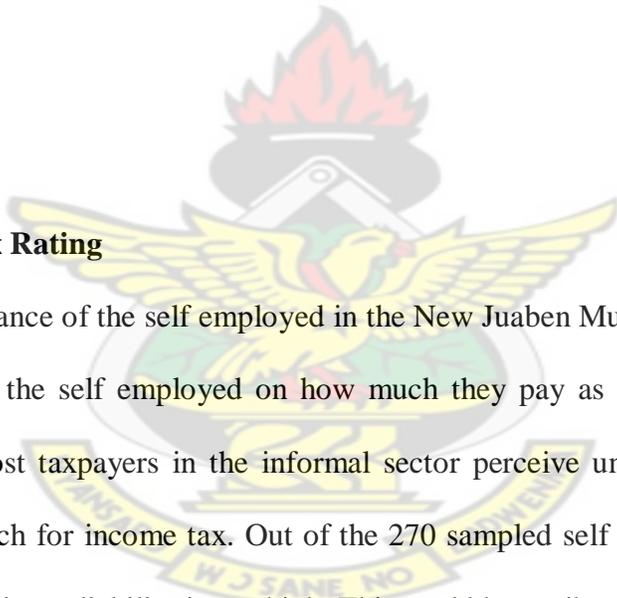
5.1.7 Tax Education

Findings on the knowledge of tax systems revealed that most self employed are not knowledgeable of the tax system in Ghana. To affirm this, it is important to find out whether the claim is true, what the possible cause might be. Consistent with the third objective of the study, the purpose is to establish the extent to which the Internal Revenue Service organises educational programmes for the self-employed category of the taxpayers and find out the possible impact on revenue mobilisation from the informal sector.

The analyses on education from the preceding chapter show that, only 27 out of 189 respondents representing 14.3% have received some form tax education while the remaining 85.7% have never

received any form of income tax education. Lack of or inadequate education could be seen as an important factor to income tax non-compliance. For example, from the previous discussion on whether the self-employed pay income tax or not, 70% claimed they pay income tax which is not actually the case. Due to lack of education for the self employed category of the taxpayers, Municipal Assembly levies are considered as income tax. If the sample size is representative enough, then we can conclude that 70% of taxpayers in the informal sector do not have any form of education. If the self-employed are educated on tax reliefs and tax incentives, it will encourage them to honour their tax obligation by complying with tax laws of the state, therefore ensuring adequate revenue mobilisation to promote good governance.

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5.1.8 Perception on Tax Rating

In assessing the tax compliance of the self employed in the New Juaben Municipality, it is important to find out the perception of the self employed on how much they pay as tax as indicated in the last objective of the study. Most taxpayers in the informal sector perceive unfairness in the tax system. They feel they pay too much for income tax. Out of the 270 sampled self employed, 147 respondents representing 54.4% feel their tax liability is too high. This could be attributed to the fact that most self-employed do not prepare financial accounts, therefore, their true income cannot be ascertained for proper assessment of their tax liability which will result in using arbitrary means to assessing the tax liability. When taxpayers in the informal sector feel that they are paying too much as income tax, it will serve as disincentive for them to honour their tax.

5.2 Conclusion

From the research conducted, it can be decisively concluded that the level of income tax compliance in the informal sector is not satisfactory. Analyses on the previous chapter revealed that only 10% of the

self-employed pay income tax, which is too low increase domestic tax revenue necessary for economic growth and development. This situation is attributable to lack of records on the self-employed and also lack of or inadequate proper bookkeeping.

The level of knowledge of the self-employed on tax reliefs and incentives is not the best as only 36% of the respondents said they are knowledgeable of tax incentives and reliefs.

The level of education of the self-employed on tax in general is inadequate to promote income tax compliance of the self-employed. Only 14.3% of the self-employed have access to tax education organised by the IRS in a form of seminars or forums. Lack of education is one of the key factors to income tax non-compliance of the self-employed in Ghana. Tax education has the capacity to improve compliance level of the self-employed. Finally, most self-employed have the perception that their tax liability is too high. For the self-employed to comply with their tax obligation, they have a cumbersome procedure for filing returns, which is very bureaucratic considering the number of forms a taxpayer has to complete.

The tax legislation does not have a simple definition of what constitute an 'income' and therefore one is not sure of the receipts liable to income tax.

The future of taxation in Ghana should be viewed against the competitive global economic development. It will be difficult like countries like Ghana to make any breakthrough in terms of improving their economy without well-structured micro-system, which would enable them, complete effectively with other countries in access to capital for investment.

The active players in the tax administration in the economy should present alternative policies and formulate tax policies that would create public confidence.

5.3 Recommendations

As measures are being put in place to get business owners register their businesses, it is recommended that the registrar general intensify the efforts in order to get complete the transition from informal to formalised sector. This will ensure adequate records on private businesses be it small, medium or large

and help draw them into the tax net. This will increase domestic revenue generation and subsequently good governance. Also, it is recommended that the Internal Revenue Service give the self employed guidelines on the basis of bookkeeping so that they can prepare financial statement by themselves or by the help of the tax officials to determine their profit on which income tax will be charged. This will ensure that the self employed pay realistic taxes on the incomes they earn, solving the problem of arbitrarily assessing their tax liability which eventually leads to either overpayment of tax to the detriment of the tax payer or underpayment of tax to the detriment of the state.

Again, as the study revealed, most self-employed are unaware of the tax system in Ghana. Some people do not even know what constitute an income tax. Also, they do not know much about tax reliefs and incentive, all as a result of lack of or inadequate tax education for the self employed category of the taxpayers. It is therefore recommended that the IRS educate the public on understanding the tax system, tax reliefs and incentives, record keeping as mentioned earlier on, the basis of computing their tax liability and more importantly the need to pay income tax for national growth and development among other things so as to ensure full understanding of the tax system by the self employed. These can be achieved through tax education seminars and talks organized at periodic intervals and such media, as television, posters, radio, handbills and mobile vans should be used to assist tax campaigns. To ensure that the intended target is fully reached, it is also recommended that education be given in the local languages of the people who are being educated.

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APPENDIX

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI
SCHOOL OF GRADUATE STUDIES
A QUESTIONNAIRE ON TAX COMPLIANCE OF THE SELF EMPLOYED
TO BE ADMINISTERED BY THE SELF EMPLOYED**

This questionnaire as designed is to enable a research be carried out to find how the self-employed is abreast with taxation. You are required to produce accurate information as possible. The confidentiality of such information is guaranteed as the results are purely for academic purposes.

PLEASE TICK OR FILL WHERE NECESSARY

BACKGROUND INFORMATION

- 1.1 Gender Male Female
- 1.2 Age 18 - 20 21 - 30 31 - 40
41-50 51 - 60 Above 60
- 1.3 Marital Status Single Married Divorce
- 1.4 Do you have children/dependents? Yes No
- 1.5 If yes, how many children/dependent?
- 1.6 Highest Education BECE/MSLC SHS/SCE NVTI/COM
HND/Degree Others (specify).....
- 1.7 Nature of Business Masons Auto Mechanic
Carpenters & Joiners
- 1.8 Ownership Type Sole Proprietor Partnership

2.0 LEVEL OF TAX COMPLIANCE

- 2.1 Is your business entity a registered one? Yes No.
- 2.2 If yes, which organization? IRS VATS
Trade Association District Assembly
- 2.3 How long have you been in business?
1- 5years 6 - 10years 10 years+
- 2.4 Do you keep financial records of your activities? Yes No
- 2.5 Do you have other sources of income? Yes No
- 2.6 If yes to (2.5) above, do you declare your other income? Yes No

- 2.7 Do you know of the existence of tax? Yes No
- 2.8 Have you ever paid income tax? Yes No
- 2.9 Which organization do you pay tax to? IRS VATS
District Assembly
- 2.10 How often do you pay your tax? Monthly Quarterly
Biannually Annually

3.0 **KNOWLEDGE OF TAX RELIEFS AND TAX INCENTIVES**

- 3.1 Do you know of any tax relief? Yes No
- 3.2 If yes, which of the tax reliefs do you know? Child Education

Old age Marriage Disability Aged Dependant

- 3.3 Do you know of any tax incentive? Yes No
- 3.4 If yes, which of the tax incentives do you know? Tax Rebates Tax Rates
Tax Holidays Incomes Exempted Capital Allowances

4.0 **TAX EDUCATION**

- 4.1 Have you attended any tax seminars by Ghana Revenue Authority?
Yes No
- 4.2 If yes, how many times? 1 – 3 times 4 – 6 times 6 – 10 times
- 4.3 What benefit did you derive from these seminars?

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5.0 **PERCEPTION ON TAX ASSESSMENT**

- 5.1 Are you given an assessment before tax liabilities are fulfilled?
Yes No
- 5.2 How do you rate your tax liability? Too High Moderate
Too Low
- 5.3 Have you ever had to protest against you tax assessment? Yes No
- 5.4 Your objective opinion on tax administration in Ghana (If any.....)

.....
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Thank you.