

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS (KSB)

**PROMOTING INCOME TAX COMPLIANCE AMONG THE SELF-EMPLOYED IN
THE TMALE METROPOLIS OF GHANA**

**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND
FINANCE, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND
TECHNOLOGY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR
THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (ACCOUNTING
OPTION)**

BY

ISSAH YAKUBU NAPOROW (PG9601813)

AUGUST, 2015

DECLARATION

I hereby declare that this thesis is my own work, and no part of it has been presented to this University or elsewhere for another degree.

ISSAH YAKUBU NAPOROW
(PG9601813) Signature Date
(Student)

Mr. RICHARD OWUSU-AFRIYIE
(Supervisor) Signature Date

Dr. K.O. APPIAH
(Head of Department) Signature Date

DEDICATION

This thesis is dedicated to my dear wife, Faiza Iliyasu Alhaji Umar Imam and my daughter Mut-ma-ina Faako Issah.

KNUST



ACKNOWLEDGEMENT

It is believed that one finger cannot pick a stone; several people supported me in diverse ways to make the work successful.

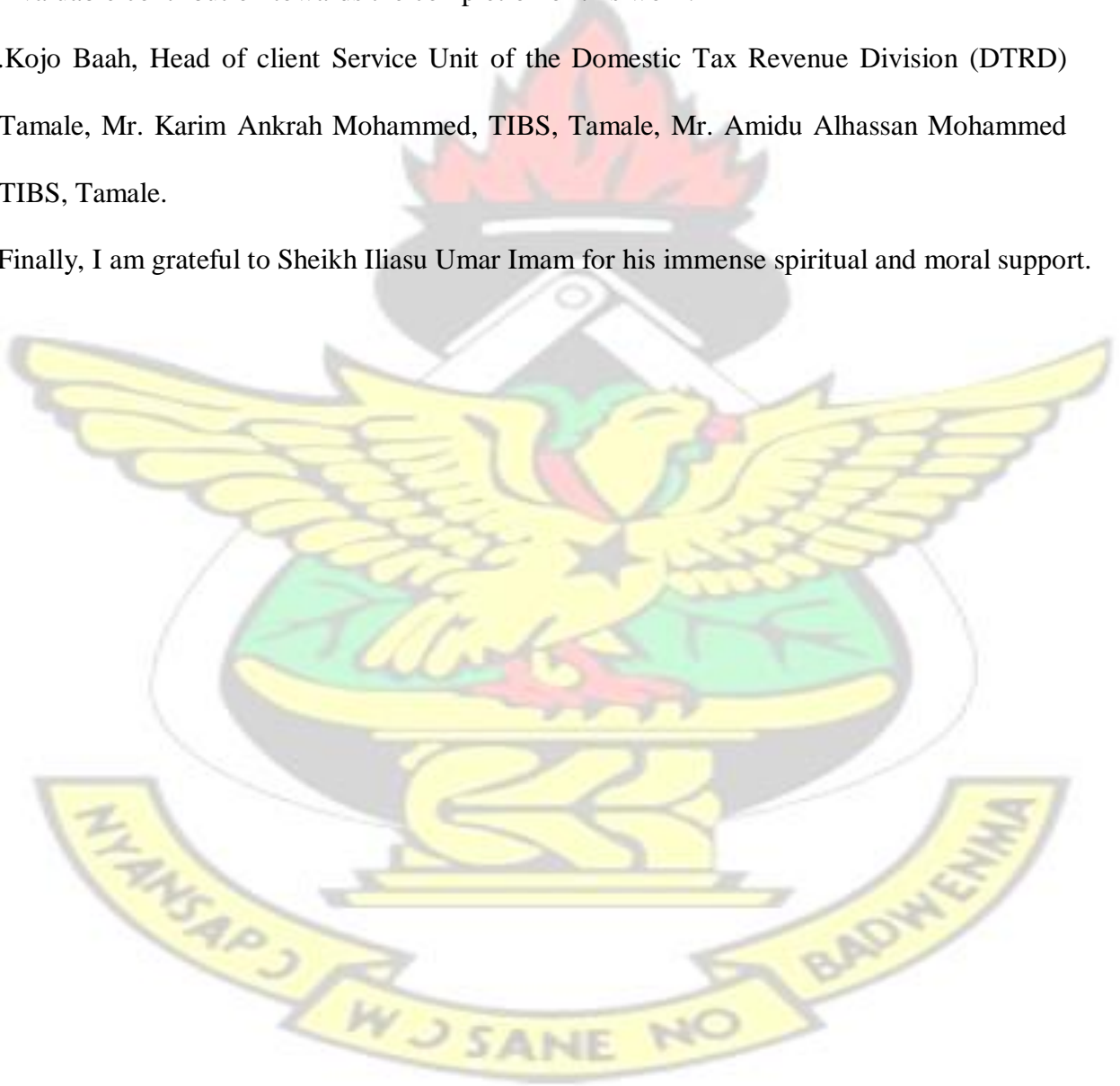
Mr. Owusu Afriyie Richard, my supervisor provided useful suggestions and good supervision.

I say thank you. I also acknowledge the following individuals and their organizations for their invaluable contribution towards the completion of this work. Mr

.Kojo Baah, Head of client Service Unit of the Domestic Tax Revenue Division (DTRD)

Tamale, Mr. Karim Ankrah Mohammed, TIBS, Tamale, Mr. Amidu Alhassan Mohammed TIBS, Tamale.

Finally, I am grateful to Sheikh Iliasu Umar Imam for his immense spiritual and moral support.



ABSTRACT

The income tax non-compliance behavior is identified to be high among the self-employed. This fact is longstanding in income tax compliance literature. Improper application of tax promotion strategies has been identified as one of the major reasons for the high prevalent rate of income tax non-compliance among the self-employed. The main objective of this research work is to determine which promotion strategy could be used to elicit compliance among the self-employed; relative to the reason for non-compliance. The specific objectives of this study include; to determine the demographic characteristics of the self-employed and how these characteristics affect compliance, to examine the role of cooperation in promoting income tax compliance among the self-employed, to examine the determinants of income tax compliance and non-compliance among the self-employed and the role of penalties and sanction in promoting income tax compliance among the self-employed. Descriptive survey was carried out and a total of two hundred and twelve (212) responses were received and used for the analysis of the data. The findings show that respondents with no or less formal education are highly income tax non-compliant. Overstatement of expenses, understatement of income and late submission of returns were identified as forms of income tax noncompliance. The study concluded that Most of the self-employed in the Tamale Metropolis are not generally familiar with income tax laws and that is why most of them are not on the tax roll of Ghana Revenue Authority (GRA). The other factors like ignorance, lazy accounting, complexity of procedures and non-beneficial of taxes influenced income tax non-compliance decisions of most self-employed in the metropolis. The study is recommending that tax authorities should promote the benefits to derive from proper records systems and educational programmes to improve quality reporting by the self-employed.

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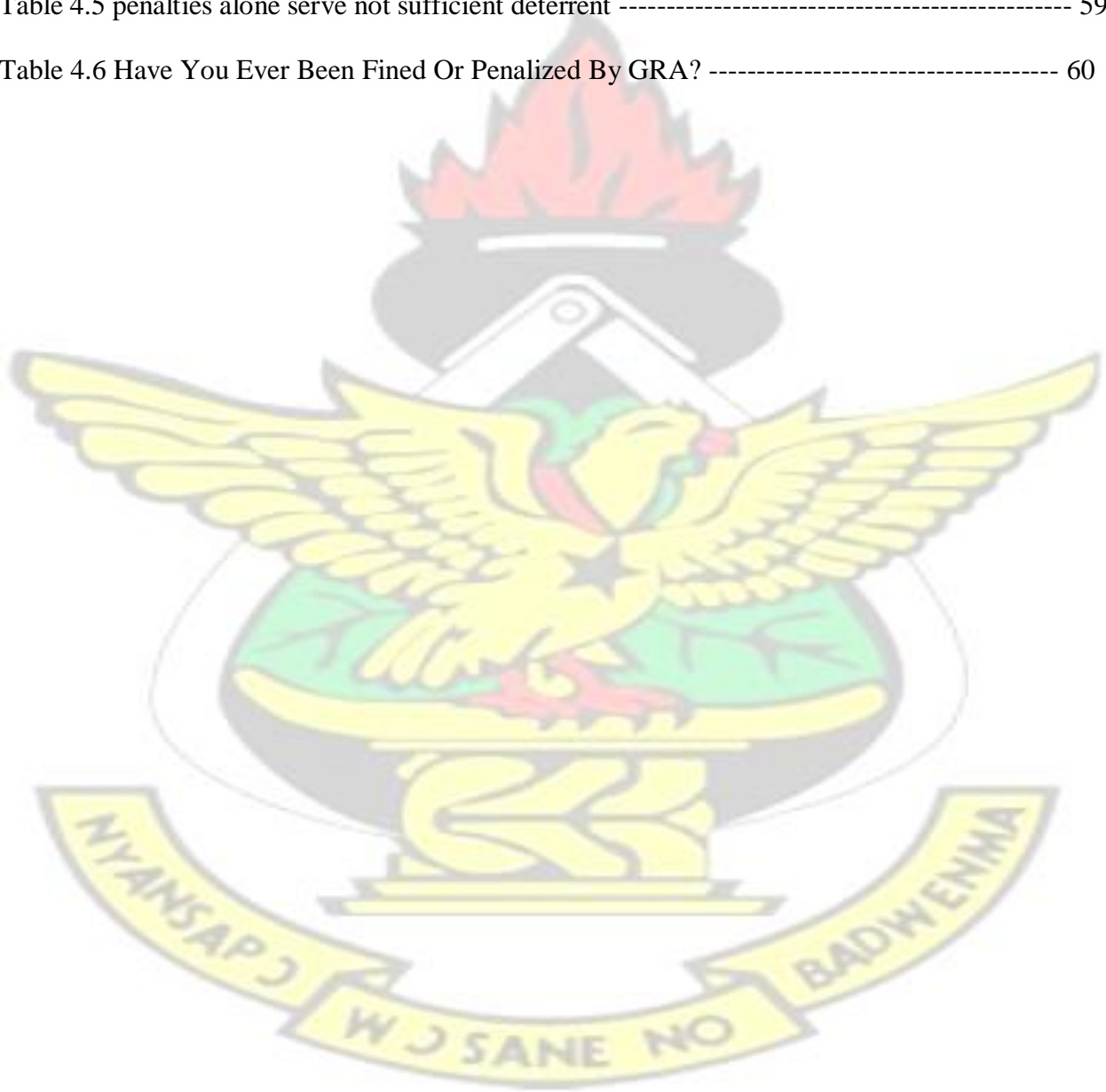
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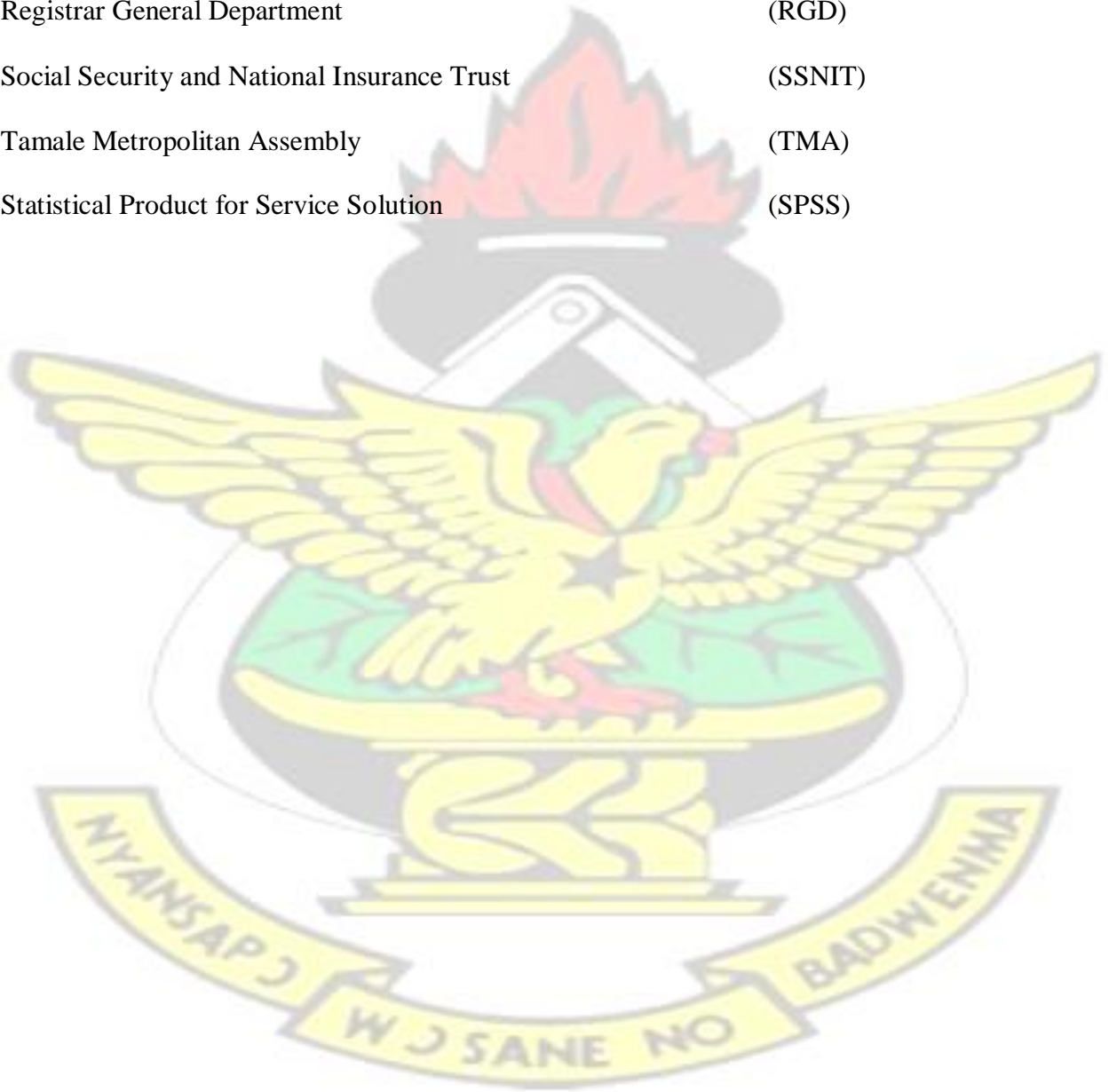


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LIST OF ACRONYMS

Australian Tax Office	(ATO)
Institute of Social Statistical and Economic Research	(ISSER)
Ghana Revenue Authority	(GRA)
Domestic Tax Revenue Division	(DTRD)
Registrar General Department	(RGD)
Social Security and National Insurance Trust	(SSNIT)
Tamale Metropolitan Assembly	(TMA)
Statistical Product for Service Solution	(SPSS)



CHAPTER ONE

1.0. Introduction

1.1. Background

The question of tax compliance is a global one and as ancient as tax itself. Featuring and explaining the observed patterns of compliance and noncompliance and ultimately support alternate means of improving it, are of course important to every nation around the globe in general and particularly developing countries. Governments around the globe need revenue from the private sector in the form of taxes to carry out necessary social and other services such as supply of energy, potable water provision, pertinent educational facilities (learning amenities), security and protection of law and order. According to Otioku (1992, P. 45), a good nation cannot get any significant economic growth “without constructive incentive from intellectual government”. The controlling role taxes play in every nation’s domestic growth cannot be underestimation. Government’s intention of achieving economic growth would remain in shelves if conscious efforts are not taken to better tax compliance and slay noncompliance threat.

One of the critical types of taxes which governments around the globe, including those of underdeveloped countries, have long endeavored to improve compliance is income tax among the self-employed (Flynn, 2003). The self-employed contribute much to the economy of a nation, both in terms of employment (Carmel, 2000) and Gross Domestic Products (Maurin, Sookram and Watson, 2006). Nevertheless, Bird (1984) reveal that there is a high propensity that, more than half of the possible tax revenues in most underdeveloped nations would be uncollected. Bird continued to ascribe this to the huge nature of the informal sector in

underdeveloped economies, dominated by the self-employed. The fact that the selfemployed have high income tax non-compliance conduct is predominant in tax compliance literature. For example, Andreoni, Erard, and Feinstein (1998) shown from 1988 data from the Taxpayer Compliance Measurement Program in the United States that showed the average tax understatements for the self-employed to be \$1,885, compared to an average overall understatement of \$289 across all other taxpayers. Flynn (2003) also postulated that revenue loss from income non-compliance by individual taxpayers, particularly the selfemployed were averaged to range from \$93.20 billion to \$95.30 billion for the fiscal year 1992. The study of Terkper (2003) further confirms the high income tax non-compliance among small business enterprises, dominated by the self-employed in Ghana.

To seriously deal with the phenomenon of tax non-compliance by the self-employed, many researchers such as Tyler (1990) and Hasseldine and Hite (2007), have advocated the introduction of income tax enforcement using sanctions, fear and coercion to improve tax compliance in its administration. As a result of that, many tax laws have incorporated sanctions and other punitive arrangements to enforce compliance. Punitive tax legislation with punitive provisions example is Ghana Revenue Authority Act (592), 2000, Sections 141 to 146, various sanctions are stipulated. Other researchers such as Braithwaite and Grabosky (1986) and Owens and Hamilton (2004) have recommended the use of cooperation instead of sanctions or penalties in promoting tax compliance especially in the informal sector. These two approaches to tax compliance promotion have been termed the „deterrence“ and „accommodative“ model of regulation, respectively by Murphy (2008).

Advocates of the deterrence model of tax promotion believe that very harsh sanctions and castigation will deter would-be non-compliers from breaching the law and thereby making sure that taxpayers are complying (Williams, 2001). Promoting tax laws, using sanctions, force and coercion has however been criticized by arguments that the use of sanctions and penalties refute something of value that is at the heart of every regulatory non-compliance, thus, reasons for non-compliance.

Proponents of the accommodative model of income tax highlight the significance of persuasion and cooperation as a regulatory tool for promoting compliance. Educating taxpayers to effectively and efficiently handle their income tax obligations, regarding the rights of tax taxpayers, and improving the service delivery operations of tax authorities are hallmarks of the accommodative model of income tax promotion.

1.2 Statement of the problem

The objective of every government of a country is to chart a course of development and that can only be brought to reality through the availability of required financial resources. One of the reliable sources of government revenue is tax. Research works carried out on tax compliance have on the other hand shown that income tax compliance among the selfemployed is not what is attractive. For example, in the review of related literature on taxation and self-employment, Scheutze and Bruce (2010) contented that non-compliance in the midst of the self-employed poses a serious concern, citing research findings that point to the contribution self-employed enterprise in the informal sector of the economy to the total level of tax dodging in the USA. One of the works in their review (U.S. General Accounting Office, 1990) predictable that for 1987 alone self-employed enterprises accounted for 73

percent of the \$58 billion in unreported earned income. It is compulsory for every resident individual in Ghana to pay a stipulated percentage of his or her earned income to the state as form of tax, GRA Act 2000, (Act 592). However, there are resident individuals especially the segments of the labor force in the informal sector are reluctant to honor their tax obligations. This was pronounced in the 2006 budget statement where the Minister of finance stated “the government will register, develop and implement a system to assess and collect income tax using the value of vehicles because a significant percentage of vehicle registrations are from informal sector operators, most of whom are not taxpayers” (Republic of Ghana Budget Statement, 2006).

Kagan (1989) also reported findings from Ghana Revenue Authority (GRA) study of tax returns that concluded that about 54.3 percent of self-employed income in 1979 was voluntarily reported to the GRA compared to 98.5 percent of wage and salary income in the United States of America. Data from developing economies also supports this assertion. For instance, Alm, Bahl, and Murray (2013) used audited individual tax returns from Jamaica, and concluded that evasion is larger in the informal sector for individuals in selfemployment.

Ghana’s GRA, in recognition of the high level of income tax non-compliance among the self-employed, has adopted various unconventional ways of taxation (standard assessment, identifiable groupings and, most recently, the tax stamp) over the years to cast the tax net as wide as possible to include many self-employed individuals as possible in the informal sector.

These actions by GRA have not yielded any results in curbing the high incidence of tax noncompliance among the self-employed in the informal sector of Ghana. Data from the Ministry of Finance and Economic Planning as captured in the Institute of Social Statistics and

Economic Research (ISSER)’s State of the Economy Report in 2014, shows that the percentage contribution to government revenue of income tax from the self-employed were as low as 2.71%, 3.35% and 3.24% for the tax years 2011, 2012 and 2013 respectively. This state of affair could be largely attributable to the incidence of income tax non-compliance in the informal sector among the self-employed. All strategies including the introduction of tax stamp and others yielded no results. Therefore, an effective income tax promotion strategy is required.

1.3 Objectives of the study

The main objective of the research is to promote income tax compliance among the self-employed. Specifically, this research seeks to:

1. Determine the demographic characteristics of the self-employed, and how these characteristics affect compliance or non-compliance.
2. Examine the role of cooperation in promoting income tax compliance among the selfemployed.
3. Examine the determinants or causes of income tax compliance or non-compliance among the self-employed.
4. Examine the role of sanctions or penalties in promoting income tax compliance among the self-employed.

1.4. Research Questions

1. What are the demographic characteristics of the self-employed, and how do these demographic characteristics affect income tax compliance?

2. What are the factors that influence income tax non-compliance among the selfemployed?
3. What role does cooperation play in promoting income tax compliance among selfemployed?
4. What role do sanctions and penalties play in promoting tax compliance among selfemployed persons?

1.5 Significance of the study

Even though there is extensive literature on tax compliance and or non-compliance elsewhere, there seems to be little of such literature in Ghana. It is hoped that this study will significantly add to the body of existing knowledge on the subject of tax compliance among the self-employed in Ghana. This would be of immense contribution to academia, particularly as a reference material to other students who would want to conduct further research into tax compliance in Ghana and beyond.

Tax collection authorities often have difficulty promoting tax laws because of the inability to actually identify and incorporate the causes of non-compliance in tax enforcement strategies. This research however looks at a promotion strategy that will appropriately incorporate the factors for non-compliance to help improve compliance among the self-employed in the informal sector of the economy. Also, tax practitioners and consultants will be given the opportunity to package an expert advice that is most suitable and relevant to the needs of their clients to enable them avoid breaching the income tax laws. This will enable Taxpayers benefit from the alternative tax promotion strategy that would be recommended to improve upon the

operations of their businesses, particularly in the areas of good record keeping and tax education. The most beneficiary would be the citizenry, since enhanced income tax compliance would improve the nation's revenue for better economic development to improve the welfare of her citizenry.

1.6 Methodology

This section addresses the population, sample size and sampling techniques, types of data, sources of data and data analysis techniques. The target population of the study will constitute all self-employed business within Tamale metropolis. To ascertain the correct respondents, probability and non- probability sampling techniques will be employed to give every self-employed enterprise an equal chance of being selected. Both qualitative and quantitative data collection techniques will be employed for accuracy of data and for objective analysis. With sources of data, primary data will be collected from the field using interviews, questionnaires, key informants and observation. Secondary information will also be gathered from previous works written by others and published (which will, accordingly be cited). Finally the data collected will be analyzed and presented in tables and graphs using frequencies. Descriptive analysis will also be used to analyze qualitative data. Statistical Package for Social Sciences (SPSS) and Microsoft Excel are some of the software that will be employed to analyze, sorted, edited and ran to get the various results in simple percentages, charts and tables.

1.7 Scope of the study

The area under study is Tamale Metropolis. It has an estimated population of 500,000, and well positioned in the Northern part of Ghana and because of this position, the Metropolis

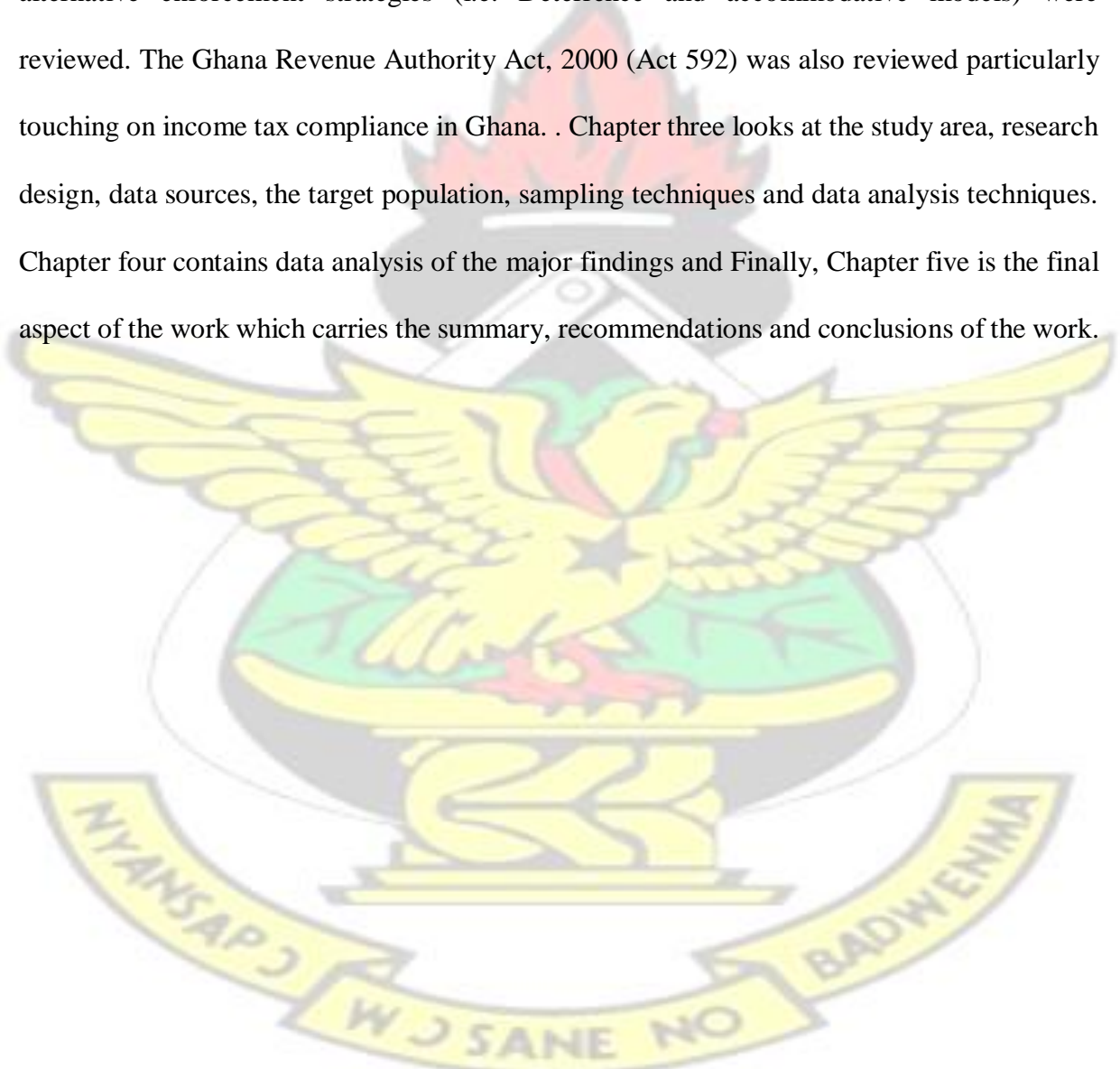
serves as a hover for agricultural products and other goods and services from the other districts in the region, with estimated 60,000 self-employed. The following are common commercial economic activities within the metropolis; masonry, carpentering & joiners, electrical engineering, small provisioning shops, mobile phone shops, food vendors, clothing shops, pharmacy shops, seamstresses and tailors, hairdressers and beauticians, plumbers and pipe fitters and auto mechanics. Out of these operators; clothing shops, small provisioning shops, mobile phone shops, hairdressers & beauticians, and seamstresses & tailors are selected for this study. Some of these categories of self-employed are not registered with GRA and therefore do not file their tax returns (and therefore do not honor their tax obligations)

1.8 Limitation of the study

This stage of the research work examines the limitation confronting the study. First the work is designed to obtain detailed information from these categories of self-employed to be able to assess their economic activities for the purpose of taxation. However, the time allotted for this work is inadequate coupled with academic work. There is a problem with regard to data, both primary and secondary, in the case of primary data potential respondents hold the impression that they would be exposed to tax officers, and since the under study area is semi illiterate, chances are that maximum co-operation would not be achieved. In connection with secondary; data from books, journals, magazines on taxation are not easy to get hold of. Also, financial resource is a major problem for any research works like this to be comprehensive. This therefor, puts a weighty burden on the worker-researcher. Nonetheless, with perseverance, comprehensive work will be attained

1.9 Organization of the study

The research work consists of five chapters. Chapter one contains the background, the problem statement, objectives, research questions, the study significance, methodology and the scope of the study. Chapter two deals with the review of related literature on promoting income tax compliance and non-compliance behavior of the self-employed. Primarily the two main alternative enforcement strategies (i.e. Deterrence and accommodative models) were reviewed. The Ghana Revenue Authority Act, 2000 (Act 592) was also reviewed particularly touching on income tax compliance in Ghana. . Chapter three looks at the study area, research design, data sources, the target population, sampling techniques and data analysis techniques. Chapter four contains data analysis of the major findings and Finally, Chapter five is the final aspect of the work which carries the summary, recommendations and conclusions of the work.



CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

The review of related literature on the issue under study brings together the theoretical foundation and framework that provide the background for this work. It attempts to review related literature on the self-employed, relative to their demographic distinctiveness such as gender, age, educational level and marital status and how these demographic characteristics influence their tax compliance and non-compliance. Also, literature on the factors of noncompliance as advanced by Kidder and Craig (1989) is critically examined. Finally, existing literature on the two main tax enforcement strategies, comprising of penalties and cooperation, as well as other models for improved income tax compliance are reviewed.

Even looking at the problem of income tax holes and tax evasion in Ghana, it would be out of place to focus attention only on tax noncompliance. Empirical research must concentrate on compliance with income tax laws rather than looking at it as a phenomenon of breaking laws in tax administration in the informal sector of the economy. Theories in taxation must explicate both compliance and noncompliance in income tax. Course of action could be directed towards encouraging and supporting compliance as well as dispiriting noncompliance amongst the self-employed in the informal sector.

2.1 Definition of “Self-employed”

According to Fairlie (2005) self-employed are those individuals who identify themselves as working for themselves in business, professional practice or farming. Camel (2000, P. 42) defines self-employed to mean people who work for themselves, they may or may not engage

other peoples services or members of their families to help run the business without a defined mode of payment.

Although, the two definitions appeared to be pointing at one direction, the researcher would like to pick up Fairlie's (2005) definition. The reason for this is that, most people who are working for the self-employed are considered to be in employment and for that matter are paid for the services render. Including family members who sometimes help to manage such enterprises cannot be said to be rendering free services, operational costs such as transport fares and feeding expenses of the family members are borne by the enterprise of the selfemployed. The researcher therefore holds the opinion that the self-employed are "people who identify themselves as working in their own businesses who may or may not employ other workers who help to run the enterprise for payment"

2.2 Reasons that boost the activities of the self-employed

Self-employment concept is as old as human race and dates back to the dawn of existence of mankind. However, the subject matter assumed its position today in Ghana in the early 1970s in the infamous article; Hart (1973), who highlighted the employment opportunities and potentials in the informal sector that could be explored by individual entrepreneurs with relevant skills and the desire to work for themselves.

In the 1980s and early 1990s, self-employment reached its turning point in the economies of Ireland, United Kingdom and other parts of the globe, especially third world countries. According to Fairlie (2011), two main strategic issues influenced the resurgence of the selfemployed in many economies of the world. The first of these was the growing awareness

of the increasing employment potential of the small business in the informal sector. The second was the rising problem of unemployment in many countries.

The approach in which these two concerns captured into public policy domain however differed among nations. In Ghana, for instance, government policy on self-employment emphasized, from the start, its potential to contribute to economic diversification and employment creation. Directly aligned to this is the desirability of the people without jobs to be proactive agents in exploiting this potential.

Blanchflower and Oswald (1998) in their view, maintain that the emotional factors linked with entrepreneurial constrain play a central responsibility in the partiality to become selfemployed.

There are others who do not want to be directed by anybody and therefore would not want to be self- employed. Such persons will naturally create employment for themselves in an attempt to satisfy their propensity to be independent.

2.3 The demographic features of the self-employed

Research studies have focused on the features of the self-employed to be able to find solutions to questions that relative to “who are the self-employed?”. In doing so, key demographic features are discussed below;

Age: according to Kidd (1993), a person’s age affects his/her desire to be self-employed. For instance, age may be prerequisite to determine the persons experience and knowledge in the labor market hence indicating human resource capacity. On the other hand, as a person grows

older, he/she may have gathered adequate capital and experience needed for selfemployed there by age is seen as a factor for financial and human resource.

So to speak, there has been adequate information to prove the correlation between selfemployment and age. Fuchs (1982) concluded that the probability of switching from wage or salaried employment to self-employment was not significantly associated with age. Blau (1987) found similar findings.

Gender: Overall data indicates that the incidence of self-employment among men is higher than women Evans and Leighton, (1989): Brown, Farrell and Harris (2013). The higher average hours of employment typically reported by the self-employed may act as a deterrent to female participation. Connelly (1992) has however revealed that female participation in self-employment is greater than male participation. As advanced by Connelly (1992), selfemployment affords more flexibility and may therefore prove attractive to women with responsibilities. In light of the forgoing arguments, the researcher is of the view that the circumstances of the study area play major role in determining dominant gender of the selfemployed.

Marital status: according to Le (2009), marriage is understood in the literature of economics to represent steadiness and, may provide an environment for “uncertain” self-employment.

Again, Farrell and Harris (2003) indicate that if one has a spouse, it increases the chance of self-employment - this may include economic strength. Also Schiller and Crewson (2007) are of the view that couples pooling their resources together may probably create employment for one, mostly the wife becomes self-employed.

Educational Level: Educational qualifications role has been included into many empirical research works, seen as a critical success factor in the labor market especially in the private sector. Formal education may act as a precondition for capacity. This means that people with good education may turn themselves managers; hence, chances are that they become selfemployed. Fairlie (2011) postulates that those who have several and broad educational attainments increases one's chance of becoming self-employed relative to one who have little but deep skills.

2.4 Tax assessment of the self-employed

Governments over the world, especially, developing nations, always have challenges devising the appropriate tax systems that will effectively rope into the tax net as many selfemployed people as possible. Even if the appropriate tax policy is formulated, there has always been a problem on the part of tax administrators in reaching out to the self-employed who are classified as difficult group to tax by the tax officials. The challenge in accessing the self-employed by tax agencies make the self-employed highly non-compliant to tax regulations (Thuronyi, 2013). A number of factors contributing to the difficulty in taxing the self-employed are reviewed here.

2.4.1 Poor standard of keeping financial records

In most developing countries including Ghana, the self-employed are very indifferent to proper accounting records keeping. This practice therefore makes it extremely difficult, if not impossible, for any proper assessment of income to be ascertained by the tax authorities. What accounts for this situation varies depending upon the type of business and circumstances of

the self-employed. Most self-employed prefer to run their own business without making conscious efforts to employ qualified accountants whose responsibility it is to keep proper books of accounts. Some self-employed also intentionally engage in keeping different records based on the needs or uses it would serve their situations.

2.4.2 Non voluntary compliance by the self-employed

Voluntary compliance is the hallmark required of taxpayers in every tax system in everywhere the world over. However, as indicated by Thuronyi (2013) there is low tax morale on the part of the self-employed to voluntarily comply with tax legislations amongst taxpayers. This therefore requires some level of promotion from the governments to encourage tax compliance. In most instances however, governments lack the necessary political will to enforce tax laws for fear of losing popularity. For Governments to meet their revenue targets for sustainable economic development there is the need for tax authorities to consider new compliance approaches to improve voluntary compliance among taxpayers especially in the informal sector.

2.4.3 No permanent place of operation

Self-employed enterprise owners of the time do not register their businesses with the right state institutions before commercialization of their activities. The small numbers that try to comply most of the time do not properly disclose their premises. This therefore makes it hard to identify them charge tax on their operations. Gill (2003) postulated that no stable place of doing business on the part of the self-employed gives an overwhelming challenge to the tax bodies, with regard to taxpayer recognition and listing.

2.4.4 Symbolic noncompliance in the informal sector

This takes place as protest to or compensate for perceived unfairness and inequalities in tax laws in general. Tax protestors are a small and visible group who openly resist payment of taxes because of their distaste for the uses to which those monies are put. A potentially larger group of taxpayers are those whose incomes are subject to withholding and who have too few resources to take advantage of ways to reduce tax liability through GRA tax shelter and so on. Many of these people probably exhibit structured compliance with regard to much of their tax liability

2.5. Reasons for taxation by the state

A number of reasons have been recognized for tax obligation on citizenry. These are the same reasons that hold for the imposition of tax on the self-employed. These reasons include the following;

Sources of revenue for developmental projects: One of the principal reasons for taxation for the self-employed is to create the required amount of revenue for the government to implement developmental projects to better the lives of the citizenry. Without the required revenue generation through taxes, no government can accomplish anything important in terms of development such as schools, hospitals, roads, housing, water, sanitation and electricity. Taxation has been identified as the livewire of every country, without which the wheels of progress will stagnate. It is the light of this that governments must make every possible effort to tax every individual who must be taxed through the institution appropriate procedures to limit tax non-compliance among taxpayers. The assertion of Schneider and Enste (2003)

indicated that the country loses huge sum of revenue if right actions are not taken to tax the self-employed in the informal sector of the economy.

Taxation of the self-employed enhances the revenue base of the state and also protects the stability of the tax collection system. Once the tax net is wide enough to include all taxpayers in an economy, there would no room for any taxpayers to hide behind self-employment to deprive the country of her much needed tax revenue.

Equity or fairness objective: Smith (1776), „An inquiry into the nature and causes of the wealth of nations“ declared that fairness is one of the cardinal principles underlying every good tax system. Equity in any tax system would boost taxpayers“ confidence and trust and encourages compliance. Equity is achieved if every taxpayer (including the self-employed) is identified and taxed proportionately to their income. The self-employed, just like other citizens benefit from the services provided by the state by using taxes. It will therefore be highly unfair if they are left off the hook of the tax net.

Agyei (2004) indicates that Ghana“s income tax net is not widening enough. Just only twenty percentage of the working population is earning wage and salary and could easily be identified and taxed by the state. The remaining work forces are self-employed, mostly in trading, artisanal and farming. It has been difficult, if not impossible, most of the time to identify these taxpayers, let alone verifying their income on which tax is charged (Agyei, 2004).

The problem in identifying self-employed taxpayers can partly be attributable to the lack of discretionary income reporting among self-employed persons. Employers are mandated to report employees“ income to the appropriate agencies for taxation. In contrast, the income of

self-employed individuals is not, by law, subject to any third party reporting requirements. There is, therefore, the likelihood of the tax machinery cramping on the wage or salaried earner whilst leaving the self-employed persons who form the chunk of the working class of untaxed.

2.6 Methods of taxation among the self-employed

According to the Income Tax Act (Act 592), every person who earns income in Ghana is obliged to roll with the GRA voluntarily and present details of business records in order to ascertain assessable income for the person for his or her tax liability. However, it is asserted by Terkper (2003), that the self-employed persons are within the category of taxpayers labeled as “hard-to-tax group” who most of the time do not voluntarily register (because they are able to escape coverage by the taxing authorities) with the taxing agencies for purpose of taxation.

2.7 Compliance with tax laws

The objective of promoting tax laws in every jurisdiction is to achieve compliance with tax laws. As observed by Thuronyi (2003), tax compliance is an act taken by a tax payer to declare his or her earned Income for taxation purpose accurately, and disbursing the payable tax within a given time lines without forcing the tax authority to issue warrant on them or taking a battle against tax compliance offenders. This definition really touches on the various forms of tax non-compliance discovered by the GRA Act (Act 592). According to the GRA Act, (Act 592), the major forms of tax non-compliance starts from late or non-submission of tax returns, under-statement of income to overstatement of expenses

None or late submission of returns: It is about not filing tax returns or late filing of tax returns.

Quiet number of the self-employed always fails to comply because it is hard to locate many of

them and recognize them easily. S. 148 of the GRA Act, (Act 592) enjoins every person to submit his or her income returns to the GRA within four months period after the basis period of that person within the year of assessment. At a time that a lot of the selfemployed fail to comply and submit tax returns it becomes thorny in locating them, establish income earned and tax obligation thereof and this leads to tax deficit that is amounted to taxes not paid due and has foregone. Tax payment on time is important to the tax agency.

The revenue generated is used by the state for its expenditures.

Income under statement: again, this is another method of income tax noncompliance among taxpayers especially for the self-employed. According to GRA Act, (Act 592) have it that there are three major sources of income subjected to tax. These include:

- I. Employment income
- II. Business income and
- III. Income from investment

Even though many taxpayers generate income from all the above sources, taxpayers sometimes reveal just two or one source leading to understatement of income.

Over-statement of expenses: According to the GRA Act, 2000 (Act 592), Section 114, tax payers are allowed to make some deductions of expenses incurred in their business operations in arriving at a profit. Sometimes they may over deduct by way of including personal expenditures which are not allowable.

2.8 Determinants of tax compliance and non-compliance

The factors that give rise to tax compliance varied and differ from period to period. Other researchers such as Milliron and Toy (1988) were of the opinion that the major causes or

determinants of tax compliance fall within the scope of economics. There is therefore the need for one to determine the causes of tax compliance from both social and economic points of views.

2.9 Major variables of tax non-compliance and non-compliance

Kidder and Craig (1989) have identified some seven variables that account for tax compliance or non-compliance. Namely; procedural, brokered, unknowing, lazy accounting, protest or symbolic, asocial and habitual non-compliance.

2.9.1 Procedural non-compliance: This occurs when a taxpayer fails to follow the right procedure or uses the right forms spelt out by the tax laws in respect of filing tax returns. A taxpayer is required to follow specific procedures which are sometimes beyond the understanding of the taxpayers either due to ignorance on the part of taxpayers or failure on the part of the tax authorities to educate taxpayers on the timing and procedures for filing returns. Procedural noncompliance may arise from complexity of filing procedures (Owens and Hamilton, 2004). Clotfelter (1983) indicates that the complexity of the tax return was linked with non-compliance.

2.9.2 Brokered non-compliance.: Some of the taxpayers sometimes rely on tax experts for advice when preparing their tax returns or leave the whole of their tax matters to such professionals to handle for them. Brokered non-compliance arises when taxpayers become non-compliant because of professional advice. This situation happens when a tax system is not strong enough to spot non-compliance.

2.9.3 Unknowing non-compliance: This occurs when taxpayers fail to comply either in part or in whole with the tax laws mainly due to ignorance or complexity of some of the tax laws that do not lend themselves for easy understanding (Picciotto, 2007). Ignorance has been discovered to represent a greater amount of tax non-compliance (Yankelovich and White, 1984).

2.9.4 Lazy (Accounting) non-compliance: Keeping proper accounting records plays a key role in tax compliance. Proper accounting records help in ascertaining the earned income of taxpayer and thereby their tax liabilities (Ayres and Braithwaite, 1992). Lazy noncompliance occurs when taxpayers refuse to keep proper accounting records of their business to allow for easy determination of their right tax liabilities. This situation happens when people are not knowledgeable in accounting or fail to employ accountants to handle the records keeping aspect of their business operations.

2.9.5 Symbolic non-compliance: Individuals in this case do not see the need for them to pay taxes. These taxpayers deceive the state by running their operations such that it is difficult, if not impossible, for tax officials to identify, and tax them (Thuronyi, 2003). Most of them fail to register their businesses with the right state institutions such as the Registrar General or GRA. One of the reasons that may account for such group of taxpayers could be attributable to their perception of corruption by the authorities in using the tax revenue. Also, some taxpayers feel there is no fairness in the treatment either by the tax system or tax administrators and may want to fight against these perceived inequalities (Gilligan and Richardson, 2005). Failure to comply with tax laws is seen as a protest against the inequitable tax system (Kidder and Craig, 1989). Taxpayers' perceptions of the unfairness of the tax system are likely to

influence their willingness to evade payment of tax. However, previous research on the influence of perception of fairness on tax compliance has produced mixed results. Mcewen and Maiman (1986) established evidence that perception of fairness was directly associated with compliance, while Porcano (1988) discovered no relationship between compliance and perception of fairness.

2.9.6 Asocial non-compliance: Taxpayers as social beings are, in one way or the other, influenced by the actions and inactions of their associates. Where a network of individuals decides not to comply with tax laws, their associates are also influenced to follow suit in pursuit of the group's mission, Grasmick and bursik (1990) indicated that family and friends do have significant influence on taxpayer compliance

2.9.7 Habitual non-compliance: taxpayers like any other persons do develop some habit as a result of familiarity over time. Once taxpayers become familiar with tax issues; they do identify certain lapses and therefore resort to the habit of non-compliance in order to take advantage of the loopholes in the tax system.

2.10. Promoting income tax compliance

According to Braithwaite (2003), tax promotion deals with the means by which tax authorities get the cooperation of taxpayers in meeting their tax obligations as stipulated by tax laws. This definition points to the fact that tax authorities have an important role to play in ensuring compliance with tax laws. However, there has been a difficulty in determining which regulatory enforcement strategy will be most effective in gaining long-term voluntary

compliance from taxpayers. Whereas some researchers such as Williams (2001) favor the use of harsh sanctions and penalties, others like Job, Stout and Smith (2007) have advocated for the use of persuasion and cooperation in enforcing tax compliance.

2.11. The use of penalties or sanctions in enforcing compliance (Deterrence model)

One of the major approaches to enforcing compliance relies upon the element of coercion represented by the enforcement activities of police, taxation officials as well as the sanctioning behavior of the courts and other agencies. Aryes and Braithwaite (1992) argued that enforcement powers should be precise and logically formulated, consistent across the range of taxation legislation, should allow for the minimum of administrative discretion and should be subject to ultimate judicial control that in turn should be capable of being applied in a summary and expeditious way. Although Braithwaite (2003) recommended that civil sanctions and surcharges should be the primary means of enforcing compliance, it was argued in that work that effective criminal sanctions should only be available in cases of deliberate and serious non-compliance.

The traditional method adopted by tax authorities in enforcing tax compliance worldwide has been to focus on fear and thus incorporated punitive measures in tax laws. Braithwaite (1995) first argued that compliance is likely to be achieved when tax agents employ explicit enforcement pyramid. The deterrence model can be traced back to the classical studies of Beccaria (1797) and Bentham (1788). The basic premise of these researchers is that people are rational actors who will behave in a way that will maximize their expected utility. The view of Becker (1968) was that if individuals are rational decision-makers whose aim is to maximize

expected utility, then regulatory authorities must fashion out sanctions that are severe enough to deter non-compliance.

Researchers developed interest in researching the effects of deterrence on compliance with laws in the 1960s and 1970s. Tyler (1990), and Hasseldine and Hite (2007) argued in favor of the institution of punitive measures or sanctions as an institutional legitimacy and procedural fairness. Tyler (1990) argued that the institution of sanctions in tax laws would ensure compliance and thereby achieve fairness in tax administration. The argument is that taxpayers will regard severe sanctions as more procedurally fair, leading to improved compliance with tax laws. Knowing that there exist institutional mechanism to deal with non-compliant taxpayers builds community confidence and the legitimacy of the tax system.

This has led to the formulation of a generally accepted pyramid of enforcement, typically composed of the use of force and or sanctions to compel compliance from deviant taxpayers. Ayres and Braithwaite (1992) documented this age long pyramid of enforcement that has been and still being applied by most countries worldwide. This age long pyramid of enforcement is diagrammatically depicted in **Figure 1**.

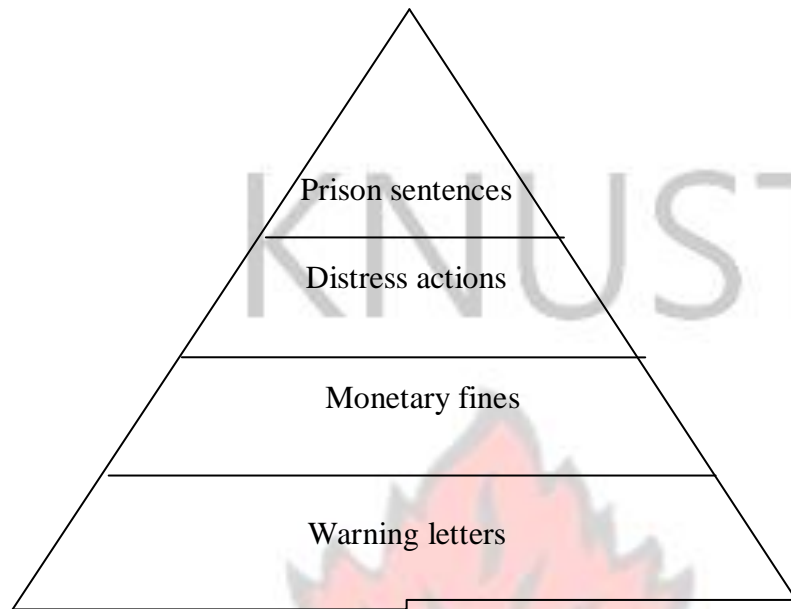


Figure 1Pyramid of enforcing tax compliance (Source: Aryes and Braithwaite, 1992).

Most regulatory action occurs at the base of the pyramid, where attempts are initially made to coax compliance through fears and warning letters. If this fails to secure compliance, imposition of civil monetary penalties are applied. Criminal prosecution then follows if the imposition of civil penalties fails. After this, a plan shutdown or temporary suspension of license to operate is embarked upon. Aryes and Braithwaite (1992) suggest that the incorporation of monetary fines, distress action and prison sentences serves as a deterrent from non-compliance, thereby improving compliance.

Sanctions or punitive measures however provide tax authorities with a set of tools that can be applied without regard to reasons for non-compliance. The use of sanctions denies something that is at the core of every regulatory non-compliant, that is, reasons underlying noncompliance. This is because, some researchers, including Tittle and Logan (1973) found out that a sanction in itself does not guarantee compliance. According to Roth and Scholz

(1989) the traditional economic deterrence models draw upon deterrence theory and utility theory to predict that a rational taxpayer will be non-compliant as long as the payoff from noncompliance is greater than the expected cost of being caught and punished.

Another criticism of the deterrence model is that it does not clearly explain the high levels of voluntary compliance observed in many situations particularly among many public organizations. Again, deterrence system tends to be costly to maintain. A growing body of research in taxation literature also suggests that deterrence-based enforcement strategies with offenders can sometimes be counterproductive in the long-term, and can undermine the relationship between legal authorities and those they regulate (Tyler, Sherman, Strang, Barnes and Woods, 2007).

Due to the limitations of sanctions alone to improve compliance, there was the need to deploy other compliance improvement models that apply strategies that are entirely different or compliments the traditional deterrent compliance model (Owens and Hamilton, 2003).

2.12 The use of cooperation in promoting tax compliance

A growing number of researchers began to question the value of sanctions alone in enforcing tax compliance. In the 1980s, researchers shifted their attention to researching compliance rather than deterrence, and began to realize the importance of persuasion and cooperation, known as accommodative model, as a regulatory tool for gaining compliance. Regulatory authorities supporting the accommodative regulatory enforcement tend to view individuals not as rational actors, but social actors who are inclined to comply with laws, partly because they believe in the rule of law, and partly as a matter of long-term self-interest.

Regulatory authorities adopting the accommodative model tend to be more oriented toward seeking results through cooperation rather than by coercion. They prefer to be seen as service providers rather than strict law enforcers. According to Grabosky and Braithwaite (1986), a striking feature of the accommodative approach is that it aims to establish a collaborative and friendly relationship between regulatory authorities and those they regulate.

Research in the area of procedural justice has been one area that has shown the value of using an accommodative approach to regulate behavior. This research has shown that being treated politely, with dignity and respect, being given a say, and having genuine respect enhance the feelings of fairness among those being regulated. Tyler (1990) has shown that people value respectful treatment by authorities and view those authorities that treat them with respect as more entitled to be obeyed. A growing number of studies have also shown the positive effects of procedural justice on taxpayer behaviour (Example, Murphy, 2005). Tyler (2006) argues that if regulators are prepared to first engage in dialogue by educating and helping to improve the financial recording practices of taxpayer, then this will serve to encourage support for the law and improve compliance.

2.13 Partnerships with the community

Building partnerships with the community should be an intrinsic part of tax authority's operations. As indicated by Pashev (2005), tax authorities must concentrate on building networks to develop aptitude and community understanding of tax compliance. Tax authorities cannot resolve all the troubles of tax non-compliance by themselves alone. They therefore,

need to seek the participation of the community in their decision-making in dealing with the tax compliance.

Given fact that tax agencies are limited by resources as revealed by the findings of Owens and Hamilton (2003), third party involvement is essential if tax officials are to actually promote voluntary compliance. Support from third parties is crucial for the discovery and examination of non-compliance behavior. By the assistance of interest groups in the regulatory process, tax officials can improve communication and curtail potential conflict. Interest groups can provide information, analysis and perspectives, which might otherwise not have been brought to the notice of tax authorities (Braithwaite, 2003). For instance, tax authorities could be informed of particular compliance issues and regulatory weaknesses. This type of information could inform the range of policy alternatives available to the tax authorities.

By presenting information at consultative fora, third parties can contribute objectively for informed decision to be taken. As observed by Braithwaite (2003), building strategic relationships to help to shape tax agents' understanding of taxpayer motivations will improve the skills of the tax officials to respond to different needs of different taxpayers and gain support for strategies that address particular industry issues and practices.

„Taxpayer compliance cannot be achieved coercively, but rather cooperatively through dialogue and understanding rather than the use of force to defeat confrontation and ignorance“ (Aryes and Braithwaite, 1992).

2.14 Identification of partners for compliance

Tax authorities cannot work in isolation to improve compliance among taxpayers and this may require the support and cooperation of industry and the community as well. Communications from peers are most useful and the support of key opinion leaders and stakeholders could greatly help tax agents. Hasseldine and Hite (2007), asserted that the challenge for tax authorities is how to spot the most appropriate partners to act as „champions“ and advocates. „The chosen partners would depend on the market ranging from successful business entrepreneurs to tax practitioners and even to taxpayers who have good compliance records“. Tax authorities must find a way of working with credible stakeholders (industry associations, professional bodies, agencies at all levels of government and tax agents) who are willing to contribute and cooperate in developing an efficient tax regime. These interest groups would be better placed to persuade others with whom tax authorities have little authority like the self-employed.

Braithwaite (2003), and Hasseldine and Hite (2007) concluded that „the potential benefits of tax agencies working through credible third parties, such as industry associations, professional bodies and trade unions, with which tax agents have ongoing relationships. Such third party organizations repeatedly have a substantial interest in preventing the types of non-compliance that put their compliant members at a commercial or financial disadvantage (Slemrod, 2008)“.

2.15 Encouraging and supporting taxpayers for compliance

Motivation may be linked to a specified target of regulation to stimulate compliance

(example, a taxpayer) or upon a particular interest group for assistance in achieving tax compliance (for case in point, tax practitioners and industry associations). Braithwaite (2003), is of the view that incentives could be material in nature or they may entail a nonmaterial consideration. Incentives by definitions are expensive to handle.

2.16 Education and helping taxpayers for tax compliance

Braithwaite (2003) indicates that tax authorities should have Business Desk officers who would be able to visit taxpayers at their homes or business premises. The officers should be able to provide support and advice on matters concerning registration, record keeping and payment requirements and expenses that can be claimed on tax returns. The Business Desk officers should also be able to provide an ongoing assistance and advice, by either phone-call or personal visit, on the range of tax issues touching the new business enterprise owners or the self-employed whose compliance to tax laws is mostly suspicious.

2.17 Proper financial accounting record systems

Some form of record keeping is essential for all business operations and is one of the most important elements of running a successful business. Braithwaite (1995) concluded that one of the reasons that small businesses fail is inadequate, inaccurate or nonexistent of books and records. The extent, nature and detail of the records maintained will depend on the type of business and the information required. Records provide feedback on the effectiveness and profitability of operations on a regular basis. Good records enable a business to analyze growth and identify new opportunities. More importantly, good records provide evidence for the profitability and realistic value of a business.

With regard to taxation, Richardson and Sawyer (2001), suggest good records lead to more accurate reporting of income and expenses in business tax returns. Record keeping is an essential element of business meeting its tax obligations. Taxpayers are required to retain records which are relevant to the calculation of their assessable and taxable income, including records that verify claims for deductions. Where taxpayers do not comply with the recordkeeping requirements, they are liable for a fine or conviction under most tax laws. From a practical perspective, where a business keeps good records it is quite likely that when these records are taken to the tax agency at the end of the year, the tax agency will have all the information needed to accurately complete the tax return. If good records are not kept, there are numerous adverse consequences for the individual taxpayers including accountants preparing inaccurate tax returns for those taxpayers and the time and other resources used in creating financial records.

2.18 Improved flexibility in tax compliance strategies

Tax authorities, all over world, have put in place the use of various compliance strategies, such as penalties. Sanctions tend to be applied in a routine manner without recourse to taxpayers“ particular circumstances.

There are alternatives for either the tax officials or the taxpayers if taxpayers do not fulfill their obligations by the deadline. Promotion strategies tend to be applied in a routine manner without taking into account circumstances that may create difficulty for individual taxpayers or for particular industries to meet their tax obligations.

The model for improved compliance, which advocates an escalating range of options and sanctions, requires tax authorities to assume that the majority of people are „good citizens“ and would be willing to comply if they understood the tax system and were treated fairly and with trust (Braithwaite, 2003; McKerchar, 2007). Positive reinforcement for compliance through education, motivation and encouragement will help to reinforce the benefits of cooperation (Braithwaite, 2003). It also requires tax authorities to put in place, and to make it known, that if its (tax agency) trust is breached it will strengthen enforcement methods as and when necessary (Hasseldine and Hite, 2007).

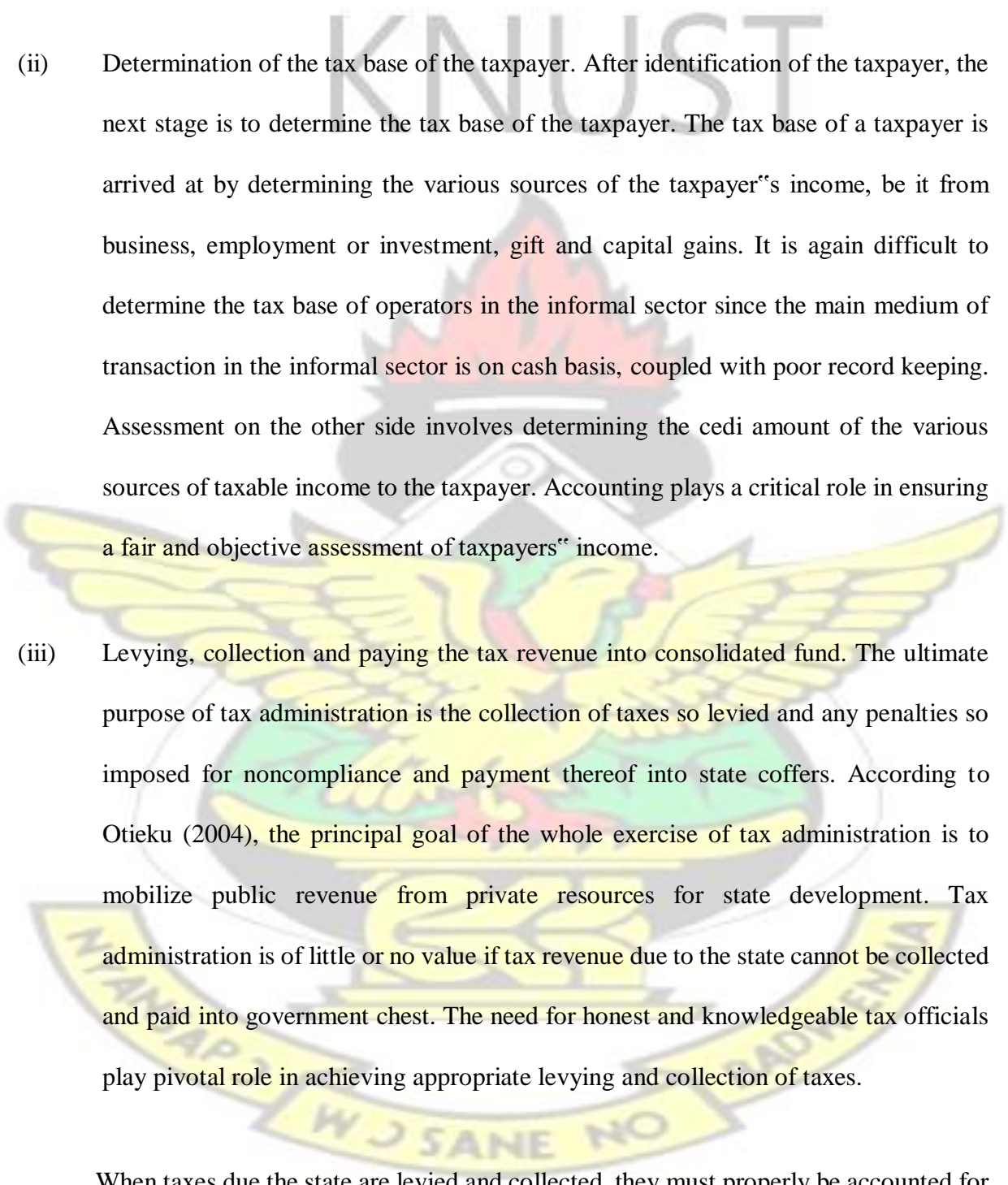
2.19 Promoting income tax compliance in Ghana

In Ghana, the enforcement or otherwise of income tax laws is mainly in the hands of the GRA. The enforcement of tax laws is part of the administrative functions of the GRA broadly referred to as the elements of tax administration by Otioku (2004). These elements are;

- (i) Identification of taxpayers, their tax base and assessment of their income.

The first step in income tax administration is the identification of the taxpayer. However, since it is difficult on the part of the tax authorities to identify every taxpayer, the income tax code calls for voluntary compliance on the part of taxpayers. It is quite easy to identify taxpayers in the formal sector and large businesses that are more visible by virtue of the fact that such businesses register with the tax agency. The informal sector characterized by the self-employed on the other hand hardly register with the tax agencies (unless compelled), thereby making the self-employed operators very

difficult to identify. This is what has contributed to the self-employed being described as difficult to tax by Agyei (1984).

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- (ii) Determination of the tax base of the taxpayer. After identification of the taxpayer, the next stage is to determine the tax base of the taxpayer. The tax base of a taxpayer is arrived at by determining the various sources of the taxpayer's income, be it from business, employment or investment, gift and capital gains. It is again difficult to determine the tax base of operators in the informal sector since the main medium of transaction in the informal sector is on cash basis, coupled with poor record keeping. Assessment on the other side involves determining the cedi amount of the various sources of taxable income to the taxpayer. Accounting plays a critical role in ensuring a fair and objective assessment of taxpayers' income.
- (iii) Levying, collection and paying the tax revenue into consolidated fund. The ultimate purpose of tax administration is the collection of taxes so levied and any penalties so imposed for noncompliance and payment thereof into state coffers. According to Otieku (2004), the principal goal of the whole exercise of tax administration is to mobilize public revenue from private resources for state development. Tax administration is of little or no value if tax revenue due to the state cannot be collected and paid into government chest. The need for honest and knowledgeable tax officials play pivotal role in achieving appropriate levying and collection of taxes.

When taxes due the state are levied and collected, they must properly be accounted for and paid into government chest, which is into the consolidated fund. The

Commissioner of GRA has as one of his/her functions as enshrined in section 133 subsection 2, of the GRA Act, 2000 (Act 592) to pay all monies collected into the consolidated fund. The Commissioner requires the support of able-bodied lieutenants to help him/her achieve this objective. This calls for attracting and recruiting the requisite personnel with the right mindset, who are highly motivated in the execution of their duties.

- (iv) Tax review procedures. The Commissioner of GRA is given many discretionary powers in the assessment and levying of taxes. The exercise of such discretionary powers sometimes results in disagreement with taxpayers respecting assessment and levying. The tax laws therefore provide avenues for settling disputes that may arise as result of the arbitrarily or inadvertently applying the discretionary powers of the Commissioner. Section 128 subsection 1 of the Ghana Revenue Authority (Act 592), provides that “a person who is dissatisfied with an assessment made under this Act may lodge an objection to the assessment with the Commissioner within thirty days of the service of the notice of assessment or, in the case of provisional assessment within nine (9) months of the commencement of the basis period to which the provisional relates”. To Otieku (1992), tax review procedures refer to the systems of resolving tax disputes between tax administrators and taxpayer. There are two main issues involved in tax review procedures, namely:

Administrative reviews. Administrative review procedures deal with the factual rather than legal issues of taxation, the latter being the subject of judicial review. Administrative review affords taxpayers the opportunity to object to assessment made by tax administrators. Such an

objection must be in writing and state the basis for the objection. The Commissioner must also communicate his/her decision on the matter after considering the objection either in whole or in part as early as practicable. Taxpayers not satisfied with the Commissioner's decision, may appeal against the decision to the High Court, which constitutes a semijudicial review procedure. The High Court may confirm, reduce, increase or annul the assessment on which the decision is based or make an appropriate order.

- **Judicial Reviews.** Disputes arising from issues of law in respect of assessment and levying of tax is resolved at the Court of Appeal or Supreme Court. The judicial reviews are dealt with in section 130 of GRA. The decision of the Supreme Court is deemed final. Judicial review procedures are however not normally encouraged since they are expensive and difficult to pursue, not to mention the long period of time it takes to settle disputes.

(v) **Enforcement of Tax Penalties.** Ghana's tax laws, just like any other tax laws, have provisions for punitive sanctions and penalties for non-compliance. Tax laws must be punitive enough to discourage taxpayers from non-compliance. That is, punitive measures must be adequate enough in order to make it disadvantageous for taxpayers to refuse compliance with the tax laws in any manner (Otieku, 2004). Punitive measures as argued by Braithwaite (2003), suggest that such measures must be reserved as a last resort meant only for the recalcitrant non-compliers. The GRA (Act 592) has two categories of penalty. The first category is less punitive and attracts charging interest on the amount of tax due in respect of offences contained in Section 141 to 146 such as failure to maintain records, failure to furnish returns, failure to pay tax on due date,

CHAPTER THREE

METHODOLOGY AND PROFILE OF STUDY AREA

3.0 Introduction

This chapter provides a description of the procedures and techniques used to collect, present and analyze data for the study. Specifically, it captures a description of the study area, research design, study population, sample size and procedure, instrument for data collection and methods of data analysis.

3.1. Research design.

Research design is a detailed outline of how an investigation will take place. The design combines the data to be collected for the study's initial research questions. The research design employed in collecting, analyzing and interpreting the data is survey. Fowler (cited in Creswell, 1994) defines a survey as a brief interview or discussion with an individual about a specific topic. This design is appropriate where multiple sources of evidence are examined and the researcher has little or no control over the events under study (Lundequist, 1999).

The choice of the survey strategy allowed for the collection of large amount of data from the population. The selection of survey design over other research methods such as experimental, longitudinal, cross-sectional and others was determined by the assertion of Saunders, Lewis, and Thornhill (2007) that survey is an appropriate and a common strategy in business and management researches which is highly economical means of analyzing a large amount of data.

In addition, the research involves quantitative study. Miles and Huberman (1994) indicated that quantitative research involves primary understanding in terms of measurement of quantity, intensity or frequency. It is about asking people for their opinions in structured way so that one can produce hard facts and statistics to guide you. To get reliable statistical results, it is important to survey people in fairly large numbers and make sure they are representative sample of the target. It is for this reason that the researcher is selecting quantitative to gain deeper understanding of the subject matter which is to examine strategies in promoting income tax compliance among the self-employed in the Tamale Metropolis.

3.2. Population of study

The target population of the study consists of all self-employed businesses within Tamale Metropolis that is estimated to be about 60,000 by the TMA. It was, however, not easy in identifying the self-employed who engaged in commerce and those who provide artisanal services such as masons, carpenters, electricians, mechanic shops on one hand, and small provisioning shop owners, mobile phone shop owners, food vendors, clothing shops on other hand . This is because, such self-employed goods and service providers most of the time move from one place to the other without permanent place from which they operate. As a result of this challenge the population of the study would be restricted to only the selfemployed in trading business that form a chunk of the self-employed in Ghana and estimated to be about 40,000 in the Tamale Metropolis.

The accessible population forming the sample frame was the self-employed in trading who are on the toll roll of the TMA. The size of the accessible population is estimated to be about 6,318

self-employed. The TMA list was chosen because it has comparatively a better and wider coverage of the self-employed within the metropolis than the GRA list.

3.3 Sample size and procedures.

The study will select a sample of 212 self-employed from the population. The sample size is fixed at 212 based on the assertion of Saunders, Lewis, and Thornhill (2007) that a sample size of about 212 is enough from a population of 10,000 at 95% level of certainty. Azah

(2005) studying the informal sector's attitude to tax compliance in Ghana used a sample of about 300. Also, Otiaku (1988) in the study of the income tax administration problems in Ghana also used a sample of a little above 300. With regard to these related research works relative to the sample size to be used, it is the researcher's opinion that a sample size of 212 is sufficient for this study.

Simple random sampling technique using the lottery technique is used to select a sample of 212 self-employed in the Tamale Metropolis. For ease of revenue collection, the metropolis is segmented into zonal areas by the TMA. The list of self-employed persons of each of the zones is received and numbered from 1 to 6318. Pieces of paper with numbers 1 to 6,318 would be placed in a bowl and shake to mix them up. Next, one of the pieces of papers is to be selected randomly. This process would be repeated until the required sample size of 212 is obtained. The use of the simple random sampling technique is to give each and every self-employed in the study area an equal chance of being selected as part of the sample. Also, the use of simple random sampling technique will make it possible for the findings of the study to be generalized about the population understudied.

3.4 Data collection instrument

Data for the study would be collected using questionnaire. Responses to the survey are confidential and participants give no names. The questionnaire comprised of 30 questions, which respondents would answer with the help of the researcher. Agyei (2004) shows that Ghana has considerable illiteracy level among the self-employed. It is against this background that the researcher decides to help the respondents in the administration of questionnaire. To ensure easy and timely administration of the questionnaire, all the questionnaire items are closed-ended. The choice of close-ended items was also to ensure easy and quick analysis of the data

3.5 Profile of the study area

Tamale is the regional capital of the Northern Region of Ghana. It is one of the six Metropolitan Assemblies in Ghana. It attained its metropolitan status in 2004 under the Legislative Instrument (LI 2068). It remains the singular metropolitan Assembly in the three Northern Regions of Ghana.

Historically, it used to be the regional capital of the three northern regions under the first republic. It covers a land mark of about 646.90180 square meters. The Dagombas are the majority ethnic group in the metropolis with other minority ethnic groups such as Gonjas, Mamprusis, Akan, Dagaabas among others.

Being one of the twenty six districts in the region, Tamale metropolis is boarded by seven districts. To the east, it shares boundary with Mion district, South East by East Gonja, East by Central Gonja and to the South west by Tolon district. Also it shares to the West by Sagnerigu district and to the North by Savelugu/Nanton districts. The strategic location of Tamale metropolis at the middle of the region makes it the hub for agricultural products and other commercial activities. By its position in the northern sector, it is exposed to some west African countries like Burkina Faso, Niger, Mali and part of Togo who sometimes en-route through the area to the southern part of Ghana.

The population of the Metropolis is estimated to be about 500,000 by the TMA as at year 2013. The Metropolis, being a hub city carries extensive commercial activities in trading spearheaded by the self-employed. The Central Business District (CBD) market serves as the most important daily market in the Metropolis, with few markets of relatively less significance dotted in other parts of the Metropolis, such as Lamashegu market, and Kukuo market (TMA, 2013).

Tamale metropolis has three major markets which are Lamashegu market, Aboabo market, Central market and kukou market. Apart from the major markets, there are other satellite markets dotted in the various villages within the Metropolis. All these market centers comprise of mini shops and stalls owned by self-employed men and women.

The self-employed in the Metropolis are estimated to be about 60,000 with those engaged in petty trading estimated around 40,000 (TMA, 2013). However, the TMA estimates that only about 8,000 of these petty traders are on the toll roll of the Metropolis. The reason is that some

of these self-employed do not have their business enterprises registered with the Assembly. It therefore makes it difficult for TMA officials to identify all such self-employed persons within the Metropolis.

Even though the number of self-employed engaged in petty trading on the toll roll of the TMA is about 8,000, records from the district office of the GRA indicates that just a little above 1,500 of such self-employed are on the tax roll of the Ghana Revenue Authority as at the end of year 2013. This, according to Mr. Kojo Baah, the Head of Client Service Unit of the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority has led to the situation where the percentage contribution of the self-employed to tax revenue in the Metropolis has been less than the average national contributions of the self-employed. Records from the district office of the GRA in Tamale, shows that the percentage of tax contribution from the self-employed in the metropolis for the years 2012, 2013 and 2014 hovers around 3.5%, 3.3% and 3% respectively.

This is a clear indication that when income tax is improved among the self-employed in the Tamale Metropolis it would have quite a significant impact on the national tax revenue which the country is crawling for.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter presents the analysis and discussion of the data collected from the field. Displaying these data with the use of appropriate charts, graphs and tables, all tailored towards the assessment of income tax non-compliance among the self-employed. However, the responses of the people served as the basis for the view of the researcher which is considered of significance to this work.

4.1 Demographic data of respondents.

Socio- demographic characteristics of individuals are important in determining their behaviors, psychology and lifestyle. This data outlines the summary of information about characteristics of respondents and how they are influenced by that in their geographical locations. The demographic characteristics are gender, age, marital status and educational levels.

4.1.1 Gender



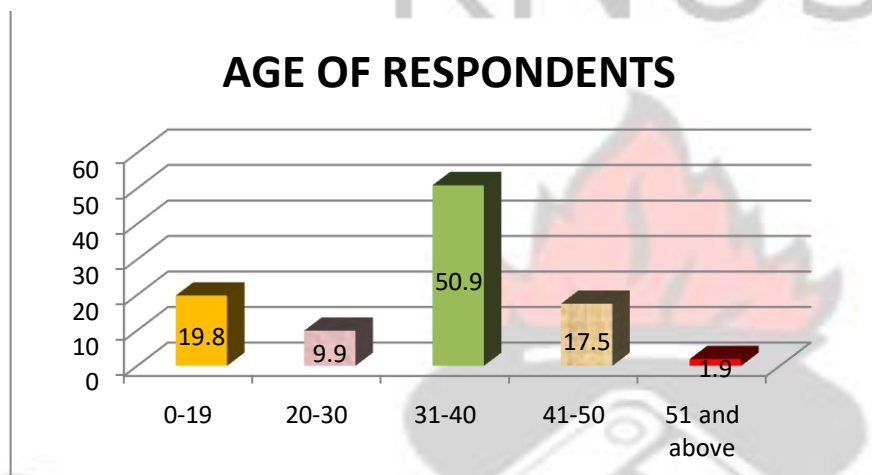
Source (Field Survey, 2015)

Fig 4.1 Respondents gender

The findings from figure 4.1 revealed, 61% of 212 self-employed respondents are females and the remaining 39% represents males. This clearly shows that females form majority of self-employed in the Tamale Metropolis. This result justified the findings of Seidu (2010) whose findings concluded that more women are self-employed than men. The reason for this finding in the study area could partly be attributed to the fact that no much attention is given for female education in Northern Ghana. This therefore, results in women having low educational and for that matter low skills to qualify them for formal employment. They therefore, resort to self-employment as a source of livelihood and to complement their husbands' sources in providing for their families.

4.1.2 Age

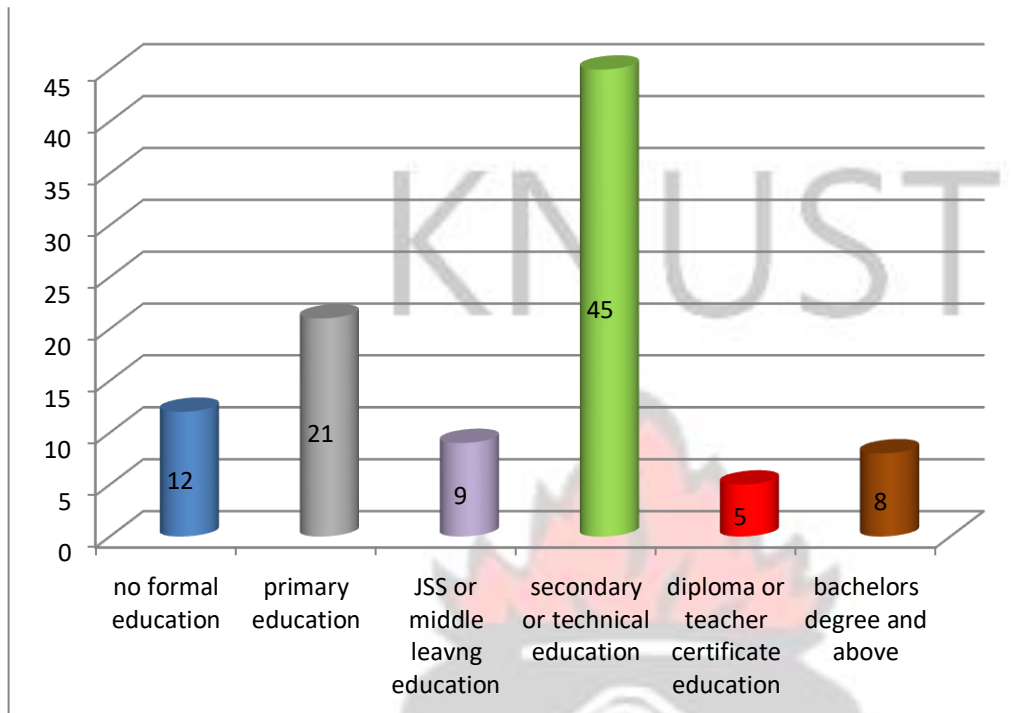
Age is an important social factor in the determination of a person's ability to engage in an economic activity (Atengdem, 1997). For the purpose of this analysis, the survey brought the cohorts of respondents as indicated in figure 4.2



Source (Field Survey, 2015)

Fig 4.2Ages of Respondents

The above figure revealed that about 81% of the respondents are young persons with age 40 or less, whereas, 19% represent people aged over 40 years. This depicts that most of the selfemployed in Tamale Metropolis are young. This report does not support the findings of Kidd (1993), who found that older people engage in self-employment than young people. This finding can be explained that employment in the formal sector is choked and chances to recruit young ones do not exist. This pushes the young ones to petty trading as the only source of employment. Also, much capital is not required to set up small enterprise for selfemployed. Therefore, young persons with interest in employment are able to enter into selfemployment with small amount of resources.



Source (Field Survey, 2015)

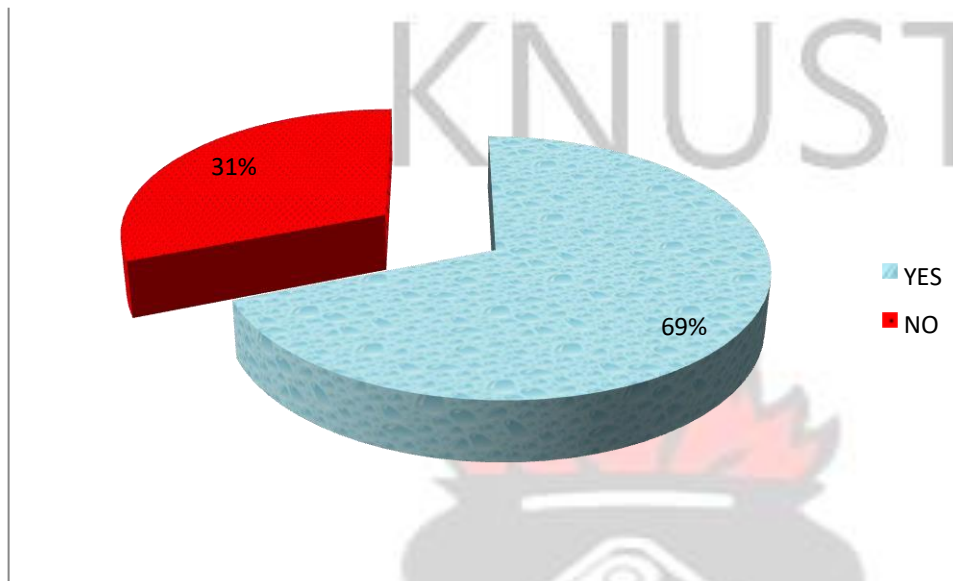
Fig 4.3 Respondents Level of Education

4.1.3 Level of Education

The ability of an entrepreneur to read and write is imperative for the improvement and growth of his or her business. Figure 4.3 shows level of education among the self-employed.

From the figure about 87% of the respondents have low level of education and the remaining 13% of the self-employed have higher educational level. The analyses have shown that most of the self-employed have low level of education. The result does not confirm the findings of Rees and Shah (1986), Brown, Farrel and Harris (2003) whose work showed positive relationship between level of education and chance of self-employment. However, the results support the study of Kidd (1993) that there is a negative relationship between educational level and self-employment. In fact, most jobs vacancies in the formal sector require high level of

education and sometimes number of working experience. This might be the reason for most of the self-employed having low educational level.



Source (Field Survey, 2015)

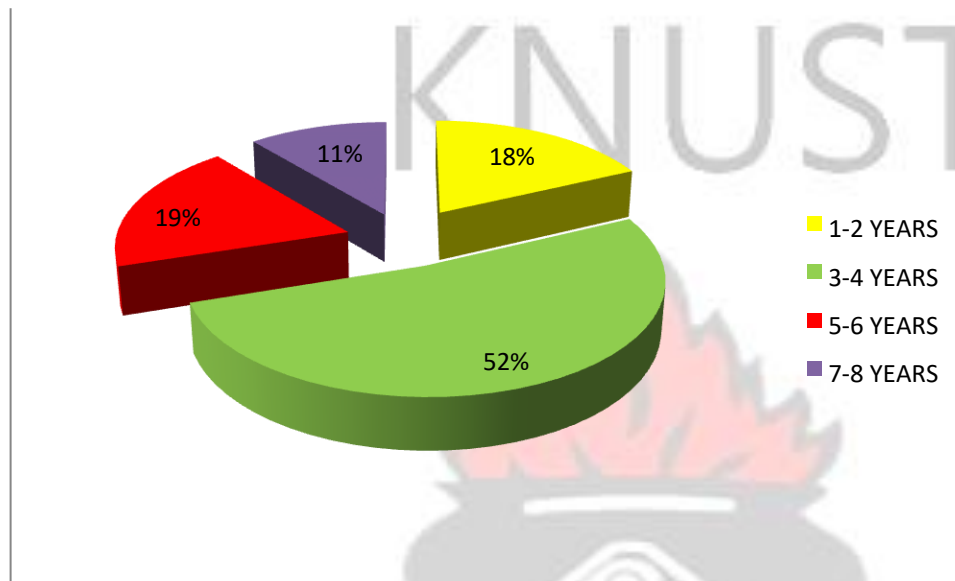
Fig 4.4 Respondents Marital Status

4.1.4 Marital Status

Marriage is regarded as one of the important social institutions in the Tamale Metropolis. Data from the respondent has confirmed this assertion. Out of 212 respondents, 69% are married with 66 respondents representing 31% are not married. This shows that married tax payers dominate the self-employed in the Tamale Metropolis. The findings could be attributed to the fact that most couples pool their little resources together to form small enterprises. Self-employment comparatively allows flexible working time better than the formal sector employment. Many married couple sometimes decide for one of them (normally, the husband) to work in the formal employment and the other (wife) selfemployed. This is to enable the wife enough time to care for their children and the home.

4.2 The role of cooperation in promoting income tax compliance 4.2.1

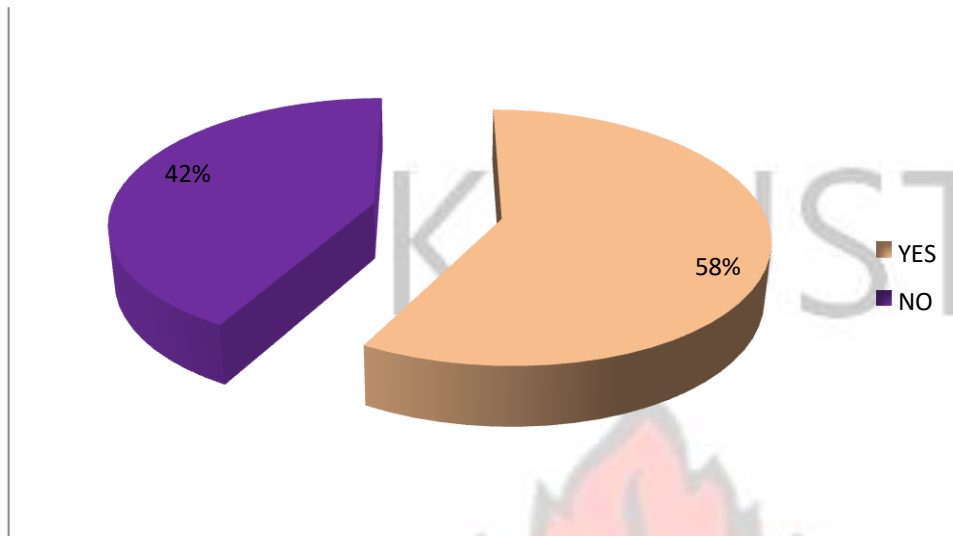
Experience in trading



Source (Field Survey, 2015)

Fig 4.5 Experience in Trading

Fifty two percent (52%) of the respondents of the self-employed have been trading for a long period of time ranging from 3-4 years. Whereas 18% had between 1-2 years trading experience. Eleven percent (11%) of the respondents has been trading for 7-8 years and 19% trading between 5-6 years. The results show that 3-4 years of trading category dominate the self-employed. This does not attest to the general assumption that entrepreneurs with less years of trading comply with tax laws in Ghana. This can be attributed to the problems of tax administration in Ghana. Low level of public education on income tax compliance and petty traders take advantage of this situation and avoid tax.



Source (Field Survey, 2015)

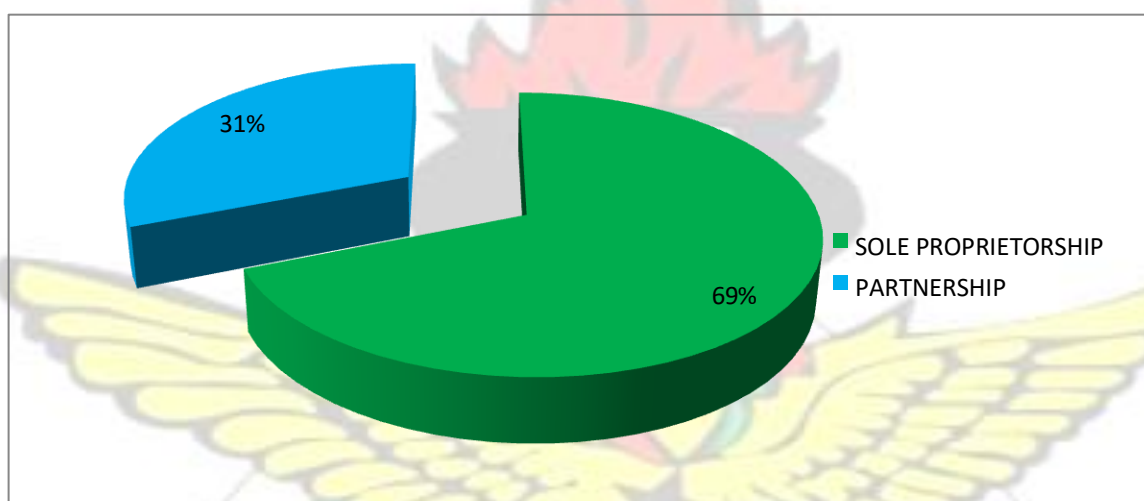
Fig 4.6 Financial Records of the Business

4.2.2 Financial records of the business

For tax authorities to be able to appropriately determine tax liability of a business enterprise, a reliable system of keeping records of the business should be adopted if proper financial records are kept, it will enable the enterprise to produce financial statements for income to be determined and subsequently determine assessable or chargeable income. This will enable income tax to be ascertained.

From figure 4.6 58% of the respondents keep financial records of their businesses, whilst the remaining 42% do not keep proper records of their businesses. This results once again, do not confirm the findings of Amos (2012) whose findings showed that most self-employed do not keep financial records of their business.

The researcher's own opinion is that, most of these self-employed enterprise owners within the metropolis access micro credit loans from micro finance companies which require proper financial records. Most of these loan beneficiaries received training from organizations like, Simli Pong, Bonzali, World Vision International, TumaKavi, International Christian Children Fund of Canada and others on book keeping, financial management and profit management. However interestingly, they keep these records purposely for the loans and will not show them for tax purposes.



Source (Field Survey, 2015)

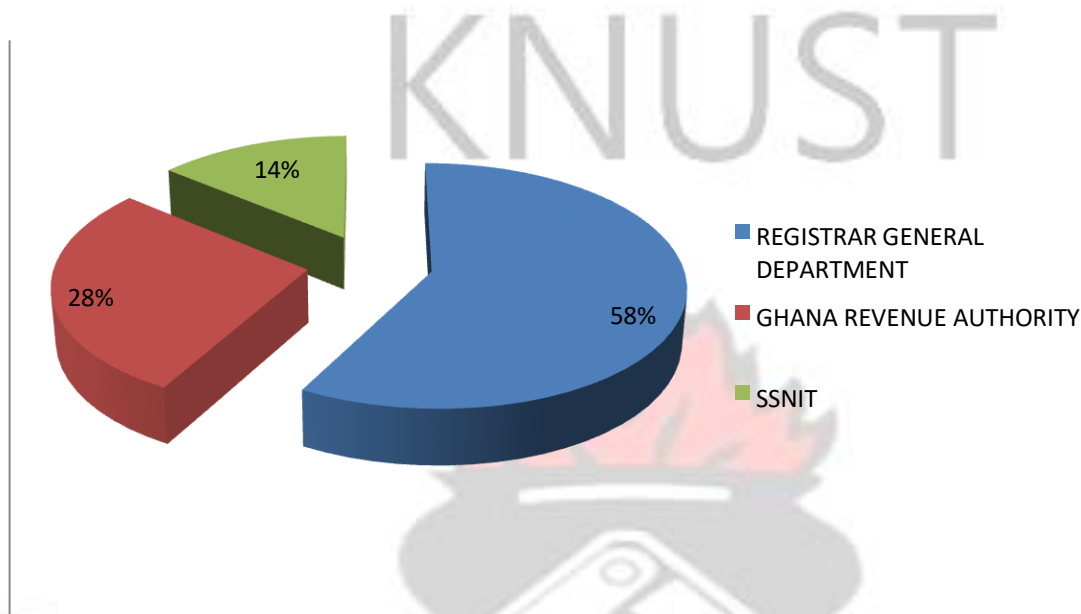
Fig 4.7 Type of Business Ownership

4.2.3 Type of business ownership

The study sought to assess compliance level of sole proprietors as against partnership.

Figure 4.7 shows that out of 212 respondents 146 operate as sole proprietors, representing 69%, while the remaining 31% of respondents operate in partnerships. One can conclude, by this result, that sole proprietorship dominates the self-employed in the Tamale Metropolis. This has confirmed the researcher's notion that sole proprietorship is the major form of

business ownership in Ghana. This can be attributed to the fact that, most of these people lack formal education and therefore do not appreciate other forms of business ownerships.

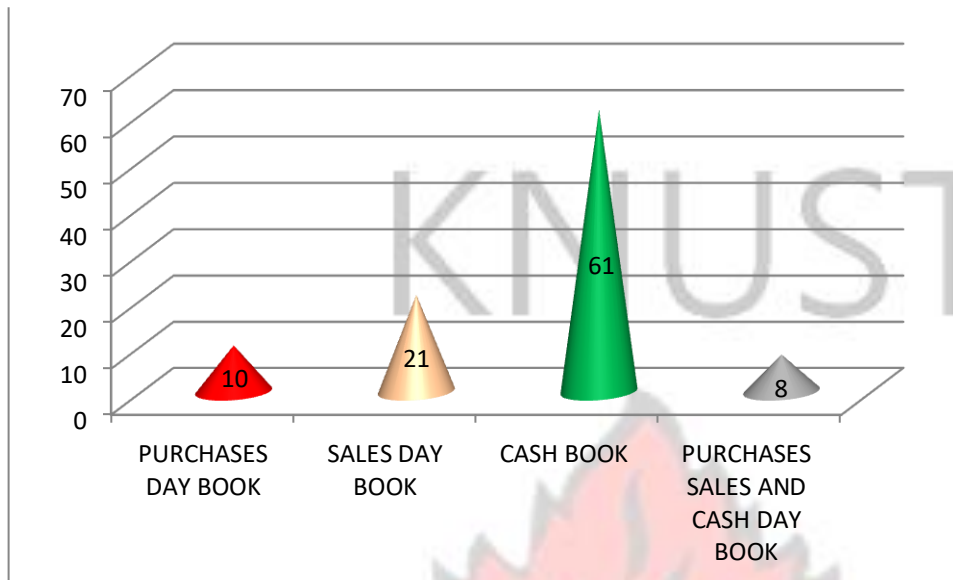


Source (Field Survey, 2015)

Fig 4.8 Registration of Business with Relevant State Institutions

4.2.4 Registration of business

From figure 4.8 it showed that 123 of the respondents, representing 58% have registered their businesses with the Registrar General Department, whilst 14% of the respondents have registered with Social Security and National Insurance Trust (SSNIT). The remaining 59 respondents representing 28% have their businesses registered with the Ghana Revenue Authority. This result indicates that majority of the businesses in Tamale Metropolis registered with the Registrar General Department. This can partly be explained that most of these self-employed enterprises are to produce business registration certificate to access loans from financial institution.



Source (Field Survey, 2015)

Fig 4.9 Financial Records

4.2.5 Type of financial records maintained by the self-employed

Keeping financial records of a business is an important element of operating a successful business. Amos (2012) asserted that one of the reasons for which many small business enterprises fail is poor or non-existent of records. The type of records to be maintained depends upon the type of enterprise in operation. Figure 4.9 indicates about 61% of respondents keeping cash book, 17 respondents representing 8% maintain all the three books specified. Ten percent (10%) maintained purchases day book and 45 out of 212 representing 21% keep sales day book. It is clear from the data that cash transactions records dominate. This could be due to interest of self-employed to avoid tax payment, because it will definitely under state their profit and for that matter their tax liabilities.

4.3 Determinants of income tax compliance

4.3.1 Non-Compliance Factors

Table 4.1 Factors that influence decisions not to file income tax returns

Courses of non-compliance	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know	Total
Complex income tax returns procedure	48%	14%	20%	10%	8%	100%
	102	30	42	21	17	212
Accountant advice	57%	23%	11%	4%	5%	100%
	121	49	23	8	11	212
Ignorance	30%	56%	8%	4%	2%	100%
	64	119	17	8	4	212
Lazy accounting	14%	52%	16%	10%	8%	100%
	25	110	34	21	17	212
Taxes are not beneficial	30%	40%	18%	10%	2%	100%
	64	85	38	21	4	212

Source (Field Survey, 2015)

4.3.2 Income tax returns procedure

From Table 4.3 about 62% of the self-employed agree that complex procedures in filling tax cannot influence their decision not to comply with income tax returns. However, about 38% disagreed and contended that the complexity of procedures in filling income tax returns influenced them not to comply with their tax obligations. The results could be indicating that most of the respondents have never filled income tax returns and may not have the experience of the difficulties involved.

4.3.3 Accountants Advice.

Accountants play a pivotal role in ensuring compliance and non-compliance of the income tax laws. Their knowledge in tax laws can be relied on by taxpayers for information regarding

their tax obligations. Most potential taxpayers are non-compliance because of the advice they received from accountants.

From the table, 80% of the self-employed agree that accountants' advice did not influence them not to comply with their obligations. 20% of the respondents disagree and indicated that accountants' advice influenced their decision of tax non-compliance. It is evident that accountants' non-compliance does not influence the self-employed not to comply with their tax liabilities in the area of study.

In the opinion of the researcher, the results could be attributable to the fact that most of the respondents do not seek or rely on tax experts in their decision to file income tax returns. It could also mean that most of these people who keep records of their business do not seek the services of accountants. Based on this situation, it is unlikely for accountants to influence the decision of the self-employed in income tax non-compliance. Nevertheless, if respondents had employed the services of accountants, a lot of them would not have complied with their tax liabilities.

4.3.4 Ignorance

Kidder and Craig (1989) revealed that ignorance is one of the determinants of income tax non-compliance among self-employed. Table 4.3 shows that about 86% of the respondents agree that ignorance have influenced their decision in income tax non-compliance.

Only fourteen (14%) of the respondents disagree that ignorance did not affect their decision not to comply with their tax obligations. The results indicated that ignorance play a significant role in the decision of majority of the respondents not to comply with income tax in the area under study.

This confirms the findings of Kidder and Craig (1989) whose studies concluded that ignorance is one of the main causes of income tax non-compliance. This finding could be as a result of the fact that most of the self-employed agree that they were not aware of their obligation to file tax returns to GRA. Also respondents who are aware of this obligation failed. This could be attributable to the complexities of tax returns procedures.

4.3.5 Lazy accounting non-compliance

Relevant and proper accounting records are required for income of taxpayers to be properly accessed for taxation. Poor accounting records can be a gray area for income tax noncompliance. Table 4.3 depicts that about 66% of the respondents are influenced by poor accounting records, while 72 respondents representing 34% agree that poor records did not influence their decision not to comply with income tax returns. This means that lazy accounting influenced, majority of the self-employed in the area understudied in their income tax non-compliance decisions.

4.3.6 Tax system not beneficial

Most potential taxpayers think that tax monies are not judiciously used to the benefits of everybody, others hold the perception that the tax system is not fair. This results in noncompliance as a protest against the tax system.

Table 4.3 shows the extent to which this practice among the self-employed is prevalent in the study area. About 70% of respondents think that taxes are not beneficial and therefore do not comply with income tax obligation. The 30% on the other hand are not influenced by non-beneficial of taxes concept in income tax non-compliance. Many respondents in the study area

hold the view that, taxes in general are not beneficial to the ordinary person and therefore would not comply with tax obligations. Most of these respondents refused to register their business with state institutions like Registrar General's Department (RGD), Social Security and National Insurance Trust (SSNIT) as a way of questioning the use of the taxpayers money. In fact, some of them have their businesses registered with RGD for purposes other than tax. And few have registered with SSNIT, once again, for purposes other than taxes. The researcher interactions with most of them revealed that they sometimes use different names in the registration of their businesses with these state institutions, all to hide and avoid tax obligations.

These behaviors makes it difficult, if not impossible, for tax authorities to identify all prospective revenue earned especially the self-employed for taxation purposes.

Table 4.2 Forms of income tax non-compliance behaviours

Forms of non-compliance		Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know	Total
Understatement of income		45%	22%	16%	11%	6%	100%
		95	47	34	23	13	212
Overstatement of expenses		18%	57%	10%	8%	7%	100%
		38	121	21	17	15	212
Late submission of returns		50%	32%	6%	8%	4%	100%

Source (Field Survey, 2015)

4.3.7 Forms of Income Tax Non-Compliance

4.3.8 Understatement of taxable income

The table revealed that 67% of the respondents agree that non-compliance of income tax take the form of understatement of taxable income. About 33% respondents disagree that income tax non-compliance come in form of under declaration of income by the selfemployed in the Metropolis. It is clear from the table that majority of the self-employed have agreed that understatement of income is one of the forms of income tax noncompliance. What result in this is that, most of them fail to maintain proper accounting records of their business operations. The small numbers that keep records of their business nevertheless, under declare their incomes to enable them evade their tax liabilities.

4.3.9 Expenses overstated

Table 4.1 shows that about 75% of the respondents agree that overstatement of expenses is a form of non-compliance of income tax. The remaining 25% of the respondents do not agree to this view. The reason for this could be due to the fact that, expenses are allowable in the determination of income tax liability. This gives rise to people creating false accounting records to avoid tax liability.

4.3.10 Late submission of tax returns

Eighty two percent (82%) of the respondents accept that late submission of tax returns is another form of income tax non-compliance, and the remaining 18% disagree. The findings

showed that majority of the respondents are aware of late submission of income tax returns as a form of non-compliance and at the same time some do not appreciate the need to honour their tax liabilities due to the impression that tax monies are not put to good use. Also, tax authorities have not been able to identify all potential tax payers, especially, those in the informal sector of the economy. Most of them do not even register their businesses with appropriate state agencies to make them accessible for purposes of taxation.

Table 4.3 Effective ways of educating the self-employed on income tax compliance

Sources of tax education	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know	Total
GRA officials	15%	10%	30%	35%	10%	100%
	32	21	64	74	21	212
Tax advisors	7%	9%	58%	18%	8%	100%
	15	19	123	38	17	212
Peers	18%	12%	30%	25%	15%	100%
	38	25	64	53	32	212

Source (Field Survey, 2015)

Sources of tax education

4.3.11 Ghana Revenue Authority (GRA)

Ghana Revenue Authority (GRA) is a public institution mandated with the administration of taxation in Ghana. As part of their core functions they educate the public on their tax obligations to the state. Table 4.2 revealed 75% of the self-employed received no information on income tax from GRA while 25% claimed they have received information from GRA. It shows clearly that GRA does not provide enough information about income tax to the self-employed in the Tamale Metropolis.

4.3.12 Accountants or tax advisors

Accountants with their skills help business owners to keep proper books of accounts and also provide pieces of advice on tax issues. Tax advisors therefore help in disseminating tax information. However, 84% of the self-employed indicated that, they did not get information on income tax from tax advisors while 16% of the respondents showed that they have received information from accountants. This finding can best explain that the self-employed hardly seek the services of accountants; some do not file tax returns and therefore do not see the need for services of accountants.

4.3.13 Peers or friends sources

Persons as social beings do share ideas and information by way of interacting among themselves on many issues including taxation. Seventy percent (70%) of the respondents agree to have received no information about taxation from peers or friends whilst 30% indicated they have received information from their peers. It appears that not much information about income tax is received from friends of the self-employed.

4.4 The role of sanctions and penalties in promoting income tax compliance

The traditional methods adopted by taxing authorities in enforcing tax compliance among taxpayers worldwide has been to focus on deterrent and thus incorporated punitive actions in tax legislations.

4.4.1 Sanctions and tax non-compliance

Fairlie (2005) postulated that the use of sanctions is one of the strongest ways of enforcing and promoting income tax compliance. Objective four of this work sought to assess the role of penalties in promoting income tax compliance by the self-employed in the private sector.

Vital information concerning the use of penalties is presented by using the table below:

Table 4.4 Imposition of penalties deter tax non-compliance

Responses	No of Responses	%
Yes	146	69
No	66	31
Total	212	100

Source (Field Survey, 2015)

From the table about 69% of the respondents representing 146 accept that penalties in tax laws would deter people from non-compliance. However, the 31% remaining disagree and would continue not to comply with their tax obligations. The results indicate many of the respondents hold the view that penalties deter non-compliance.

4.4.2 Would penalties alone serve as sufficient deterrent?

A survey question 28 sought to find out whether penalties alone are sufficient enough to deter non-compliance especially among the self-employed.

Table 4.5 penalties alone serve not sufficient deterrent

Response	Frequency	Percentage
Yes	48	23
No	164	77
Total	212	100

Source (Field Survey, 2015)

The table depicts that seventy-seven percent indicates that sanctions alone are not sufficient to deter non-compliance while 48 out of 212 representing 23% agree that sanctions are sufficient to deter income tax non-compliance among the self-employed in the study area. This could be explained that people feel that taxes are not beneficial and therefore would not appreciate compliance with their tax obligation. Therefore, it is imperative to consider other promotional strategies in devising appropriate strategies to promote income tax compliance among the self-employed. Any promotional strategy that would tackle symbolic compliance, inadequate financial book keeping and ignorance would help to improve income tax compliance.

4.4.3 Sanction by GRA for not filling tax returns

In order to understand to what extent the self-employed business owners are sanctioned or penalties imposed on them by appropriate state institutions. The table below displays the results.

Table 4.6 Have You Ever Been Fined Or Penalized By GRA?

Responses	Frequency	Percentage
Yes	44	21
No	168	79
Total	212	100

Source (Field Survey, 2015)

From the table 79% of the respondents have never been sanctioned by GRA while 21% have ever been sanctioned. It shows clearly that majority of tax non-compliance offenders have not been penalized thereby giving rise to the menace in the area under study. What is accounting for this could be attributable to the fact that some of them have not registered their businesses

with appropriate state institutions. This excludes some of the self-employed from the tax roll of GRA. This therefore, makes it difficult for tax authorities especially GRA to detect income tax non-compliance by the self-employed that would result in imposing appropriate sanctions.

The logo of KNUST (Kwame Nkrumah University of Science and Technology) is a large, faint watermark in the background. It features a yellow eagle with its wings spread, perched on a green shield. Above the eagle is a black mortar and pestle with a red flame. The entire emblem is encircled by a yellow banner with black text.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction.

The main objective of this research is to identify promotional strategy to be adopted to solicit compliance among the self-employed. Specifically, the work investigated some demographic features of the self-employed and how these characteristics elicit income tax compliance and non-compliance. Further, income tax compliance and non-compliance factors were investigated. The research work also critically looked at the role and use of penalties and cooperation in promoting income tax compliance in Ghana.

5.1 Summary of findings

The analysis of the data revealed the following findings:

5.1.1 Demographic characteristics of the self-employed.

The demographic profiles examined are gender, age level of education and marital status. About 61% of the self-employed are female and the remaining 39% of the respondents are males. About 78% of the self-employed of the respondents are youth between the age brackets of 19-40 years, While 22% remaining are older people between the age brackets of forty-one years and above. With regards to level of education of respondents 87% of the self-employed respondents have low level of education. This includes those with no formal education up to secondary education. While the rest representing 13% of the respondents have high level of education (up to university degrees) Also, about 69% of the selfemployed respondents are married, while the remaining 31% are not married.

The results implied that males respondents are low non-compliant while the female constituted the high non-compliant. Again the older self-employed respondents are low noncompliant against the young people who have high non-compliant. This confirms Kidd's [1993] revelation that an individual's age affects his or her propensity to become selfemployed and that a linear-relationship exists between self-employed and propensity to comply with tax obligation. With regards to educational level, respondents with high educational level are low non-compliant as against self-employed respondents with low educational level who have high non-compliant. Brown, Farrel and Harris (2003) whose work showed positive relationship between level of education and income tax compliance have been confirmed. Also, married

respondents have high non-compliant while the unmarried respondents of the self-employed have low non-compliant level.

5.1.2 Cause of income tax non-compliance.

About 62% of the respondents agree that complex income tax procedures non-compliance influence their decisions not to comply with their tax liabilities. This confirms Clotfelter (1983) finding that the complexity of the tax return was linked with non-compliance. Also, Accountants advice non-compliance influence respondents' decisions in complying with their tax liabilities. Ignorance cannot be left out; from the findings about 86% of the respondents agree that ignorance affected their non-compliance decision in income tax.

Lazy accounting non-compliance influenced about 63% of the self-employed in their decision in income tax non-compliance. This can be attributed to the assertion by Ayres and Braithwaite (1992) that lazy accounting occurs when people are not knowledgeable in accounting or fail to employ accountants to handle the records keeping aspect of their business operations.

Whiles symbolic non-compliance (taxes perceived not to be beneficial) indicated that 60% of the respondents of the self-employed influence their decision in income tax noncompliance. This reveals (Kidder and Craig, 1989) assertion that failure to comply with tax laws is seen as a protest against the inequitable tax system.

5.1.3 Business ownership

About 69% of the respondents are sole proprietorship business enterprise, whereas 31% of the respondents of the self-employed operate partnership. About 58% of these business owners

have their business registered with the Registrar General Department. Only 28% of the respondents have their business registered with Ghana Revenue Authority. Whilst 14% of the respondents registered their business with SSNIT.

5.1.4. Forms of income tax non-compliance.

Sixty seven percent (67%) of the respondents of the self-employed agree that understatement of income is a form of income tax non-compliance. Also, 75% of the selfemployed indicated that overstatement of expenses is one of the forms of the noncompliance of income tax. Again, 58% of the respondents agree that late submission of income tax returns is another form of income tax non-compliance. With appropriate promotion strategies respondents agree to timely file their returns and accurately report their income to tax officials. They also agree to report accurately on expenses incur if and only if appropriate strategies are adopted.

5.1.5. Imposition of sanctions.

Sixty nine percent (69%) of the respondents agree that imposition of penalties in income tax laws could deter non-compliance of income tax. This result confirms the view of Becker (1968) that if individuals are rational decision-makers whose aim is to maximize expected utility, then regulatory authorities must fashion out sanctions that are severe enough to deter non-compliance. The remaining 31% of the respondents did not think so. Seventy seven percent (77%) of the self-employed respondents do not think that penalties alone could deter income tax non-compliance among the self-employed, while 23% of the respondents think that penalties alone can serve as sufficient deterrent. And this justifies criticism of the deterrence model that it does not clearly explain the high levels of voluntary compliance observed in many situations particularly among many public organizations

5.1.6. Income tax education.

A greater percentage of the respondents agree to have received little information about income tax compliance in Ghana. Seventy five percent (75%) of the self-employed respondents agree to have received no much information about income tax compliance from GRA. Further, 84% of respondents agree to have received no information about income tax compliance from accountants and other tax advisers. While the remaining 16% claimed to have received information about income tax.

Income tax compliance would be improved if respondents are aided to improve their financial records. The researcher holds the view that self-employed business owners would comply with the income tax laws when periodic workshops are organized for them.

Designing effective means of educating the taxpayer, that is the self-employed. The researches opinion manifested that education on income tax compliance would be effective if seventy five percent (75%) of the respondents receive information from the GRA officials. It was also clear that educating the self-employed through the peer and accountants would increase income tax compliance.

5.2. Conclusions

From the research work carried out, the following conclusions were arrived at. Females form majority of the self-employed in the Tamale Metropolis with 61% of the respondents. Many of the self-employed in the Metropolis are youth. Seventy eight (78%) of the respondents are young people with ages between nineteen to forty or less than that. Most of the selfemployed

have low level of education. Married people formed majority of the self-employed in the area under study.

Female respondents are more non-compliant with income tax laws than male self-employed. The study once again concludes that older people are more compliant than the younger entrepreneurs with income tax laws. The respondents with high level of education are better compliant with income tax laws than their colleagues with low educational level. The unmarried people are more non-compliant with income tax laws than the married couples of the self-employed in the Metropolis.

Most of the self-employed in the Tamale Metropolis are not generally familiar with income tax laws and that is why most of them are not on the tax roll of Ghana Revenue Authority (GRA). Consequently, most variables studied for non-compliant were discovered to be among the self-employed in the area under study. The other factors like ignorance, lazy accounting, complexity of procedures and non-beneficial of taxes influenced income tax non-compliance decisions of most self-employed.

Education on income tax in the study is not very effective causing high income tax noncompliance among the respondents. However, as indicated in the findings effective education on early submission of income tax returns, proper book keeping, and need for registration of businesses with appropriate state institutions, income tax non-compliance would be dashed into dustbins of tax authorities. Mounting education to the self-employed by the use of GRA officers, peer business compliant, tax experts would be an effective means of helping to improve income tax compliance. Even though most of the selfemployed held the

view that, penalties in income tax laws would serve as deterrent and can help improve income tax compliance, others disagree and contended that the use of penalties alone could not be sufficient to deter income tax non-compliance. Generally, income tax compliance could improve significantly if tax authorities are prepared to cooperate with tax payers, mount relevant education and helping the self-employed to improve upon their accounting practices.

5.3 Recommendations

For income tax non-compliance among the self-employed to be resolved, the following have been recommended:

- Continuous education on income tax. Income tax education among the self-employed is generally not effective. It is imperative for tax authorities to set up an office designated for the informal sector. The office should include in its activities plan visitations to persons in their houses, business premises, and religious centres to educate them about their income tax liabilities. The office should be able to help and provide advice on matters concerning registration of businesses, book keeping and payment modes including deductible expenses on tax returns. The office should also provide augmented services on taxation affecting the taxpayers especially the selfemployed. Furthermore, tax agencies should consider partnering and supporting tax expert companies to provide tax services to the self-employed. This can be done by credible institutions and individuals. There should be a strong collaboration between tax agencies and these credible parties who are ready to take part and cooperate in devising and effective tax regime.

- In the educational programmes of tax authorities, proper records keeping should be tailored towards improving quality of reporting by the self-employed in the metropolis. These programs should be highly educative to improve business practices and to increase income tax compliance by the self-employed. Tax authorities should promote the benefits to derive from proper records systems. The authorities should further consider introducing more educative programmes like seminars on proper book keeping and financial records management. This is to ensure effective education on income tax compliance among the self-employed; it is recommended that the medium of communication should be given in the local languages of the targeted group of the people.

- Also, GRA should adopt a national policy of forming a master document on all the informal business enterprises that easily identify all informal sector businesses. This should be done in collaboration with the District Municipal and Metropolitan Assemblies (DMM). Again, the fact that financial resources are limited, it is recommended that tax auditing schemes should be introduced to target the selfemployed people who are mostly the young ones and those not married and with their level of education being low. These are the class of taxpayers discovered to be highly income tax non-compliant with their tax liabilities.

- The Ghana Revenue Authority as a taxing agency has some forms of penalties in place, including distress actions (seizure of assets of tax defaulters), monetary fines and others. These sanctions always fail to account for the causes of non-compliance. The GRA should therefore accept the fact that most of these taxpayers are good citizens of

the land and are willing to comply with tax obligations if they understood and appreciate the tax system and being aided in their compliance of tax liabilities.

KNUST

The logo of Kwame Nkrumah University of Science and Technology (KNUST) is centered in the background. It features a torch with a red flame, a pair of crossed hammers, and a yellow eagle with spread wings. Below the eagle is a green shield with a red star and a yellow banner at the bottom with the word 'BODIWENIA' in black capital letters.

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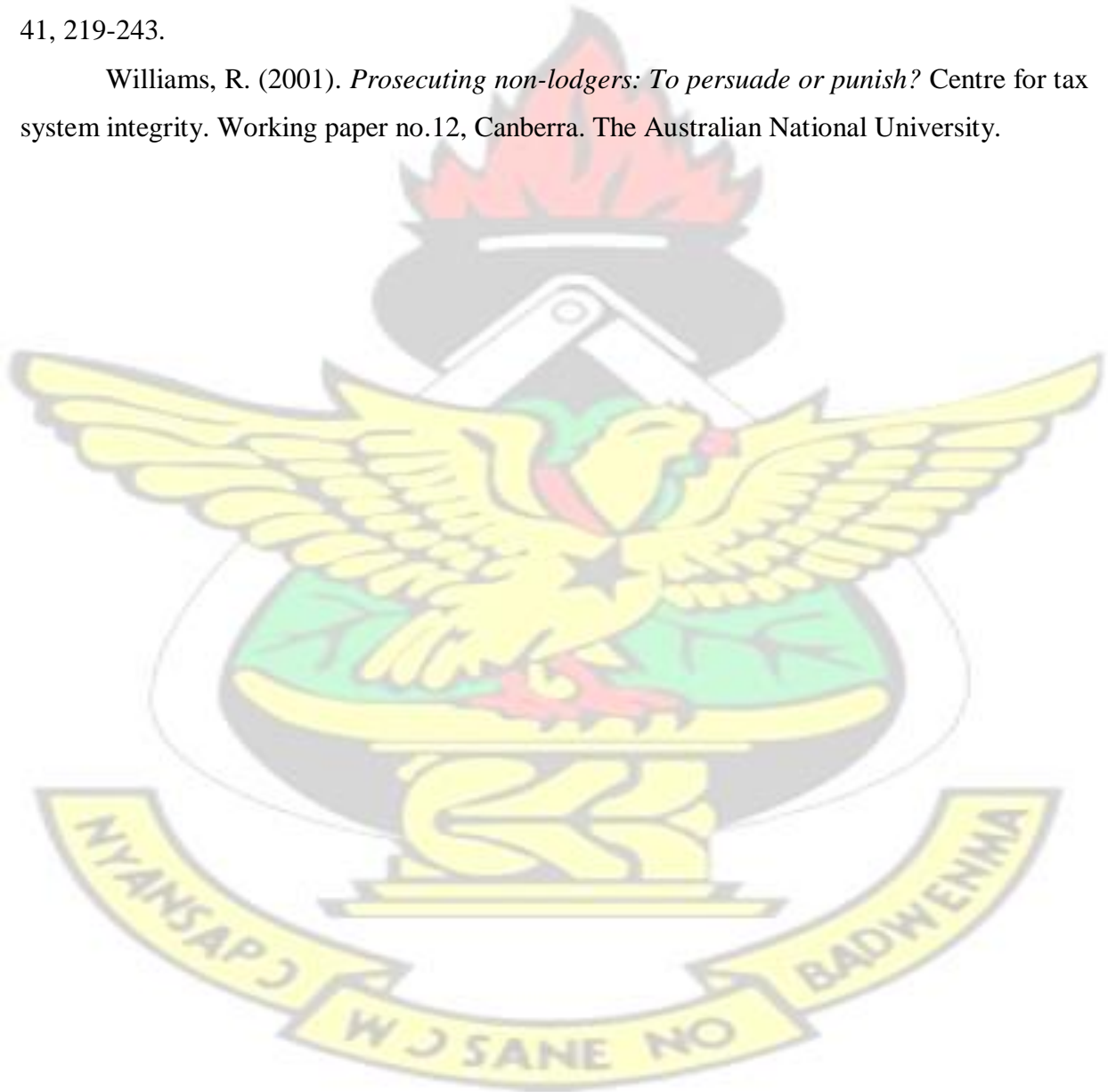
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APPENDIX

QUESTIONNAIRE

Promoting income tax compliance among the self-employed in Tamale Metropolis of Ghana

This study is being undertaken to ascertain the reasons for income tax non-compliance and offer suggestions to promote compliance among the self-employed. This is a part of the requirement for the award of an MBA degree in accounting from Kwame Nkrumah University of Science and Technology. Your participation will be extremely helpful to generate data to answer questions posed in the research. Kindly answer the questions as accurate as possible. The confidentiality and anonymity of your participation is assured.

SECTION A; Demographic characteristics of the self-employed

1. What is your gender? Male[☐] female [☐]
2. What is your age in years?
3. What was the highest level of education you completed?
 - a. No formal Education [☐]
 - b. Primary Education [☐]
 - c. MSLC/JSH [☐]
 - d. Secondary or technical education [☐]
 - e. Teachers certificate A or Diploma certificates [☐]
 - f. Bachelor's, or PhD. Degree [☐]

4. Are you married? Yes ☐ No ☐

SECTION B; The role of cooperation in promoting income tax compliance 5.

For how long have you been trading?.....years

6. What type of business do you operate?
- a. Sole proprietorship ☐
 - b. Partnership ☐
 - c. Others (specify).....
7. Is your business or enterprise registered with any of the following state institutions?
- a. The registrar-general's department yes ☐
 - b. Ghana Revenue Authority yes ☐
 - c. The Social Security and National Insurance Trust. Yes ☐
8. Do you keep financial records of your business transactions? Yes ☐ No ☐
9. If you do, which of the following financial records do you maintain?
- a. Purchases daybook only ☐
 - b. Sales daybook only ☐
 - c. Cash book only ☐
 - d. Purchases, sales and cashbook ☐
10. Do you know income tax returns? Yes ☐ No ☐
11. Are these records prepared separately from your personal income and expenses?
- Yes ☐ No ☐
12. Who prepares your business financial records for you?
- a. Self(i.e. owner) ☐
 - b. Business-employed Accountant ☐

- c. External Accountant ☐
- d. Others (specify)

13. If yes, have you ever filled income tax returns to the GRA? Yes ☐ No ☐

SECTION C; Determinants of income tax compliance

From the statement below please indicate by ticking (x), your level of agreement or disagreement to the following statements, using the scale below;

1= strongly disagree, 2= disagree, 3 = agree, 4 = strongly agree, 5 = don't know

	Determinants of tax compliance	1	2	3	4	5
14	Complex income tax returns procedure is a factor that influences your decision not to file tax returns					
15	Ignorance is another factor that influences your decision not to file tax returns					
16	Lazy accounting is also a factor that influences your decision not to file tax returns					
17	Accountants advice is yet another factor that influences your decision not to file tax returns					
18	The perception that taxes are not being beneficial					

1= strongly disagree, 2= disagree, 3 = agree, 4 = strongly agree, 5 = don't know

	Forms of income tax non compliances	1	2	3	4	5
19	Under-statement of income is a form of income tax non-compliance					
20	Over-statement of expenses is another form of income tax non-compliance					
21	None or late submission of returns is also a form of income non compliance behavior					

22 Do you receive much information about tax issues from the following sources?

- a. GRA ☐
- b. Accountants ☐
- c. Peers/ family ☐

23 To what extent do you agree that the following means of educating the selfemployed on income tax compliance would be effective?

Scale: very effective [1], ineffective [2] neither effective nor ineffective [3]

- a. Peer self-employed 1[] 2[] 3[]
- b. GRA officials 1[] 2[] 3[]
- c. Tax advisors or accountants 1[] 2[] 3[]

24 Do you think the tax system in Ghana is fair to all manner of person?

Yes ☐ No ☐

25 Do you rely on tax advisors in preparing your income tax returns? Yes ☐ No ☐

SECTION D; The role of penalties and sanctions in promoting income tax compliance

26 When the appropriate sanctions are embarked upon , I would:

(Scale: strongly agrees 1[] agrees 2 disagree [3[] strongly disagrees 4[] neutral 5[]

a. Report accurately on all incomes earned 1[] 2[] 3[] 4[] 5[]

b. Report accurately on all expenses incurred 1[] 2[] 3[] 4[] 5[]

c. Timely submit income tax returns 1[] 2[] 3[] 4[] 5[]

27 Will the imposition of penalties in our income tax laws deter the self-employed from non-compliance?

Yes []

No []

28 Do you think the imposition of penalties alone would serve as a sufficient deterrent from income tax non- compliance? Yes [] No []

29 Have you ever been fined or penalized in a way by GRA for not filing returns?

Yes []

No []

30 Please how would you rate your familiarity with the income tax laws in general?

a. Very familiar []

b. Familiar []

c. Unfamiliar []

d. Very unfamiliar []