

Tax Compliance through Education to SME's

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Abstract: Tax compliance refers to the degree to which a tax payer complies (or fails to comply) with tax rules to the country for instance by declaring income, filing a return and paying the tax due in a timely manner. The main objective of this research was to educate (SME's) on the need to comply with tax payment in the Wa municipality. The survey research method was used for the research. It was used to collect data on the phenomenon with the purpose of employing the data to make more relevant recommendation to improve and enhance the current condition and practice. The study recorded a high rate of tax evasion, this tax non-compliance by SME's do not receive any punishment as tax laws stipulated. The results of the study suggested that tax knowledge has a positive correlation with tax compliance. The study found that Ghanaian tax payer knows that taxes are the major sources of government revenue as well as the funding of public expenditures; they also have a perception that taxes paid to the government are not used for their intended purposes. The study have concluded based on the evidence that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them. The study recommends the implementation of Pay as You Earned (PAYE) policy, which makes it difficult to evade tax as deductions are made at source.

Keywords: Tax Compliance, Declaration of Income, filing, Tax Returns, SME's

Background of the Study

Tax compliance refers to the degree to which a tax payer complies (or fails to comply) with tax rules to the country for instance by declaring income, filing a return and paying the tax due in a timely manner. Enforcement of tax is every tax authority's greatest challenge and needs to be addressed strategically as efficient as possible, through the best possible means of available resources such as personnel information. As it is not possible to completely eliminate tax evasion, it is of utmost importance to keep the level of evasion under control. Increases in the level of evasion can threaten the integrity of the tax system. Over the years, non-compliance of tax undermines the ability of government to raise revenue in an equitable and efficient manner. SME's do not comply with the tax laws in effect shift their tax burden unto those tax payers who comply with their tax obligations. This shift results in an inequitable distribution of the tax burden, and put at a disadvantage to those businesses that choose to comply their tax obligation.(Ghana Revenue Act 896 (2015))

The Tax Authorities compliance section comprises the tax audit and tax enforcement teams. These units are responsible for ensuring that tax payers comply with the tax laws.

Tax compliance according to income tax law ACT (896) 2015 spells out the need to all income earners to comply with tax law in the 1992 Constitution of the Republic of Ghana.

Again, tax education program is one of the strategies of improving service delivery to SME's. Improving service delivery is critical to enhance tax compliance. Lack of tax compliance compels the Revenue Authority's to use costly method for tax enforcement. Tax education is tool designed to enable SME's to understand tax law and procedures. It involves training of special units within the revenue department, for providing education, counseling and support to the SME's, through different media which include newspapers, television, radio program, websites, seminars, and front desk help to disseminate key information to the SME's.

Tax education is expected to deal with non-compliance practices among SME's. It is expected to enable the SME's to understand the tax laws and procedures as well as create positive tax compliance attitude among SME's.

SME's are structured by a variety of shops, bars, boutiques, food vending, transport (taxi), restaurants, tailoring, agricultural activities such as poultry farming, and small scale fishing.

THEORITICAL ISSUES

Definition of Key Terms

The following are the key terms of identity by the researchers.

- i. Tax: It is the compulsory amount levied on all income earners to pay for government for developmental purposes.

ii. Small and medium enterprises are businesses of entities that contribute to the welfare of the people or citizen of the country. According to Keith (1959), it is usually difficult to tell what constitutes a small business. He further stated that there exist no generally accepted definition of small business, and so it is believed that most persons, who define it do so to suit their interest. The organization for Economic Co-operation and Development (OECD, 2004) also stated that definition of small business varies from country to country. However, most of the definitions seem to point to the fact that small business is that whose owners possess small managerial or technical skills, has few employees and control only a small portion of the market share. According to Keith (1959), one can classify business firm by such quantitative criteria as the number of employees, initial capital, total value of assets, or total sales. In the same way, the European Union (1996), defined business as “a firm, with the number of employees not exceeding 250 people; which has an annual value of sales that does not exceed seven million euro and that fulfills the criterion of independence”.

iii) Tax Education: It is creation the awareness to enlighten the SME's on the compliance of tax through either formal or informal education.

iv) Tax Compliance: Is the agreement the tax payer in mine to do as what the law prescribes in the Income Law Act 896 Act (2015) one to do. “Tax compliance is generally encompasses all activities necessary to be carried out by the taxpaying public to meet the statutory requirement of the tax law” (Ali-Nakyea 2008).

Examine the Legal Framework and Regulation of Tax Compliance;

The Internal Revenue Act, 2000 (ACT 592) as amended by Internal Revenue (amended) Act 2005, Act 896 Section C of subdivision (iii) in the constitution of the Republic of Ghana clearly spell out the legal perspective of tax compliance and the penalties involved in non-compliance of tax payment. Below is the legal concept of the law;

(1) Subject to this Act, tax assessed shall be due on the date on which the person assessed is served with a notice of assessment.

(2) Subject to this Act, tax due in an assessment shall be paid by the person assessed,

a. in the case of a person subject to section 78, on the due date for furnishing of the return of income to which the assessment relates;

b. in the circumstances specified in subsection (7) of section 72, on the date specified

in the assessment;

c. in the case of tax payable by installments or by

withholding, at the time provided for in Division III of Part X of Chapter I; or

d. in any other case, within thirty days from the date of service of the notice of assessment.

(3) Upon written application by the person assessed, the Commissioner may, where good Cause is shown, allow for the payment of tax

a. due on assessment, or

b. due by way of payment under subsection (4) of section 102 or subsection (3) of section 108, by installments of equal or varying amounts as the Commissioner may determine having regard to the circumstances of the case.

(4) Where tax is permitted to be paid by installments under subsection (3) and there is default in the payment of an installment, the whole balance of the tax outstanding shall become immediately payable.

(5) Permission under subsection (3) to pay tax by installments does not preclude a liability for interest arising under section 143 on the unpaid balance of the tax due.

Also Section 143 of the constitution Failure to Pay Tax on Due Date are;

(1) Subject to subsection (2) a person who fails to pay a tax, including an amount treated by this Act as if it were tax, on or before the due date for payment is liable

a. in a case where the failure is for a period of not more than three months to pay a sum equal to 10% of the tax payable in addition to the tax unpaid;

b. in a case where the failure is for a period exceeding three months to pay a penalty equal to 20% of the tax payable in addition to the tax unpaid.

(2) Where a person fails to pay any tax which that person is required under this Act to withhold and pay to the Commissioner on the due date, that person is liable

a. in a case where the failure is for a period of not more than three months to pay a penalty equal to 20% of the tax payable in addition to the tax unpaid;

b. in a case where failure is for a period exceeding three months to pay a penalty equal to 30% of the tax payable in addition to the tax unpaid.

(3) If any person without reasonable excuse fails to pay the tax and penalty imposed under subsections (1) and (2) after notice has been served on that person in accordance with section 147 (4) of this Act, the Commissioner may direct that such a person shall pay in addition a penalty of a sum equal to 5% of the total of the outstanding tax and penalty imposed under those sub-sections for every month during which the default continues.

(4) Interest or penalty charged or imposed in respect of a failure to comply with any provision of sections 81 to 87 is borne personally by the withholding agent and no part of it is recoverable from the person who

received the payment from which tax was or should have been withheld. [Substituted by Internal Revenue (Amendment) Act, 2004 (Act 669),

Again Section 144 of the constitution any one or Business who in one or the other Understating Estimated Tax Payable by Installment shall be delt with the sanction below;

A person or business to whom section 78 applies and whose estimate or revised estimate of chargeable income for a year of assessment under that section is less than ninety per cent of the person's actual chargeable income assessed for that year is liable to pay a penalty equal to thirty per cent of the difference between the tax calculated in respect of that person's estimate or revised estimate of chargeable income and the tax calculated in respect of ninety per cent of that person's actual chargeable income for the year.

Once more Section 145—Making False or Misleading Statements

(1) A person who or business,

- a. makes a statement to an officer of the Service that is false or misleading in a material particular, or
- b. omits from a statement made to an officer of the Service any matter or thing without which the statement is misleading in a material particular, is liable to pay a penalty equal to,
- c. where the statement or omission is made without reasonable excuse, double the underpayment of tax which may result if the inaccuracy of the statement were undetected; and
- d. where the statement or omission is made knowingly or recklessly, triple the underpayment of tax which may result if the inaccuracy of the statement were undetected.

(2) A reference in this section to a statement made to an officer of the Service is a reference to a statement made in writing to that officer acting in the performance of functions under this Act, and includes a statement made

- a. in an application, certificate, declaration, notification, return, objection, or other document made, prepared, given, filed, or furnished under this Act;
- b. in information required to be furnished under this Act;
- c. in a document furnished to an officer of the Service otherwise than pursuant to this Act;
- d. in answer to a question asked of a person by an officer of the Service; or to another person with the knowledge or reasonable expectation that the statement would be conveyed to an officer of the Service.

In addition Section 146—Aiding and Abetting

A person who aids or abets another person to commit an offence of a type referred to under Subdivision C, or counsels or induces another person to commit that

offence is liable to a penalty equal to triple the underpayment of tax which may result if the offence were committed and went unnoticed.

Finally Section 147—Assessment of Interest and Penalties

- (1) The Commissioner shall make an assessment of the interest and penalties for which a person is liable under this Subdivision.
- (2) Liability for interest and penalties under this Subdivision is calculated separately with respect to each section of this Subdivision.
- (3) The imposition of interest and penalties under this Subdivision is in addition to any other tax imposed by this Act or fine imposed as a result of conviction of an offence under Subdivision C

Also the taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behavior. Those factors which influence tax compliance and/or non-compliance behavior are differing from one country to another and also from one individual to another (Kirchler, 2007). According to Cuccia (2011) taxpayer compliance has been primarily viewed from three theoretical perspectives: the general deterrence theory, economic deterrence models and fiscal psychology. Deterrence theory is concerned with the effects of sanction threats on criminal and undesirable behavior, however this had problems of identifying sanctions, determining how much effect and specifying the mechanism by which the effect occurs. On the other hand, the economic deterrence model smoothed out the problems of deterrence theory for instance by use of utilitarian approach to measure sanction threats. From the personal consequence perspective, income tax compliance is viewed as an income maximizing decision balancing the net gain of underreporting income or over claiming against the added risk of detection and penalization (McGraw & Scholz, 1991).

These are factors which have economic effects on the taxpayer. They include tax rates, tax audits, tax compliance costs, tax benefits and penalties or fines.

Again, various theories have been formulated to assess tax non-compliance. However, these concepts are grouped under two classes including economic and psychology. These are primarily based on the fact that assuming that payment is motivated by incentives. While some are of the opinion that ensuring compliance entails increasing incentives, others advocate for increase in sanctions or punishments (see Feld and Frey, 2007).

Regulation of Tax Compliance

The concept of tax compliance denotes how the taxpayers accommodate rules and regulations bordering the tax system in a country. Although, the

concept of tax compliance connotes different viewpoints. Prior studies postulates that tax compliance involves the willingness of taxable entities to act in line with tax laws and administration without coercion (James and Alley 2004). Palil and Mustapha (2011) observed that compliance is the reporting and payment of all incomes in line with tax laws, regulations and court judgments. Singh (2003) also argues tax compliance to be the process of satisfying the tax system by declaring accurately taxable income as well as disbursing taxes within the given time frame without any follow-up actions from the authority. On the other hand, tax evasion occurs when taxpayer arranges his or her tax affairs in such a way as to take advantage of weakness or ambiguity in the tax law to reduce his or her tax liabilities, without really breaking the law.

Research has identified numerous factors that influence taxpayers' compliance. Accordingly, Richardson and Sawyer (2001) postulated existence of two major theories that underpin taxpayer compliance behaviour. These they examine to be economic and psychological. The economic theory emphasizes on incentives that motivate the taxpayer to comply with tax administrators whilst the psychology-based theory connotes attitudinal behaviour associated with compliance. Although, literature provide empirical evidence on behavioral factors that influence tax compliance, scholarly articles including Kirchler (2007) and Devos (2008) reveal that aside economic and psychological factors, social factors also pose significant problems on the way taxpayers assimilate tax reforms as well as its compliance in a country. Hence to resolve the concomitant issues associated with tax noncompliance, Kirchler (2007) illustrates that it is imperative to put into consideration major factors that influence individual's behaviour towards their decisions to comply with tax laws. For instance, Evans (2003) examine that cases where there are sanctions to tax evasions, taxpayers readily comply without coercion from tax administrators. Further findings from Allingham and Sandmo (1972) suggest that noncompliance on the side of taxpayers mostly emanates from their belief that tax auditing of their activities will lead to disclosure of misappropriations which will cause an imposition of severe legal penalties. Although, levies imposed generally are convenient means of meeting government's costs, taxpayers however, opinions appear contrary to this notion, hence, the increase in non-compliance to tax laws in developing countries (Coskun and Savasan 2009). This has generated huge global worries for officials and decision makers since evasion remains a threat to governments' ability to raise needed revenue for infrastructural development (Terkper 2007).

Accordingly, GIZ (2010) argues that high tax evasion

among the private sector in the case of developing countries especially in Africa still renders developmental programme of governments vulnerable since they cannot raise the necessary revenue to cushion their spending hence resort to aids and grants with serious implications for the economy. In this regard, several attempts have been made by both practitioners and academicians to assess challenges on compliance level from various angles including the behaviour of the taxpayer. For instance, prior studies reiterate that the quantum revenue generated for government expenditure programme hinges on among other things, upon the willingness of the taxpayer to observe the tax laws of the country. This willingness, according to Naomi and Joel (2009), could reconcile with attitude that taxpayers demonstrate and the purpose or what the tax seeks to achieve in the long run for the state.

Tax Policy and Level of Voluntary Compliance Among

Under the customary arrangement of assessment, Little citizens are victimized, given that the agreeability prerequisites expense of consistence and duty rate are the equivalent for both little and extensive ventures. Reducing the compliance cost and tax rate increases the small undertakings profit edge. In all circumstances, the Administration's assessment income increments, since the simple prerequisites for little and medium ventures diminish the measure of the casual economy and the quantity of non-consenting enrolled citizens (Vasak, 2008). Moreover, Small and Medium Enterprises for the most part need to work in an oppressive administrative environment with the plenty of administrative offices, various expenses, difficult importation method and high port charges that consistently apply genuine weight on their operations. An unnecessarily complex administrative structure and tax system or one troublesome in its organization and implementation makes charge agreeability unduly harsh and frequently have a distortionary impact on the improvement of Small and Medium Endeavors as they are enticed to transform into ways that offer a lower taxation rate or no assessment load by any means (Masato, 2009), and this has brought about an assessment framework that forces high costs on the general public.

Evaluating the Effect of Tax Education

As noted, greater education improves the extent of taxpayer's compliance. Taxpayers with higher levels of education are seen to be more mindful of their obligation as well as the sanctions to be imposed if they go contrary to the laws. Education has become more important in the quest for increasing tax compliance across countries. One of such measures,

according to Mohani (2001) includes the assurance that payees have a certain level of qualifications, ability and confidence to exercise their tax responsibility. Loo and Ho (2005) further note that taxpayer must be invariably competent to comprehend the income tax law and the administrative procedures, given the complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures. Hence, individuals who are less inclined to tax systems may either be underpaying or over-paying taxes. As well, the revenue authority has to provide adequate resources to meet the needs of enhancing taxpayer functional literacy elements in terms of skills and knowledge required to deal with tax matters.

Ahmed and Braithwaite (2005) reveal that small business taxpayers in one or two cases admitted to having lower levels of competence and independence in dealing with tax matters, and this has forced many of them to have tax agents who are creative and knowledgeable about aggressive tax planning. Contrary, Bertolini, Borgia and Siegel (2010), also conclude that small and medium enterprises are constrained by resources and cannot afford the services of the tax agents who are expensive hence, their failure for compliance is the resultant of lack of expertise and knowledge about the tax laws and procedures (Ayoki, Obwama and Ogwupus, 2005).

Again, Compliance in tax administration can be overcome by using education as a means of influencing the taxpayer's judgments of his or her social responsibility to pay the tax. There are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers. Assisting tax payers through information symmetry increases the taxpayers potential to comply than being coerced (Berhane 2011). Allingham and Sandmo (1972) conclude that penalties as well as audit probability have direct effect on tax compliance, suggesting that the higher the penalty as well as audit probability the greater discouragement for potential tax evasion.

Assessment of Domestic Tax Revenue Unit Role in Tax Education in Ghana

Domestic Revenue Authority (DRA) holds workshops to sensitize tax payers on tax compliance. This is usually conducted under stakeholder engagement strategy with objectives of; enhancing the taxpayers understanding needs and concerns by collating and analyzing views and opinions from such engagements to inform the Authority's continued transformation and risk mitigations efforts across all levels of the Authority, enhance taxpayers' understanding of the Authority's administrative process by educating the taxpayers about their obligations and how to fulfill them and communicating clearly the outcomes or benefits of

interventions and innovations by DRA that reduce transaction cost and time.

The following activities are also conducted i) Stakeholder Mapping including the ranking of all possible stakeholders in order of their influence on tax compliance, ii) Identifying, organizing and facilitating appropriate structured meetings in the form of forums conferences, peer reviews and workshops, iii) Drawing Memoranda of Understanding between KRA and identified stakeholders to formalize partnership agreements and collaboration efforts and lastly responding to queries and requests for information from all stakeholders and partners.

(<http://www.kra.go.ke/portal>). SMEs in Ghana are key stakeholders in tax matters and can affect or be affected by tax organization's actions, objectives and policies, as such taxpayer education through seminars and other stakeholder methods help them to be more tax compliant.

The role of the tax authority in reducing the tax gap and increasing voluntary compliance is clearly very important. Hasseldine and Li (1999) was of the view that government and the tax authority is the main party that needed to be continuously efficient in administering the tax system through designing a good tax system and an efficient and effective enforcement and collection mechanism in order to minimize tax evasion. Roth, Scholz and Witte (1989) also suggested that in order to increase compliance, maximize tax revenue and be respected by taxpayers, a government must first have an economical tax system, which is practicable. Simplifying tax returns and administration potentially could help taxpayers to complete their tax returns accurately and increase compliance (Richardson, 2008).

In addition, Silvani and Baer (1997) added that simplifying the tax return will encourage taxpayers to complete the tax return on their own rather than employing a tax agent and thus reducing compliance costs. The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. Theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance (Brown & Mazur, 2003). Compliance in pure administrative terms includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames (Ming, Normala, & Meera, 2005).

Again, the Ghana Revenue Authority (GRA) is a statutory public organization charged with the administration and mobilization of tax revenue for the state including Value Added Tax, Income Tax, Custom and Excise duties, and Communication Service Tax among others. The Authority was established in the year 2009 under the Ghana Revenue Authority Act (Act 791). It is an amalgamation of the three revenue agencies namely Value Added Tax Service, Custom Excise and Preventive Service, and Internal Revenue Service.

Prior to the setting up of the GRA, major strategies to restructure the tax collection institutions began in 1986 from which CEPS and IRS are absorbed and made autonomous of the Civil Service. In 1986, the National Revenue Secretariat (NRS) is established to oversee revenue implementation policies and supervise the activities of the tax agencies in the country. However, the VAT Service was formalized to oversee taxes including consumption taxes in the 1998.

However, in 2001, the board formally started the supervision of the Revenue Agencies using the Taxpayer Identification Number to facilitate smooth exchange of information profiling of small and medium enterprises. Also, the Large Taxpayer Unit (LTU) came into operation in 2004 to survey on the possibility of amalgamation of tax administration. This further served as fertile grounds to assess how the agencies could internalize cost in the tax regime practiced in the country. In 2009, final preparations were made to merge the agencies to form one revenue authority in line with the current trends the world over. The structure drawn for the tax agency was to ensure the maximum efficiency in revenue mobilization from the merger process.

According to Danquah, taxation in itself has been to appraise revenue to finance the cost of services provision. Compulsory nature of compliance cannot be guaranteed to be smooth amongst the small businesses operating in the private sector. Steenkamp (2012) argues that there is the need for tax collectors efficient enough to not compromise for personal gains.

Furthermore, In Ghana, there are three main agencies responsible for the administration of taxes. They are jointly known as Ghana Revenue Authority (GRA). It comprises of the Internal Revenues Service (IRS), The Customs Excise and Preventive Service (CEPS) and the Value Added Tax Service (VAT). The IRS is responsible for the assessment and collection of direct taxes on income, capital and gifts. CEPS, is also obligated to assess and mobilize indirect taxes such as excise duty, import and export duty. Lastly, VAT is also responsible for the assessment and collection of value added taxes. In Ghana, there are four main methods of assessing and collecting taxes from an eligible taxpayer as identified by Act 592.

The methods of tax assessment are Provisional assessment, Additional assessment, Self-assessment and Final Assessment (Nsor-Ambala 2008). Nsor-Ambala (2008), defined assessment as a measurement or determination of a person's liability based on the information available, using sound commercial accounting principles, established principles of taxation and methods often prescribed by Act 592. William also defined assessment as the process of

Internal Revenue Service fixing the size of liability. Hyman (2005) noted that assessment is the valuation of taxable wealth by government authorities.

The definition given by Nsor-Ambala (2008) is precise and gives an idea of the processes by which tax assessment is being done. However, Nsor-Ambala (2008) infers on the justification revolving adoption of tax regimes to suits private sector business. The ensuing issue looks at the primary costs of fulfilling tax and other regulatory burdens as they inexplicably fall on businesses with less expertise and time to deal with multiple and changing rules. Thus, Nsor-Ambala concludes that special tax provisions including optimistic allowances that offer a lower rate of taxation, an exemption or an accelerated deduction; and relieving tax reductions that excuse the taxpayer from requirements can be provided to enhance compliance as measure to tax fraud and evasion in developing economies.

To facilitate the smooth process of the tax administration, the GRA employs Tax Identification Number (TIN) that enables it to accurately classify payees. Each payee holds a unique number that mandate the user in his correspondence with the authority.

The countries income tax act offers the payee a self-assessment opportunity on all liabilities. Here, the laws confer on all limited liability firms, the self-assessment processes. Outside this process, all other payees are by law required to file their returns with necessary documents to the authorities for further review. After the receipt of the necessary documentations, the officials scrutinise the information to make the necessary informed decision of the chargeable incomes due. At the end of each accounting year, the businesses are obligated to provide their returns within three months. The filed documents should hold the necessary particulars including the TIN number of the business. The tax auditors to determine the efficacy of the submitted documents to ward off any penalty examine the accuracy of the receiving returns. After this process, the assessment number is allocated and issued for payment. Payment of taxes is made on the authorisation of the tax auditors through Bank Payment Advice Form. Disbursements are either made through a bank or at the premises of the tax authorities. The consistency of the information is done through critical examinations of the tax audit. GRA's auditing staffs is made up of the simple field and desk audits to comprehensive audit staff. The authority employs audit principle, which is not predetermined; hence issues for audit depend on the compliance records of the taxpayers, the quality of taxpayers' returns, and the size of the taxpayer. Others including the field and desk audits are

performed on yearly basis to facilitate the smooth process of the examination from the private sector especially reaching the small businesses.

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

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

Mechanisms Needed to Ensure Tax Compliance from SME's

The tax administration of the internal revenue service is the responsibility of the commissioner of internal revenue service. Within the meaning of decree (SMCD 5, 1975), includes any deputy commissioner, any chief, principle or senior inspector of tax.

The commissioner is responsible for the following functions-

- assessment and collection of the tax
- payment of all amount collected into consolidated fund
- specifying the form of returns, claims, statements and notices to be made or given
- instituting legal actions in court to recover any tax payable and any penalty.

Opoku Agyemang (2003) in Ghansah G (2007) – Taxation of the informal sector, "observe that the performance of the informal sector is very crucial to tax administration because we acknowledge their revenue potential in this Sector". She further observes that "large segment of the informal sector does not pay tax". She said "tax education will be pursued and intensified to promote awareness and voluntary compliance among the taxpaying public".

According to Agyemang Manu (2006) said "it is a challenge to government to provide the resources to equip the Internal Revenue Service to enhance its performance and deliver the needed revenue for nation development". He further stated that "government will also help in building the capacity of staff as this is in line with the Government's priority of human resources development for acceleration growth as well as continue with the Computerization programme".

This assertion reinforces what Blankson (2006) explain that institutional development included the evolution of an organization on sustained basis towards the

realization of cooperate goal". He further stated that "the internal revenue service must therefore take measures to enhance professionalism, define and chart a progressive path for sustainable growth and development of the service with revenue collection recording improvement".

According to Addo K (2006) "one problem militating against revenue collection is how to locate business unit and taxpayers due to frequent changes of location".

In preventing tax evasion Dosoo (2006) in Ghansah G (2007) Said that "in its attempt to achieve institutional development, the service must take seriously the complaints and criticisms of the public leveled against staff mainly in the area of service delivery and unethical activities of a few which go to tarnish the service's image among the tax paying public"

Opoku Agyemang (2003) enumerate factor that adversely affect revenue mobilization from the informal sector. Namely-

- "lack of funds to provide transport facilitate and other logistics to enhance, monitoring and collection
- low level of compliance among the taxpaying public in the informal sector
- Inadequate tax education to create awareness within the taxpaying public of the informal sector.

Frimpong E (2007) said "in a country where much of the economic activities take place on small scale or conducted by individuals, the country is likely to experience a high level of income tax evasion". It further stated that 'income tax evasion is connected with the accountability concept of tax liabilities.

In Frimpong E (2007) Aekerman (1978), Shleifer and Vishny (1993) and Bardman (1977) states "it is widely agreed that tax evasion and corruption of the public officials are social phenomenon whose pervasive effect seriously hurt the economic growth and the stability of social institutions". According to the study, the level tax evasion also depends on the degree of risk aversion, the tax burden of the economy, and the organization and efficiency of the enforcing authorities.

According to Frimpong E (2007) "Through tax evasion, the productivity of any system is affected because it reduces the amount of revenue that can improve the state of the economy. This can also affect the attitude of the citizens toward the role of taxation in development.

"In Ghana, growing attention is being paid to tax evasion in general and income tax evasion in particular. This awareness may have started with the problem arising fiscal deficit, over reliance on foreign loans. The greatest source of income tax evasion is the self-employed in Ghana are mostly engaged in ventures where much initial capital may not be

required and without permanent locations of business operation. In more recent times, the issue of tax evasion is said to be on the rise due to the fact that there has been an outgrowth of the sole proprietorship, which comprises petty traders, hawkers, squatters and side sellers". Frimpong E (2007).

Accounting System for Tax Revenue Assessment:

"Ghana has a large and diverse informal sector. It spans activities such as trading, transportation, construction, livestock, micro finance, dressmaking, footwear and traditional healing. Because of its sheer size, it has become difficult for the Ministry of Finance and Economic planning and the Statistic Services to have a reliable data on the membership and activities." Ayee (2007).

Again," the size of the informal sector is also an obstacle to income tax collection. The income tax based in Ghana is very narrow and that only about 20% of the labour -force is employed for wages and salaries. The rest are in the informal sector estimated of 80%. In some cases, it is almost impossible to determine the income of those in the informal sector because they are self-employed and therefore the greater part of the real income cannot be satisfactorily assessed. As a result, majority of the informal sector have been the worst income tax evaders. The evasion takes three forms namely-

- (i) Non-declaration of income
- (ii) Under- declaration and
- (iii) Inflation of deduction from income" Ayee(2007)

According to Appiah Kusi in Ali- Nakea(2008),"The principle underlying tax assessment and compliance of all types of businesses and economic activities is that the income assessed must reflect the true state of affairs of the business".

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

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

Tax is on total income earned within a year of assessment and since employers do not know of income from other sources of their employees, the taxes deducted are on employment income only. The

employee has to disclose that he or she does not have any other source of income or give details of any such income by filing a return. It is only when this declaration is given that actual tax liability can be determined. (Abdallah, 2006)

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

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

Non Compliance

Taxing the informal sector is different from other enterprises because there seems to be no culture of compliance. Its set of rules, values, beliefs and institutions are different from those of the formal sector and exhibited by the following;

- 3) Inability of the revenue agencies to develop closer links with the informal sector
- 4) Inability of the revenue agencies to gather data and inadequate and time series studies of the informal sector to track its dynamics
- 5) Inadequate record-keeping on the part of the informal sector
- 6) Large size tax payers, who are spread over a geographical area and cannot either therefore be easily reached or found it difficult to access tax collection point.

Failure to Comply with the Tax Law

A person who fails to comply with the tax law within the time allowed, on or before the due date, is guilty of an offence and is liable to one penalty unit in respect of each default. A penalty unit is equivalent Gh 12.

RESEARCH APPROACH

Research Design

The research used survey method as a result of the following reasons;

It is used to collect data on existing phenomenon with the purpose of employing the data to make more relevant recommendation to improve and enhance the current condition and practice.

In a research where questionnaire, interview and observation are used, survey is the most appropriate and relevant instrument for data collection.

Study population /Study Area

The research was conducted in the Wa Municipal and including the Internal Revenue Service Officers staff, retails, blacksmiths, phone repairers and makers of sliding; these groups of people were targeted because they had information on the type of tax, the tax commitment level, and the effects of tax on small scale business and the use of tax revenue in the area.

Sample Size

The study was made up of 51 respondents of which 11 respondents of internal revenue service with at least 5 senior officers and 6 field inspection officers. The sample of the small and micro enterprises comprises of 40 respondents engaged in such business phone repairs, retail shop stationery and printing.

Sampling Design and Procedures

Random and purposive sampling techniques more used. The research used random sampling techniques. Random sampling approach was used for the selection because of its acidity to minimize biases of results. Purposive sampling was used in interviewing key information such as tax official in the municipality.

Method of Data Collection

Questionnaires, interviews and observation move the instruction used in the collection of data.

Questionnaires

The questionnaires most shared personally to various selected sample population with the area of Wa Municipality. Each business chosen was presented with the questionnaire and those having language problem were assisted personally while others were required to fill and collected after one four days. Another set more were given to the staff of Internal Revenue Service of Wa Municipal who were also given a similar length of time.

Interviews

Interview which involves face to face interaction was employed in ascertaining information on the compliance of tax by businesses in the Municipality.

Observation

This method was used to ascertain the commitment level of small micro business owners forwards the survival of their businesses and the nation at large.

Data processing and Analysis

The data collected from the field were subjected to thorough process for easy interpretation and understanding. The responses of the questionnaire and Interviews were edited and coded by the use of tables, graphs, chart, Chi-square etc.

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

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

RESULTS AND DISCUSSION

Background of Respondents

Demographic Characteristics of Respondents

Information on gender, age range, highest educational level, marital status and working experience were analyzed. The findings of the analysis are hereby presented. The empirical data presented in table 1 below shows that, a total of 52.9% of respondents were male whilst 47.1% were female. The study recorded 45.1% of the participants who were between the ages of 31-40 years, a total of 29.4% were of the ages ranging between 20 and 30 years. Respondents who were between the ages of 41-50 years were 23.5% whilst 2.0% were between 51 and 60 years.

Table 1: Distribution of Respondents Demographic Information

GENDER		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	27	52.9	52.9	52.9
	Female	24	47.1	47.1	100.0

		Total	51	100.0	100.0
		AGE RANGE			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30 Years	15	29.4	29.4	29.4
	31-40 Years	23	45.1	45.1	74.5
	41-50 Years	12	23.5	23.5	98.0
	51-60 Years	1	2.0	2.0	100.0
Total		51	100.0	100.0	

Source; Field Survey, 2018

Professions/ Vocations of respondents

Empirical data indicated that 23.0% of the respondents were selling provisions and traders. 12.0% operate chop bars and restaurants. A total of 10.0% of respondents were dressmakers, 8.0% were dealers of building materials. A

total of 6.0% chemical sellers and beauticians. The study results also showed 4.0% of total respondents for those who were into produce packaging such as sachet water and groundnut paste, civil servants and mechanics.

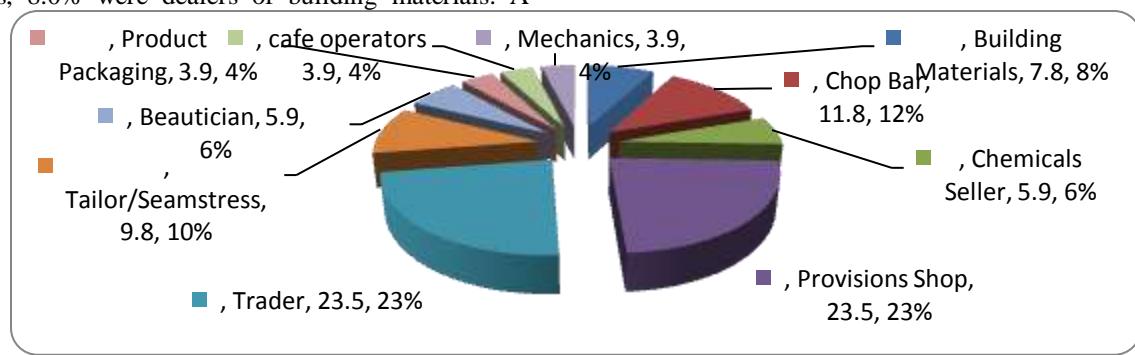


Figure 1: Distribution of Respondents Vocation/Profession

Respondents working Experience

The empirical data from the field survey showed that, 45.1% of the respondents has been in business operation between 6-10 years. 21.6% had been in operation of their respective

businesses ranging from 1-5 years. A total of 17.6% and 15.7% had been into business operation for years ranging from 11-15 years and 16 and above respectively as shown in the graph below.

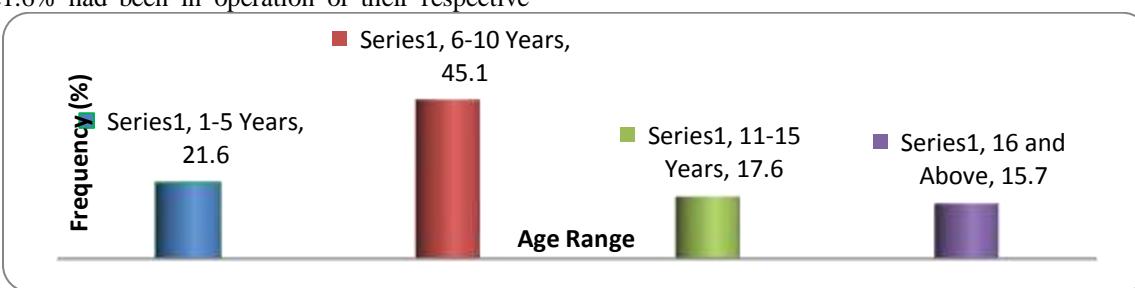


Figure 2: Respondents Age Range

Business Registration and Tax ID Status

Empirical data obtained from the field survey indicated that 58.8% of the business in Wa Town had been registered with the registrar generals department whilst 41.2% had not been

registered. Consequently, 52.9% of these businesses had obtained Tax Identification Numbers and 47.1% are not having Tax Identification Numbers.

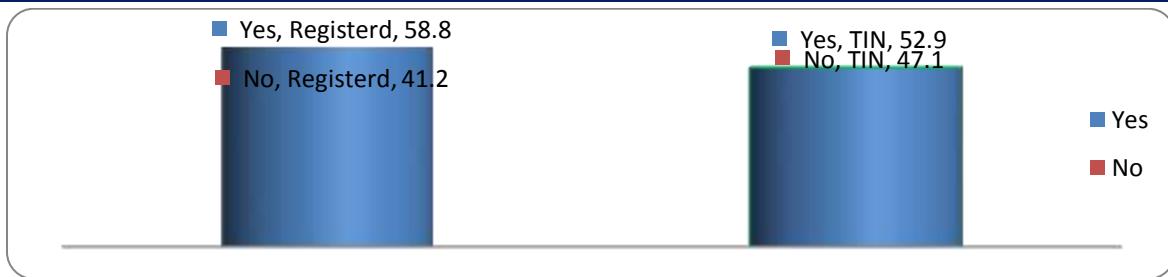


Figure 3: Distribution of SME's Registration and TIN Status

Cooperation with Tax Authorities

Empirical data obtained from the field survey revealed that, a total of 76.5% of businesses operating in the Wa Town

Table 2: Distribution of Tax Payers Cooperation with Tax Authorities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	39	76.5	76.5	76.5
	No	12	23.5	23.5	100.0
Total		51	100.0	100.0	

Source: Field Survey, 2018

Any favoritism on the part of Tax officials in duties discharge

Data obtained from the field survey revealed that, a total of 56.9% of the respondents claimed that there are favoritism

cooperate with tax authorities as against 23.5% who do not cooperate with the Tax Authorities in the Wa Municipality as shown in Table 2.

Table 3: Distribution of Respondents Perception on Tax Offers Attitude

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	29	56.9	56.9	56.9
	No	22	43.1	43.1	100.0
Total		51	100.0	100.0	

Source: Field Survey, 2018

Tax Evasion

In contrast with tax compliance, tax non-compliance or tax evasion is defined as taxpayer's failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure (Kasipillai and Jabbar, 2003). Empirical data from

the field survey revealed that a total of 58.8% of respondents evade tax whilst 41.2% has never evaded tax as shown in the pie chart below. From the interview with staff of Internal Revenue Service, the study found that SME's compliance with tax authorities is nothing good to write home about.

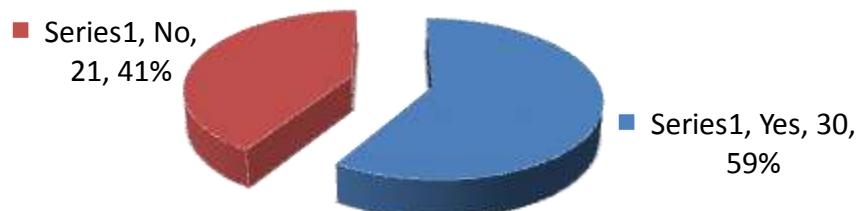


Figure 4: Distribution of Respondents on Tax Evasion

Punishing Tax evaders

The study seeks to find out from the business operators as they evade tax, if tax evaders are punished. The results

showed 57% reporting that tax evaders are not punished as 43% who reported that tax evaders are punished as shown in the pie chart below.

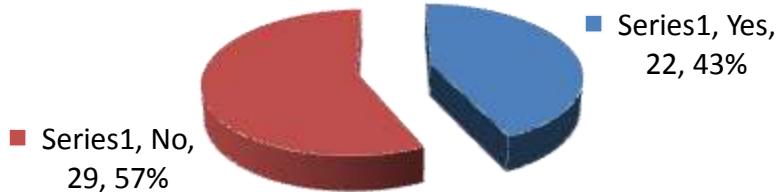


Figure 5: Do Tax defaulters get punished

Form Punishments

As some respondents reported that tax evaders are punished, the study probed to identify the form of punishment meted on tax evaders. The empirical data obtained from the field survey revealed that, their shops are closed whenever they

default in the filling of their tax returns. 18% of the respondents reported court action to be the form of punishment on tax evaders whilst 43% reported other forms of punishments.

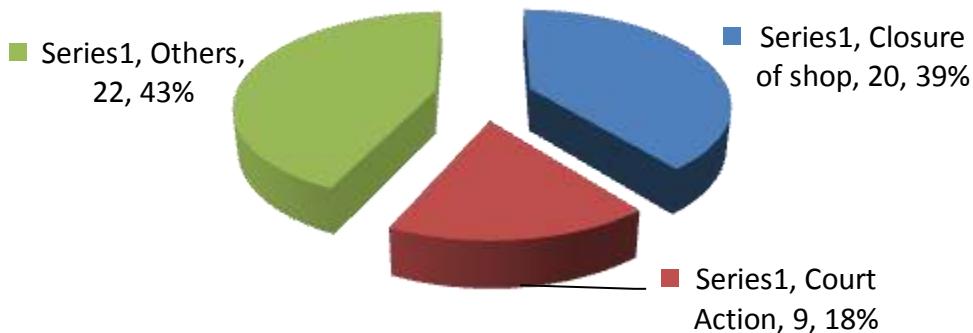


Figure 6: Forms of punishments

The study findings showed that, income tax evasion was high among SME's in Wa as high as 41% of the responding SME's evade tax. Frimpong (2007) said "in a country where

much of the economic activities take place on small scale or conducted by individuals, the country is likely to experience a high level of income tax evasion. He further noted that the greatest source of income tax evasion is the self-employed in

Ghana which is on the rise due to the fact that there has been an outgrowth of the sole proprietorship, which comprises petty traders, hawkers, squatters and side sellers. A person who fails to comply with the tax law within the time allowed, on or before the due date, is guilty of an offence and is liable to one penalty unit in respect of each default. However, the study findings revealed that tax evaders go unpunished as 57% of the respondents reported.

Tax Education

Harris (1989) divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax.

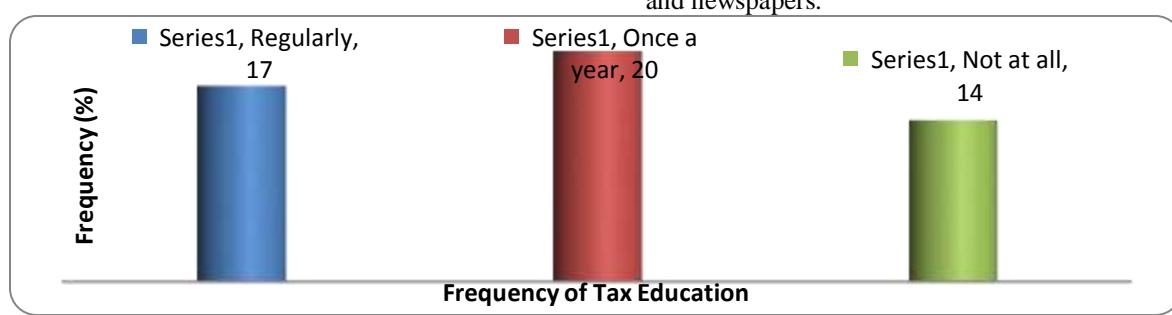


Figure 7: How often is tax payer educated on tax laws

Education on Tax compliance by IRS

Several researchers have illustrated the importance of tax education in a tax system. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behaviour can be improved by a better understanding of tax laws. The study therefore sought to find out if tax payers receive education on tax compliance from the tax authorities. As shown in the table below, a total of 68.6% respondents reported to have received tax education from the IRS as against 31.4% respondent who reported to have not received education from tax authorities on the compliance of tax.

4.4.1 How Often is Tax Education

The importance and the role of tax education particularly in determining taxpayers' attitudes towards taxation has been extensively reviewed from various countries, different approaches, a range of variables and findings are also discussed in this section. The study found that 39% of tax payers reported that IRS carryout education on tax compliance once a year. 33.3% reported they regularly receive tax education whilst 27.5% reported they have never received tax education as shown in the graph below. IRS staff reported they undertake tax education with SME's very often contrary to the SME operators as majority(39%) reported that IRS educate them once year on tax laws. The Tax authorities also reported they educate the tax payers through several media platforms including radio, television and newspapers.

However, 58.8% of the respondents had tax education in an informal form whilst 41.2% had formal education on tax compliance. Outlining the reasons for no education on tax, empirical data from the field survey indicated that 13.7% of the respondents reported they were not in the category of tax payers (best known to them) so they saw no need to be educated on tax. 7.8% reported they never had the chance to be educated on tax related issues. However, 78.4% left the question on attended as shown in the bar chart below.

Table 4: Tax Education and Form of Education Crosstabulation

		Form of Education		Total
		Formal	Informal	
Tax Education	Yes	18	17	35
	No	3	13	16
Total		21	30	51

Source: Field Survey, 20218



Figure 8: Respondents Reasons for Tax Non-compliance

Tax Compliance

The Internal Revenue Service Act, 2000 Act 592 defines tax compliance as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pay the right amount of taxes on time. It therefore includes registering or informing tax authorities of status as a

tax payer, submitting a tax return every year (if required), and following the required payment time frames (Ming *et. al.*, 2005). The field survey results indicated that 80.4% of businesses comply with tax laws whilst 19.6% of these businesses do not comply with tax laws of the land as shown in the pie chart below.

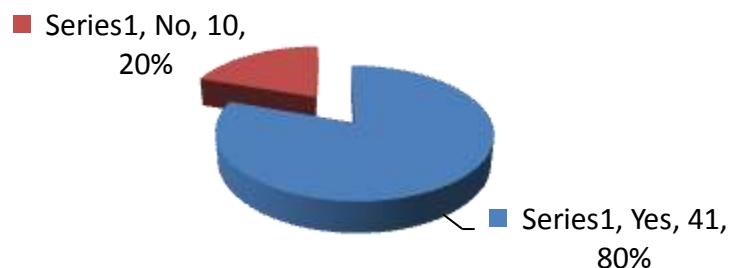


Figure 9: Tax Compliance

Tax compliance by and large includes all activities needed to be carried out by payer in order to meet the legislative desires of the tax –including the presentation of tax returns that must be filed by individuals and organizations (Ali-Nakyea, 2008). From the current study, it was found that, as tax payers are educated on tax laws the chances of compliance are higher. The study found a strong relationship between tax education and compliance Table 5. Similar reports were found by Mohamad Ali (2007), that the influence of knowledge on compliance behaviour has been proven in various researches.

The current study findings further agrees with Eriksen and Fallan (1996) who revealed that, the level of education received by taxpayers is an important factor in taxation compliance. Singh, (2003), found that general tax knowledge has a very close relationship with taxpayers' ability to comply with them. Eriksen and Fallan (1996) suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion. These are remainder that describes the relationship between tax knowledge and tax compliance.

Table 5: Chi-Square Tests on Tax Education and Compliance

Model	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	27.210 ^a	1	.000		
Continuity Correction ^b	23.390	1	.000		
Likelihood Ratio	29.312	1	.000		

Fisher's Exact Test			.000	.000
Linear-by-Linear Association	26.677	1	.000	
N of Valid Cases	51			

Source: Field Study 2018

Visiting Tax authorities

The survey results on how often these business operators or tax payers visit the tax authorities, it was found that 29.4% visit the tax authorities once a month, 23.5% visit them once a year whilst 21.6% regularly visit the tax authorities.

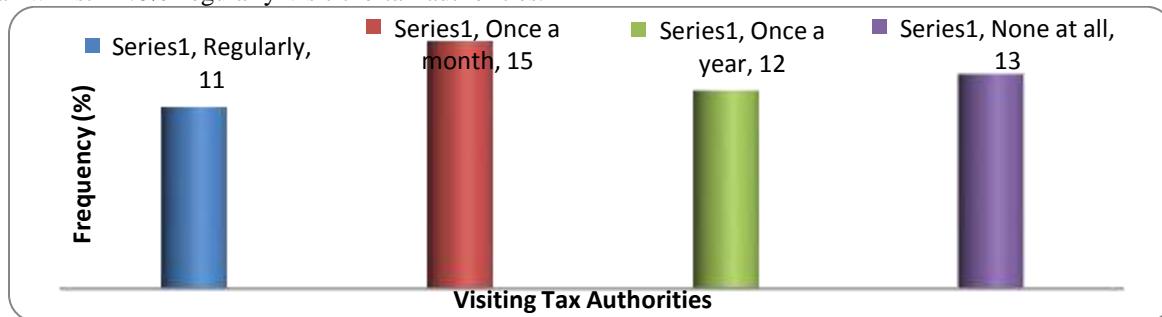


Figure 10: Respondents Number of Visits to Tax Authorities in a year

Tax Obligation

4.5.1 Motivation on Tax Payment

Empirical data obtained from the field survey revealed that, a total of 60.8% of tax payers were motivated to fulfill their tax obligations and 39.2% were not motivated

Table 6: Motivated to Pay Tax

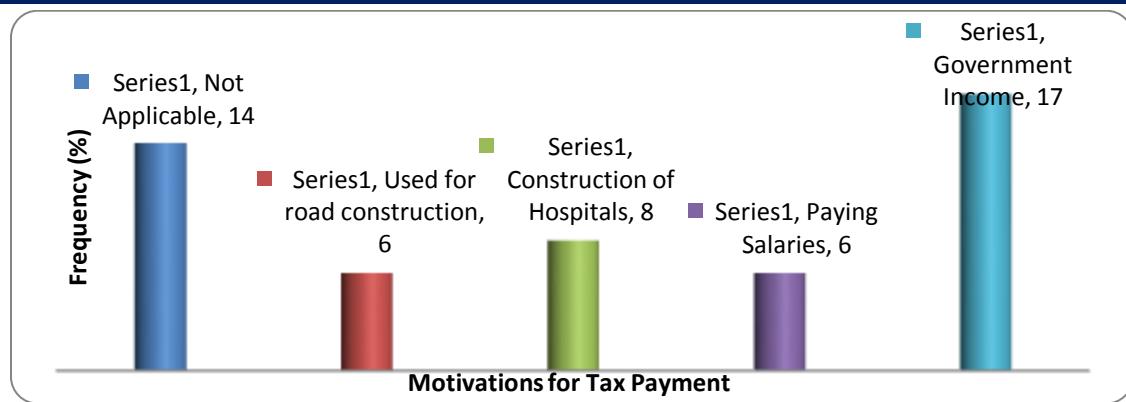
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	31	60.8	60.8	60.8
	No	20	39.2	39.2	100.0
	Total	51	100.0	100.0	

Source: Field Survey, 2018

Motivation factors

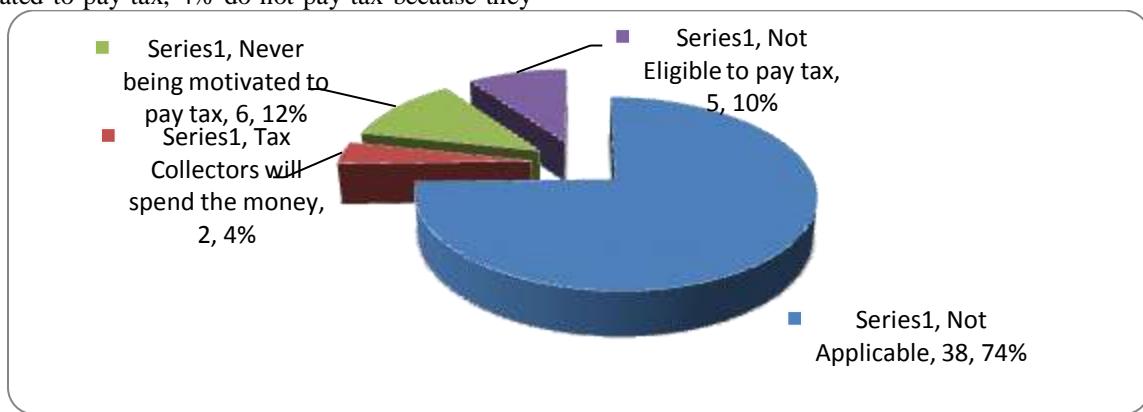
Results obtained from the field survey on the motivation factors that for the paying of tax. It was revealed that 33.3% of respondents pay their tax because they know tax is the source of government income. A total of 27.5% respondents however revealed they do not see any reason for the payment

of tax. 15.7% of the respondents are motivated to pay tax because they know government construct hospitals with it and 11.8% reported the construction of roads from their tax. 11.8% pay tax because the government needs to pay salaries as shown in the graph below.



Reasons for not paying Tax

Empirical data from the field survey revealed that a total of 12.0% of the responding business indicated they've never been motivated to pay tax, 4% do not pay tax because they



The found that Ghanaian tax payer knows that taxes are the major source of government revenue as well as the funding of public expenditures, they also have a perception that taxes paid to the government are not used for their intended

think that, the tax collectors will spend the money whilst 10% reported that, they are not within the confines of paying tax. However, 74% reported they pay their taxes as shown in the pie chart.

purposes. Ghansah (2007) observed that large segment of the informal sector does not pay tax. The study found a significant relationship between education and the motivation of tax payer to comply with tax paying obligations as shown from the Table below.

Table 7: Chi-Square Tests

Model	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.880 ^a	2	.002
Likelihood Ratio	13.148	2	.001
Linear-by-Linear Association	6.872	1	.009
N of Valid Cases	51		

CONCLUSION

Summary of Findings

The research was undertaken to come out this work which shows that based on an effective tax education system is the final determinate of the final tax compliance among SME's.

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements. The study found that, there is high rate of tax evasion in the Municipality as 59% of the respondents revealed.

As the study recorded a high rate of tax evasion, these tax non-compliance SME's do not receive any punishment as tax laws stipulated. From the current study, it was found that, as tax payers are educated on tax laws the chances of compliance are higher.

The study found a strong relationship between tax education and compliance. The study found that Ghanaian tax payer knows that taxes are the major source of government revenue as well as the funding of public expenditures, they also have a perception that taxes paid to the government are not used for their intended purposes.

The study showed most SME's have registered with the Registrar General and that most of them have Tax Identification Number (TIN) registered with Internal Revenue Service.

Official from the Internal Revenue Service indicated that, personnel are not enough to undertake the expected inspection and field assessment. In addition to this it was indicated that, they will intensify tax education since some Small and Micro Enterprises do not file tax returns as all and hence pay tax based on presumptive.

The study further indicated that the Internal Revenue Service has relatively not be more computerized and therefore makes it impossible to be networked very well. This has not help the service to get the business and tax profiles of most Small and Micro Enterprises. This has been a major problem to help identify SME's, monitor their tax history and business performance to enhance tax revenue. **Recommendations**

The study based on its findings we recommend that;

- i. Tax education should be intensified as it enhances of tax knowledge and which will increase tax compliance.
- ii. Tax administration should encourage voluntary compliance and address the obstacles that prevent voluntary compliance.
- iii. In order to improve compliance, audits and penalties for non-compliance should be implemented.
- iv. In most developed countries like the United Kingdom, which implement Pay as You Earned (PAYE), it is quite difficult to evade much of their tax liability as deductions are made at source therefore implementing such policies in Ghana will enhance tax compliance.
- v. The researchers recommend a research to be conducted on the extent of tax education on compliance in the Wa Municipality.

Future Research Recommendation

In future, researchers should consider using a qualitative approach to determine the determinants that accounts for the

tax compliance of SME's in Ghana. A study can also be carried out to determine the behaviour of the small taxpaying units in Ghana since they seem to have some unique characteristics.

Conclusions

Based on the findings of the study SME's the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation.

The study have concluded based on the evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them.

The study also showed that unions and associations could help in increasing the level of tax compliance in the country if unions are given the requisite knowledge especially on the incentives available to their members for complying with tax laws.

Other strategies of the study were organizing workshops for businesses to train them on the need to pay their taxes and keep proper records of their transactions, increasing the rate of audits of businesses, imposing fines and penalties for defaulting businesses.

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