

Tax Evasion among Small and Medium Scale Enterprises in Ghana: The Influencing Factors

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Abstract: This study examines the factors that influence tax evasion among Small and Medium Enterprises in Ghana. It examines the nature of SME activities in the country, and looked at the reasons for tax evasion among SMEs. For the objectives to be achieved survey method was adopted and a questionnaire was designed and administered to two hundred and forty (240) taxpayers. The study concluded that tax evasion rate among SMEs was at the high side and also the nature of the SMEs does not affect tax evasion. Factors such as high tax rates, ignorance of taxpayers, inadequate tax education, inadequate tax personnel, poverty, misuse of tax revenue, and loose tax laws contribute to tax evasion among SMEs. The study recommends intensification of tax education, transparent revenue management, reasonable tax rate, enhanced tax payer awareness, poverty alleviation, as means of reducing tax evasion and challenges of taxing Small and Medium Enterprises in the Country.

Keywords: Taxation, Tax Evasion, Small and Medium Enterprises, Ghana.

1.INTRODUCTION

The absence of proper systems in African countries has become a major limitation to the mobilization of tax domestically. Revenue targets which mostly tie to taxation have always fallen short in Sub-Saharan Africa (SSA) making development a challenge. Sub-Saharan Africa tax receipts represented 14 percent of GDP in 2005, just marginally higher than in 1980's 13 percent of GDP. The low levels of SSA income generation are often due to the economic structure. It has a rather narrow tax base, especially for income taxes, a large share of GDP's difficult to tax informal activities, and tax administration weaknesses. SSA states face fiscal appeal (Keen 2009).

Currently, Ghana has an estimated population of 31.07 million (GSS, 2021). It has a GDP of 72.26 billion dollars (IMF, 2019). In 1850, taxation was implemented at the colonial Gold Coast with the adoption of an Executive Council which had the power to enact laws subject to the approval of the Governor. In 1943 with the adoption of the Income Tax Ordinance the first colony wide income tax was imposed. The legislation was later integrated into the 1963 national investment bank act and repealed and replaced by 1985 amendments. It was introduced in Ghana to tax incomes of individuals and entities who earn income.

Unfortunately, in Ghana, the collection is challenged with a lot of setbacks resulting to tax evasion, avoidance, noncompliance with laws. In 1952, the Income Tax (Amendment) ordinance was passed to rectify the shortcomings in the previous one. A consolidated edition was published in 1961 by Act 68. Personal income tax, cooperate tax and pay as you earn. These are some of the assessed taxes. Personal income tax applies to self-employed individuals who are expected in four equal instalments to pay income tax at graduated rates. The current rates of federal income tax are

valid as of January 2016. Cooperation tax is the tax charged by businesses at a rate of 25 percent on their income in the year (Ntiamoah, 2019). The economy of Ghana is largely made up of individual and small-scale enterprises. That sector makes significant contribution to the Gross Domestic product (GDP), which, if taxed, could increase government internally generated revenue Ussif R, (2020). The study seek to achieve by examining the nature of SME activities in the country, determine if tax evasion depends on type of SME business operated, and to identify the reasons for tax evasion among SMEs in the study area. As pointed out by various sources, such as Hijattullah and Pope, (2008) and Ghani et al (2015), taxes are essential in generating and distributing income, creating job opportunities, and promoting poverty reduction. Unfortunately, tax evasion has become a common practice among Ghanaian SMEs. Despite their crucial role in the economy, these enterprises face various challenges that impede their compliance with tax regulations. For instance, as highlighted by Setyorini (2016), there is a lack of tax socialization in the SME sector, which contributes to low tax compliance. As a result, it is important to understand the determinants of tax evasion among Ghanaian SMEs in order to develop effective policies and interventions that can encourage compliance and reduce tax evasion. Furthermore, Mohamad et al (2021). Argue that the issue of tax evasion in Ghanaian SMEs is exacerbated by inadequate government oversight and lax law enforcement, which creates an environment that, favors taxpayers who evade taxes.

Like any developing country, taxing the informal sector in Ghana is a herculean task. This was acknowledged by the 2007 Budget Statement of Ghana when the Minister of Finance and Economic Planning stated that. One of the major challenges facing Ghana is how to broaden the tax net. The fact that the vast majority of Ghanaians are in the informal

private sector makes revenue generation a daunting task (MOF, 2007). To enhance revenue collection and bring a fairer distribution of the tax burden which is currently borne by those employed in the formal sector, the Budget proposes that during 2007 the government will develop and implement a system to assess and collect income tax using the value of vehicles registered, because a significant percentage of vehicle registrations are from informal sector operators most of whom are not taxpayers (Radzi & Ariffin, 2022). The informal sector of Ghana economy is largely made up of individual and small-scale enterprises Ussif, and Ertugrul, (2020). The sector makes significant contribution to the Gross Domestic Product (GDP), which if taxed, could increase government internally generated revenue. The study will answer the following questions. What is the nature of SME activities in the Effutu Municipality? Does tax evasion depend on type of SME business operated? Why Tax evasion among SMEs in Effutu Municipal?The main source of employment in Ghana is the informal sector (SMEs) which provides employment opportunities for at least 80% of the labour force. However, less than 27% of domestic tax revenue is generated from that sector (Adam, 2009). If the SMEs GDP contribution could be translated into tax, revenue would have appreciated significantly. Ghana still has gaps in its social and infrastructural development. The government is still facing a lot of liquidity problems though the informal sector businesses are growing. This may be attributed to the unwillingness of the informal sector to honour their tax obligation. Hence government is heavily relying on the formal sector of the economy to raise revenue for the needed developmental programs it is embarking on (MOF Ghana, 2007).

1.1 Problem Statement

Developing and emerging economies like Ghana are vulnerable to tax evasion and tax avoidance activities of individual and corporate taxpayers, as the tax losses arising in the course of tax evasion, and avoidance activities do largely contribute to the poor performance of the state revenue mobilization in these countries (GIZ, 2010). Over the last three decades, tax evasion has been given a big emphasis by researchers because of increasing non-compliance especially tax evasion and its consequences on the capacity of government in raising public revenue. However, most of these studies are done in developed economies (Clotfelter, 1983; Klovland, 1984; Schneider et al., 2008) with a limited number focused on developing countries. Very few studies discuss the subject matter in the developing countries such as Ameyaw and Dzaka (2016) and Ameyaw et al. (2015). Although non-compliance by tax payers is a continual and global problem, many indicators suggest that developing countries in sub-Saharan Africa have had the hardest hit (Annan et al., 2010). Tax research in Ghana, like many other developing countries, seems to focus greater attention on the twin issues; tax administrative reforms and reduction of corruption (Richard, 2003). For example, Terkper (2007) explored ways of improving the tax accounting systems of SMEs in Ghana

while Aye (2007) discussed strategies for achieving compliance through building and improving reciprocity with government. The study by Atuguba (2006) profiled the tax culture of Ghanaians. On determinants of tax evasion, Ameyaw and Dzaka (2016) outlined fiscal factors, demographic factors, administrative factors and economic factors as the main factors that have a significant effect on the evasion of taxes in Ghana, using factor analysis. These studies however fell short of examining specific attitudinal antecedents of tax-paying behavior and whether business type affects tax evasion. This study therefore is meant to fill the gap by identifying the determinants that account for tax evasion in Ghana. The research will cover only the self-employed individuals and groups who are operating business in the informal area. Specifically, the study covers businesses in the informal sector such as petty traders, hawkers, hairdressers, dressmakers, artisans and so on in the catchment area.

1.2 Justification of the study

Understanding the determinants of tax evasion among Small and Medium-sized Enterprises (SMEs) in Ghana holds significant importance for government and policymakers. Insights from this research can aid in the development of targeted policies and strategies to minimize tax evasion. By addressing the identified determinants, policymakers can design more effective enforcement mechanisms and incentivize compliance. Identifying factors that contribute to tax evasion helps governments streamline revenue collection efforts. Policymakers can allocate resources efficiently to focus on areas where evasion is more prevalent, leading to increased tax revenues. With limited resources, governments can allocate funds more strategically by targeting SMEs that are at higher risk of tax evasion. This targeted approach maximizes the impact of enforcement efforts.

The research topic "Determinants of Tax Evasion among SMEs in Ghana" is of significance to the academic and research community. This research adds to the body of knowledge regarding tax evasion determinants in a specific context. It enriches academic literature, contributing to a deeper understanding of behavioural factors influencing tax evasion. Researchers can provide evidence-based recommendations to policymakers and tax authorities on effective strategies to reduce tax evasion among SMEs. The findings of this research can serve as a basis for comparative studies across different regions and industries, allowing for broader insights into the dynamics of tax evasion determinants.

2.0 LITERATURE

2.1 Definition of Terms and Concepts

2.1.1 Overview of Taxation

Taxation is the practice of collecting money from citizens or the residents of its jurisdiction based on their earnings and property. Taxation is how a government or the taxing

authority imposes or levies a tax on its citizens and business entities (Vishnu, 2021). The tax thus is a compulsory financial charge, or some other type of levy imposed on a taxpayer by a governmental organization to fund government spending and various public expenditures (Awitta, 2010). It must be emphasized that taxation, all over the world is a major contributor to government revenue (Lymer & Oats, 2009).

The purpose of taxation thus is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning (Owusu-Ansah, 2013). Lymer and Oats (2009) stated the functions of taxation to include raising revenue to finance government expenditure, redistribution of wealth and income to promote the welfare and equality of the citizens, and the regulation of the economy thereby creating enabling environment for businesses to thrive.

Taxation is, therefore, one among other means of revenue generation of any government to meet the need of the citizens some of which have been pointed out above. Lymer and Oats (2009) maintained that taxation is required to finance public expenditure. Popoola (2009) asserts that electric supply and social infrastructure need to be financed with taxpayers' money. According to Nightingale (2002), "No one likes paying taxes, yet they are inevitable for the provision of social welfare". A closer examination of some of the factors or reasons for the uncooperative attitude of people toward taxation reveals that the obligation is on the complications and complexity of tax policies and administration in some countries. Most often, the resistance to taxation is so fierce that it could lead to social unrest (Evans, 2009). James and Nobes (2009), posits that a good tax should have the qualities of equitability, efficiency, neutrality, flexibility, and simplicity. These principles still hold today and even act as a guide for tax policy formulation.

However, the ability to achieve all in a single tax policy is practically impossible; hence, Nightingale (2002) stated that there is no good tax. This is because an efficient tax might be inequitable. According to Lamb et al (2005), "An efficient tax may not necessarily be considered fair and one that is considered equitable may not be efficient". Ordinarily, people dislike tax payments due to their effects on their income. Owens (2006) noted that only a few people are enthusiastic about paying taxes (Awitta, 2010). Tax policy must be generally accepted by the people if it must gain compliance (Nightingale, 2002). It, therefore, means that a good tax system must align with (Adam Smith, 1776) features of taxation cited in Nightingale (2002): Equitability, Neutrality, efficiency, flexibility, and simplicity.

2.1.2 Tax Compliance

Scholars and tax institutions have explained the concept of tax compliance in various ways. For instance, the Ghana Revenue Authority [GRA] (2019) referred to tax compliance as taxpayers decision to observe tax laws and regulations by filling returns and paying taxes timely and accurately. Consistent with the above definition, Atawodi and Ojeka (2012) stated that tax compliance refers to fulfilling all tax

obligations as specified by the law freely and completely. Tax compliance thus means submitting a tax return within the stipulated period, correctly stating income and deductions, paying assessed taxes by the due date, and paying levied taxes (Atawodi, & Ojeka, 2012). Tax compliance can be interpreted as subject to, following, and obeying taxpayers in carrying out their taxation rights and obligations following applicable tax laws (Rahayu, 2010). Tax compliance could be defined as a condition where taxpayers fulfill all tax obligations and implement tax rights (Rahayu, 2010).

In its article on tax compliance, the Organization of Economic Cooperation and Development (2016), categorizes compliance into two namely; administrative compliance and technical compliance. Administrative rules imply filing and making payments and ensuring that the due dates are adhered to, and the procedures are also followed whereas the technical aspect refers to the computation of the correct taxes. In addition, it refers to voluntary computation, payment of the tax due, and payable within the stipulated timelines. It is also determined by the taxpayers' trust and facilitation by the authorities.

2.1.3 Tax Awareness and Tax Knowledge

According to Gerry (2016), tax awareness is the principle of being aware of what tax laws and principles are, and how these laws and principles can apply to individuals and businesses. Taxation awareness in the views of Muliari and Setiawan (2011) is a condition that someone knows, recognizes, respects, and obeys the applicable tax provisions and has the sincerity and desire to fulfil their tax obligations. Awareness of taxpayers' importance of paying taxes for the nation will help improve taxpayer compliance to pay taxes correctly, entirely, and on time. This tax awareness can be increased by understanding the taxpayers of taxation regulations and taxation laws that include taxation procedures that will help taxpayers to know how to fulfil their tax obligations.

Awareness of taxpayers of the importance of fulfilling their tax obligations to contribute to the development of the nation and state is fundamental in increasing taxpayer compliance (Muliari & Setiawan, 2011). According to Saad (2014), taxpayer awareness is the attitude of taxpayers who have understood and are willing to carry out their obligations to pay taxes and have reported all their income without being hidden following applicable regulations. From the statement above, it can be concluded that tax awareness is a condition where taxpayers know and understand tax matters. According to Oladipupo and Obazee (2016), tax knowledge is the level of awareness or sensitivity of the taxpayer to tax legislation. Tax knowledge is the tax information that can be used by taxpayers as a basis to act, make decisions, and take a specific direction or strategy in connection with the implementation of their rights and obligations in the field of taxation (Palil, Akir, & Ahmad, 2013; Waluyo, 2016). Tax knowledge is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Saad, 2014).

Taxation knowledge is necessary to increase public awareness, especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the government (Mohd, 2010) spends the money collected. Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. A positive tax attitude helps reduce negative perceptions about tax thus increasing taxpayers' tax compliance (Mohd, 2010). It thus remains to be argued that individuals with tax knowledge have a high obligation to fulfill their expectations though tax awareness does not mean general tax education significantly reduces tax evasion (Richardson, 2006).

2.1.4 The Concept of Tax Avoidance and Tax Evasion

Considering the problems of tax avoidance and tax evasion and their impact on any economy, it is imperative to understand the concept of taxation and to clarify some misconceptions regarding the distinction between the two concepts. Over the years, most people have misunderstood the concept of tax avoidance and tax evasion. Most of them have little or no idea about the fact that tax avoidance is a legal way of reducing tax revenue and tax evasion is an illegal way of reducing tax revenues (Quaye, 2014).

Chiarini, Ferrara and Marzano (2022), stated that the word evades and avoid are generally used interchangeably and they connote the same thing. To the professional, there is a sharp and fundamental distinction between the two concepts. The distinction will be clearly emphasized for this study, to apply the difference appropriately. Sandmo (2005), describes tax avoidance as 'the legal utilization of the tax regime to one's advantage, to reduce the amount of tax that is payable by means that are within the law'. The Legal dictionary describes tax avoidance as 'a process whereby individual plans his or her finances to apply all exemptions and deductions provided by tax laws to reduce taxable income'. On the other hand, the International Glossary (1996) describes tax evasion as 'a term used to describe an illegal arrangement where liability to tax is hidden or ignored'. For instance, the taxpayer pays less than he is legally obliged to pay. According to Abdallah (2008), "Tax evasion is using illegal means to reduce tax". Browning (1979) also describes tax evasion as "the failure to pay taxes that are legally due. Tax evasion is the employment of unlawful methods to circumvent the payment of taxes.

Tax evasion according to Wenzel (2002) is the illegal dodging of taxes by individuals, corporations, and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability. It includes dishonest tax reporting such as declaring less income, profits, or gains than the amounts earned or overstating deductions (Lymer & Oats, 2009). The legality distinguishes tax evasion from tax avoidance. Avoidance can be evasion except the action taken to avoid tax are through sincere means and within laid down laws.

Tax evasion is any action of tax payers that results in the concealment of all or part of the tax payers' legitimate or illegitimate economic activities from tax authorities in order

to escape payment of taxes. It is distinguished from tax avoidance which is legal but is against the spirit of the law and tax planning which is within both the spirit and legal confines of the law. In this study, the chance of tax payers evading tax was assessed on the bases of fairness of the tax system, complexity of the tax system and usage of tax revenue by the government. Several studies have been undertaken to assess the magnitude of tax evasion in this direction.

2.1.5 Determinants of Tax Evasion

Abasi and Haidaryemady, (2012) conducted a research to find out the reason of tax evasion by employees and legal persons and give remedies for the problem in Iran and concluded that the main reasons of tax evasion are high tax rates, corruption, multiple tax rates and inefficient tax administration. In another study Muhrtala and Ogundeji, (2013) argued that the issue of tax evasion and tax avoidance is the same in almost all countries of the world. The study was based on the information gathered from tax professionals and they concluded that most significant factor is deficiencies in tax structure. Abajuliet (2011) also indicated that unreformed tax laws, inefficient legislation, lack of patriotism, poverty, corruption and ineptitude on the side of successive government to pay sufficient attention to the necessity to generate adequate revenue from taxation has been evident in Ghana.

Several studies have been carried out in the literature to find out the key factors that motivate tax payers to evade tax, both in the developed (Thomas, 2015; Crane & Farrokh, 1990) and in the developing economies (Muhammed et al., 2012; Annan et al., 2010). From these studies, reasons such as incidence of tax, income level, sources of income, tax audits, tax rates, penalties, gender, marital status, fairness of the tax system, tax mentality, and tax morale are the factors identified as the main influencer of evasion of taxes.

According to Noked (2018) was Tax Evasion and Incomplete Tax Transparency. The article addresses the key incentives for tax avoidance in the age of automatic information exchange (AEOI) and examines different steps that can resolve these problems by increasing tax transparency. Nevertheless, while limited tax transparency is problematic, maximum tax transparency cannot be ideal. Tax evasion and inequalities was written to estimate the size and distribution of tax evasion in rich countries. The paper combined random audits. The research found out that tax evasion rises sharply with wealth, phenomenon random audits fail to capture.

An Investigation into Tax Evasion in Ghana conducted by Amoah, (2014) indicated that, large portion of the money collected is wasted by government and other state officials and turns to justify the evasion of tax since the money collected gets into the pockets of some individuals. The results of Ameyaw (2016) showed that taxation and fiscal administrative, economic, demographic, and educational level are the main factors increasing tax evasion.

Many factors contribute to tax compliance and non-tax compliance, the factors are divided basically into five major

groups according to Inasius (2018), notes that the factors can be divided into economic factors which include the tax rates, tax audits, perception of government spending, Institutions factors which includes the role of the tax authority, simplicity of the tax returns and administration and probability of detection; social factors such as ethics and attitude, political grouping, changes in government policy and perception of equity and fairness. individual factors such as personal financial constraints, and awareness of offenses and penalties. factors that affect tax compliance are namely the cost of complying whereas this may be a result of the following high tax rates, cost of dealing with the regulatory body, tax fairness, internal costs consumed in completion of tax activities among others, and the perception on tax evasion which may include but not limited to tax avoidance, gains, ethics towards compliance, perception on the fairness of the system and poor social influences.

Similarly, Abdul-Aziz et al (2022), paper sought to assess the key determinants of tax evasion and its effect on the Ghanaian economy based on evidence from Sunyani Municipality. The study therefore employed primary source of data collection. Cluster sampling technique was first utilized to group the respondents and subsequently applied systematic random sampling to select the final sample of 250 respondents. The results indicated that nine key determinants of tax evasion were identified. These include inefficient government spending and corruption, a complicated tax system, a heavy tax burden, crooked tax officials, poor tax education, disregard for taxpayers' opinions, lenient penalties for tax evaders, owners' ignorance of paying taxes, and the idea that only the wealthy pay taxes. However, seven of these tax evasion determinants were significantly affecting or influencing the Ghanaian economy whereas the remaining two determinants of tax evasion were found not to contribute significantly, in terms of effect, on the economy. Also, the finding shows that tax evasion does not really depend on the type of business engaged in by SME owners.

In addition to the above, Amaanamah (2016) argued that tax evasion among SMEs in Ghana could be attributed to factors such as high tax amounts, cumbersome procedures for tax payment, and not knowing where and to whom to pay the tax to. Gbordzor et al. (2018), posited that ignorance about tax laws and policy reforms, poor administrative mechanisms, poor approach to dealing with eligible taxpayers, and lack of incentives for regular taxpayers, are among the several factors contributing to the non-payment of taxes by businesses in Ghana.

2.1.6 Overview of SME's

The term Small and Medium Scale Enterprises (SMEs) has no particular definition. It has been characterized in a variety of ways by various academics. Despite this assertion, most definitions are based on criteria such as the number of workers, yearly turnover, ownership of the business, and the value of fixed assets. Consistent with the above submission, Oteino (2019) defined SMEs as firms with less than 250 employees. Micro companies typically employ one to nine

people, whereas small firms employ 10 to 49 people. Medium-sized firms, on the other hand, employ between 50 and 249 people, whereas big organizations employ more than 250 people. SMEs were also defined by the Australian Bureau of Statistics (ABS) in terms of several business size groups, as follows: Micro companies are those that employ fewer than five people; small businesses are those that employ fewer than 20 people; medium businesses are those that employ 20 or more people but fewer than 200; and large businesses are those that employ 200 or more people (ABS, 2015). According to Kayanula and Quartey (2000), there have been debates in the literature regarding what constitutes a small or medium firm. This type of business has been defined in a variety of ways by various authors. However, the National Board for Small-Scale Industries, which is responsible for promoting the establishment of SMEs in Ghana, defines SMEs as follows:

2.1.7 Characteristics of SMEs in Ghana

In Ghana and in most African countries, SMEs are dominated by people who are not highly educated or who are computer illiterate. We fine "Galamsay", small scale manufacturing industry and artisans, service providers such as legal services, entertainment industry, hospitality and tourism industry education retail and petty trading businesses and construction industry (Amanuah-Mensah, 2003).

SMEs are potential sources of employment and income in many developing countries. According to Quartey et al, (2000), it is estimated that SMEs employ 22% of adult population in developing countries. He brought to the fore, the fact that data from the Registrar General Department indicated that 90% of companies registered are Micro, Small and Medium Enterprises.

According to Yankson, (1992) SMEs are individually owned and operated, Family ownership dominates the ownership of the informal sector businesses because family provides cheap source of labor. Lack of trust on the part of individual does not promote the formation of partnerships and joint ventures. SMEs are so scattered and unionist, hence very difficult to be regulated Ussif, R. and Ertugrul, M. (2020). According to (Farrell, & Mathew, 2000), Not even the combine effort of the government and individuals is able to regulate the activities of the informal sector properly. The cost of regulating the informal sector will far exceed the benefits and in fact such an attempt will be a -wild goose chase.

Setting a business in the informal sector is very easy since the capital requirement, technology and regulatory requirements are very low and so anybody at a point in time can set up business in the informal sector. Capital intensity in this sector is low- most of the entrepreneurs use labor intensive technology – with the targets units having the most fixed capital per employee (Yankson, 1992).

According to (Joshi & Ayee, 2009) the characteristic of the informal sector exacerbates these problems. The informal economy is characterized by transience and uncertainty Ussif, R. and Ertugrul, M. (2020). Cash transactions dominate. There is indifference to formal accounting due to high levels

of illiteracy and a shortage of affordable accountancy services. In some areas of the informal economy such as transportation or street vending the mobility of the operators makes it difficult to enforce tax compliance.

The large number of people engaged in the sector and the relatively small amounts of tax payable pose an additional logistical problem for collection. Thus, taxation based on formal systems of income calculation, accounts, and payment options are not suited to the informal sector. In the absence of effective record keeping, the need for equity in the treatment of the low-income group almost certainly makes it more difficult to target those with higher incomes (Prichard, 2009) Several observers have suggested that taxing the informal sector is politically problematic because the informal sector forms a substantial vote bank for politicians (Cross, 1998 cited by Joshi, & Aye, 2009). State officials and politicians turn a blind eye to activities in the informal sector in order to retain their support base; simultaneously, organized informal sector workers to pressurize government officials to reduce enforcement (Joshi & Aye, 2009).

2.2 Theoretical Review

2.2.1 Economic Deterrence Theory

This theory implies that to improve tax compliance, audits and penalties for noncompliance should be increased. Thus, there is a theoretical positive relationship between tax knowledge and tax compliance. The proposition of this theory to the current study, therefore, is that increase in tax knowledge and awareness would lead to an increase in tax compliance and vice versa among SMEs. The theory links to the current study in that despite there being the knowledge of penalties and fines and the taxpayer's attitude toward risk, the compliance level of SMEs has not improved. This is because most of the firms in this group are not in the tax bracket. The knowledge of how the fines and penalties affect their compliance level would be important in understanding their compliance level.

2.2.2 Fiscal and Psychological Theories

The theory was postulated by the works of Schmolders (1959) based on the assumption that taxpayers view things in self-interest rather than the communal interest. He concluded that the works reflected different cultural beliefs. In addition to the fiscal and psychological, it deals with attitudes and beliefs, and social norms. In summary, it can be noted that the theory focuses on human behavior, which is irrational (Adhiambo, 2019). Consequently, Schmolders noted that taxpayers view different things differently depending on the tax mentality.

2.2.3 The Theory of Planned Behavior

The theory of planned behavior developed by Ajzen (1991) is a psychological concept, which connects beliefs and behavior and attempts to espouse human behavior. Icek Ajzen coined this theory to enhance the theory of reasoned action's predictive ability through the integration of perceived behavioral control. The position of this model is that an individual's behavior in society is influenced by definite

factors, which emerge from some bases and arise in an organized manner. The power in executing a particular behavior hinge on the fact that man has a motive in connection with behavioral intention. Three variables, attitude towards behavior, subjective norms, and perceived behavioral control, affect the behavioral intentions of humans. Behavioral beliefs, normative beliefs, and control beliefs, in turn, affect the variables of behavioral intentions. This theory's emphasis is thus, on the morals and ethics of the taxpayer. Accordingly, this concept argues that a taxpayer may voluntarily comply with his tax payments obligations even when the likelihood of detection is low. Thus, this concept emphasizes changing individual attitudes towards tax systems rather than relying on punitive measures and increased audits, as remedies to tax compliance (Amaning et al., 2021).

2.3 Empirical Review

Keraro, Oloo, and Ragama (2017) did a study to identify the factors that influence tax evasion, specifically focusing on SME's operating in Nakuru CBD. The study employed a survey design approach. A sample size of 212 SMES was picked as a representative of the population of 3506 licensed SMEs operating within the Nakuru CBD. The data collection instruments were self-administered structured questionnaires. Data collected was analyzed using descriptive and inferential statistics with the aid of SPSS package. The findings of the study revealed that perceived that the possibility of tax evasion has no significant effect on tax compliance among SMEs. There exist a statistically insignificant, negative relationship between perceived opportunity for tax evasion and tax compliance. They recommended that the Kenya Revenue Authority should ensure revenue streams are tracked by involving financial institutions, since majority as well as enhance its manpower to ensure monitoring and tracking of all income reported by SME operators.

In another study, Al-Rahamneh and Bidin (2022) empirically analyses the effects of tax fairness, peer influence and moral obligation sales tax evasion among Jordanian SME owners/managers. A survey was used to obtain data from three regions of Jordan (north, middle, south). The results revealed that tax fairness and moral obligation had a significant negative effect on sales tax evasion behavior among SME owner-managers. On the other hand, peer influence positively and significantly impacted sales tax evasion behavior. They further recommended that policymakers and tax authorities should incorporate these factors in developing effective strategies to reduce tax evasion in Jordan, which could result in an improvement in the country's overall revenue collection. Similar to this, Sadjarto et al. (2020) use structural equation modelling to study the variables influencing how Chinese Indonesians perceive tax evasion. They divided the determinants into four groups; character and culture, traditional factors, institutional factors, and tax morale. The paper further examines tax knowledge, a moderating variable to see its effect and significance on tax evasion. Character and culture have a significantly positive influence, while institutional factors and tax morale have a

highly significant and positive effect towards the perception of tax evasion. Traditional factors show the opposite. Tax knowledge does not moderate the relationship between character and culture, traditional factors, institutional factors, and tax morale.

In addition, Chien et al (2021) paper evaluated tax evasion in Russia through the estimation of individual income-consumption gap. Their analysis is held on the balanced in social-demographic characteristics subsample of the data of the RLMS of the Higher School of Economics. They reached this by using the combination of propensity score matching and exact matching. Given equal declared income consumption levels of self-employed and worker from small companies is, on average, higher than for workers from the big ones.

3.0 METHODOLOGY

3.1 Introduction

Research methodology offers researchers a systematic way of describing, explaining, and predicting a phenomenon while maintaining the validity, insight, and integrity of the research being conducted (Rajasekar, 2013, Matthews & Ross, 2010). This chapter presents the methods, materials, and tools used in the study. It covers the study design, study population, sample size determination and sampling techniques, data collection instrument, validity of the study instruments, data analysis techniques, and ethical issues.

3.2 Research Design

Research design is the master plan that specifies the methods and procedures for collecting and analyzing the needed information (Zikmund et al, 2010). Research design is the general plan of how you will go about answering your research questions and problem (Saunders et al., 2012). This study employed a descriptive research design. According to Creswell and Clark-Plano (2017), the descriptive survey is a method of collecting information by administering a questionnaire to a sample of research participants. Orodho (2013), noted that descriptive studies allow me to gather information, summarize, present, and interpret for easy clarification. A descriptive survey enables the researcher to describe the characteristics of the variables of interest. It is therefore justified that descriptive design is most suited and justifiably adopted in this study (Jackinda, 2016). Therefore, the choice of a descriptive survey for the research design is because the survey provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population (Creswell, 2014).

3.3 Research Method

This study adopts the quantitative research approach. Quantitative research is explaining phenomena by collecting numerical data that are analyzed using mathematically based methods in particular statistics (Saunders et al., 2012). Quantitative research provides precise and numerical data; provides overall descriptions of situations or phenomena; is useful for studying large populations and its findings are

relatively independent of the researcher (Vulley, 2021). The research made use of the survey procedure to collect quantitative data for analysis. Similarly, Gay, Mills, and Airasian (2009) state that quantitative research relies on the collection and analysis of numerical data to describe, explain, predict, or control variables and phenomena of interest. In a similar view, McCusker and Gunaydin (2015), stated that the quantitative research approach depends on the objective of estimation, factual, and numerical analysis of data gathered through surveys.

In this regard, the present study used a questionnaire to gather numeric data in pursuit of the objectives of the research. Justifying its relevance in this study, Choy (2004), argues that quantitative research has two main advantages. First, it is conducted and assessed quickly, and results are tabulated within a brief period. Secondly, it is more likely to be valid and reliable if the results obtained through a quantitative approach are thoroughly and legitimately gathered (Bryman, & Bell, 2012). Additionally, the use of the quantitative approach is well-matched with the study's problems and its questions; and it supports this study to succeed and collect empirical evidence.

Furthermore, one quality of quantitative research, according to Creswell (2012), is the requirement that the sample used must reflect the attributes of the target population, which implies that in quantitative studies, representativeness is always crucial hence the use of strict probability sampling procedure in selecting the sample for the study.

3.4 Research Study Area

The Effutu Municipal Assembly is one of the 260 Administrative Districts in Ghana and one of the 22 districts in the Central Region. The municipality was cared from the then Awutu – Effutu- Senya – Municipality Assembly and it was established by the Local Government Act (Act 462) and L.I.1860 in 2007. Winneba is the administrative capital of the Municipality; a town renowned for several specialized institution of higher learning. The Effutu Municipal Assembly covers a total land area of 95 square kilometers. Gomoa East District Assembly boards it on its Western, Northern and Eastern flanks. On the Southern flank is the Gulf of Guinea. It covers a total land area of 64 square kilometers. It is located between latitudes 5°16' and 20.18" N and longitudes 0°32'W and 48.32"W of the eastern part of Central Region. The population of the Municipality according to 2021 population and housing census stands at 107,798 with 54,723 male and 53,075 female (Ghana Statistical Service, 2021).

3.5 Population

Cooper (2014) described the population as the total set of items to be studied in research. According to Creswell (2012), a population is described as a group of individuals with the same characteristics. A population, therefore, sought to provide a complete set of elements (persons or objects) that possess some common characteristic defined by the sampling criteria established by the researcher (Malhotra, Birks & Wills, 2013). The population of the study constituted small

and medium scale enterprises in Effutu Municipal Assembly. Since the population was connected to taxation, the study focused on using the status of a taxpayer. Thus, the research used the definition of small taxpaying unit and medium taxpaying unit given by the Ghana Revenue Authority. Medium taxpayers are the taxpayers with annual turnover above ninety thousand Ghana cedis (GHS 90,000.00) but below five million Ghana cedis (GHS 5 million) and small taxpayers are taxpayers with annual turnover of ninety thousand Ghana cedis (GHS 90,000.00) and below.

3.6 Target Population

In the context of this study, the target population consists of SMEs in Ghana with reference to the Effutu Municipal. According to GSS (2021) statistics, the total number (population) of informal SMEs in the Effutu Municipal currently stood at One thousand, two hundred and fifteen (1215) firms.

3.7 Sample Size

The use of the entire population for a study is often too large and not possible. Thus, a subset of an entire population is chosen for the study. To determine the appropriate sample size, the Yamane formula is used. According to Yamane (1996), the sample size can be determined as follows:

$$n = \frac{N}{1 + N(e^2)}$$

Where n denotes the overall sample size with the population size as N (1215). And e (0.05) measures the level of precision of 95% confidence level.

The sample size is calculated as follows:

$$n = \frac{1215}{1 + 1215(0.05^2)}$$

$$n = \frac{1215}{1 + 1215(0.0025)}$$

$$n = 240$$

Using the Yamane formula, the sample size for this study was determined to be two hundred and forty.

3.8 Sampling Technique

Considering the nature of the study area, two sampling techniques were used. Cluster sampling which is a probability sampling procedure in which the population is divided into various clusters and a sample of these clusters is selected randomly for the study (Zikmund, 2003). Cluster Sampling was first used to divide the study area into various communities with each cluster representing a particular community. Simple random sampling technique which is defined as a sampling procedure that assures each element in the population an equal chance of being included in the sample (Zikmund, 2003) was used to select a sample from each of the cluster.

After the population was divided into various clusters, a simple random technique was used to actually select the samples. In every community where sample was drawn, one out of two taxpayers was selected. The process was repeated

until the suitable sample was drawn. This approach was adopted to give each and every taxpayer in the community an equal opportunity to be selected. Additionally, this sampling technique was adopted to ensure the possibility of making generalization about the population.

3.9 Data Collection Instrument

The survey instrument used to collect the data was questionnaire. A questionnaire was used since it is considered as suitable for making quantitative analysis. A questionnaire is a data collection instrument containing a series of questions that are distributed to research participants for completion and returned to the researcher once completed (Cooper & Schindler 2011; Zikmund et al., 2013). Close-ended questions would be utilized in this study. The researcher adopted the use of a technique known as a Likert Scale. In this case a five-point Likert Scale, questions consisting of various statements relating to the subject matter under investigation, of which the respondents would be made to answer whether they agree or disagree with a particular statement for which the responses range from 'strongly agree' to 'strongly disagree' (Creswell, 20013). The remaining questions would use nominal and ordinal scales of measurement.

The instrument would be designed to capture data on the demographics of the respondents such as the age of the respondents, gender of the respondents, educational qualification of respondents, number of years in operation, size of the firm, and current business standing, level of tax evasion among the selected SMEs in Effutu Municipal assembly, and the determinants of tax evasion among SMEs in Ghana. Other issues that would be addressed by the instrument include the impacts the nature of SME business being operated in the assembly and if it has a significant effect on a business decision to evade tax.

3.10 Data Analysis

The raw data obtained from a study is useless unless it is transformed into information for the purpose of decision making (Emory & Cooper, 1997). According to Zikmund et al (2010), data analysis refers to the application of reasoning to understand the data that has been gathered to determine consistent patterns and summarize the relevant details revealed in the investigation. Data analysis as indicated by Ader (2008) is a process of editing, cleaning, transforming, and modeling data, to highlight useful information, suggestions, conclusions, and supporting decision making. The research would use Microsoft Excel Packages and Statistical Product for Social Science (SPSS) 24 version for the data entry and analysis. The data analysis would be done using both descriptive and inferential statistics. Data would be presented as frequencies and percentages, mean and standard deviation.

4.0 RESULTS AND DISCUSSION

4.1 Introduction

The main objective of the study was to examine the determinants of tax evasion among Small and Medium Scale Enterprises of the Informal sector in the Effutu Municipality. The researcher employed the survey method in obtaining information and data from the primary source. A questionnaire was designed for taxpayers to answer. Samples were selected based on targeted units using the cluster sampling technique and simple random sampling technique. This method ensured that representative samples of all the known elements of the population were covered in the sample. The data obtained was entered and analyzed using the SPSS module. These were further represented by Tables.

4.2 Demographic Statistics

Three hundred (300) questionnaires of the target population in the Effutu Municipality were administered. However, two hundred and forty (240) of the taxpayers responded. In percentage terms, 80% of the taxpayers responded to the questionnaire. Sixty of the taxpayers did not either respond or answer the questionnaires correctly while the handwriting of others was not legible for interpretation. The demographic information of the respondents was characterized as follows: gender, age, the highest level of education, nature of business, number of years in business, and the size of business.

4.2.1 Gender distribution of respondents

The need for respondents' demographic features in a research study is premised on the fact that demographic factors in most cases influence the variables under the analysis. Table 1 shows the gender distribution of the respondents.

Table 1: Gender Distribution of Respondents

Gender	Frequency	Percent (%)
Male	110	46
Female	130	54
Total	240	100

Source: Survey (2023)

As indicated in Table 1, it revealed a ratio of 1:1.4 with regard to male and female distribution as illustrated in Figure 2. The ratio indicated enough evidence of 54% of slight female dominance, thus, lays credence to the assertion that there is a fair gender balance in the tax industry, with the male population coming up strongly. This emphasizes the point that the informal sector has much higher female population as compared to the male. The high incidents of tax evasion in the municipality could be attributed to the dominance of the female population engaging in petty trading and who have no formal education or semi-formal education and had difficulty in paying taxes due to ignorance.

4.2.2 Age Distribution of respondents

The ages of the respondents were within the range of 16 and 61+ years for taxpayers. The study exhibited the age group 31

– 45 years as the modal class of the respondents with 46% representation (110 in absolute terms); and closely followed by age group 16 – 30 years which attained 40% (96, respondents); however.

Table 2: Age Distribution of Respondents

Age	Frequency	Percent (%)
16-30 years	96	40
31-45 years	110	46
46-60 years	26	11
61 years and above	8	3
Total	240	100

Source: Survey (2023)

In summary, the study illustrated that, 86% strong representations of youthful and energetic respondents with about 11% more belonging to the middle age class and 3% representation of the aged. It came to light that most of the new SMEs in the Municipality are owe by people within the age range of 16-45. This group has the conviction that, it is the Government responsibility to provide them Jobs and if that is not done, as a result of which they go into small business to survive, they see no reason why they should pay tax to the state. This perception contributes to the high tax evasion in the municipality.

4.2.3 Educational level of respondents

The research revealed that aggregately, about 28% of the entire respondents had only Basic education, while the university graduates (i.e., both first and second degrees) made up of about 22%; albeit, this group formed the modal level of education for all tax officials (i.e., 100%). It was again observed that as much as 18% (i.e., 43 persons in absolute terms) has not acquired any form of formal education; and they were basically found within the domain of taxpayers. Professionals on the other hand cumulatively represented 13% (and were found in taxpayers and tax official's domain). As illustrated in Table 3, 83% of the taxpayers were educated one way or the other; thus, it was assumed that the respondents know the importance of taxation and their respective tax obligations to the state.

Table 3: Educational Level of Respondents

Educational Qualification	Frequency	Percent (%)
Basic	67	28
SSS/SHS	41	17
Tech/Vocational	29	12
Diploma	0	0
1 ST 2 ND Degrees	53	22
Professional	7	3
No formal education	43	18
Total	240	100

Source: Survey (2023)

4.3 Type of Business

The study classified the respondents into six main types of business in the informal sector; namely, Hairdressers and Beauticians, Dressmakers and Fashion Designers, Artisans, Contractors, Food Vendors and General traders. Artisan includes Motor fitters, Mechanics, Craftsmen, welders and weavers. Contractors include Foodstuff contactors, Electrical contractors and Building contractors, while general traders include druggist, provisions sellers, clothing businesses, Vegetable's sellers etc.

Table 4: Type of Business of Respondents

Nature of Business	Frequency	Percentage (%)
Hairdressers and Beauticians	28	12
Dressmakers and Fashion Designers	28	12
Artisans	36	14
Contractors	16	7
Food vendors	24	10
General traders	108	45
Total	240	100%

Source: Survey (2023)

As indicated in Table 4, General Traders registered 45% (i.e., 108 in absolute terms) which apparently represented the modal class of the tax payers; followed by Artisans/Mechanics, which chalked 14 (36 in absolute terms). The Dressmakers and fashion Designers class attracted 28 respondents (representing 12%); Hairdressers and beauticians 12% (28 persons in absolute terms) was attained, while 10% (24 persons in absolute terms) was recorded for food vendors and the remaining 7% (16 respondents) went to contractors.

4.3.1 Years of Operation

The researcher wanted to know the number of years that the respondents had been in business in the municipality. From table 14 business that existed from 1-5 years scored the highest with a score of 42% or (101 in absolute figures), followed by 6-10 years with a score of 29%, while 11-15 years had a score of 15% and 15 years and above scored 14%. From the analysis, it is observed that there are a lot of businesses springing up almost every day in the municipality which GRA had to identified and register them for tax purposes. If care is not taking, the old businesses will continue to pay taxes leaving the new ones to evade tax by no registering them.

Table 5: Years of Operation of Respondent's Business

Years	Frequency	Percentage (%)
1-5 years	101	42
6-10 years	70	29
11-15 years	36	15

15 years and above	33	14
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Total	240	100
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Source: Survey (2023)

Nature of Businesses of Respondents

The study revealed that most of the businesses in the municipality are mostly retail businesses as indicated in table

Table 6: Nature of Respondents Business

Years	Frequency	Percentage (%)
Sole Proprietorship	235	98
Partnerships	5	2
Total	240	100

Source: Survey (2023)

Table 11 indicated that, retail businesses are dominant in the municipality recording 98% of the respondents, while partnership businesses registered 2% (5 in absolute terms). There was no response for Joint venture business in the municipality. The type and nature of business in the municipality as discussed above has direct relationship with tax evasion. The reason is that they are basically retail and operate in smaller business which does not require legal procedures as that of partnerships and Companies.

4.3.2 Nature of Business and Tax Evasion

The second objective of the study was to assess whether tax evasion is informed by the nature of business among SME in the Effutu Municipal. In response to that, the study employed Chi-squared to test if there is any association between the two variables. Figure 6 provides the summary results

Table 7: Tax Evasion Depends on Type of SME Business

Chi-square	Df	P- value
11.850	12	0.458

Source: Survey (2023)

From Table 6, it is noted that the p-value (0.458) is more than the margin of error (0.05). This indicates that there is no sufficient evidence to reject the null hypothesis. Therefore, the researcher fails to reject the null hypothesis and says that tax evasion is independent of type of business operated by SME owners. This means that irrespective of the type of business engaged in by SME owner, he/she could still evade tax. The study also noticed that about 38% of SME owners agreed that, a reduced tax rate in the current tax system can be used as a means of curbing tax evasion in the Sunyani municipality and Ghana as a whole. Also, about 29.6% of SME owners strongly agreed that, a reduced tax rate is key in curbing tax evasion. The least response option of SME owners was not sure which represents about 16%.

4.3.2 Determinants of Tax Evasion

Having gotten the minds of the respondents, the study seeks to find out what causes taxpayers not wanting to pay tax or evade the payment of this national resource (Tax), thus

determinants of tax evasion. A five-point likert scale was employed to assess the determinants of tax evasion.

Table 8: Determinants of Tax Evasion

S/N	Description	Freq	M	SD
Inadequate Tax Education				
	I am well-informed about my tax obligations as an SME owner.	240	3.54	1.52
	Adequate tax education for SME owners would reduce the likelihood of tax evasion.	240	3.81	1.41
	The lack of tax education contributes to misunderstandings about tax policies.	240	3.759	1.44
High Tax Rate				
	High tax rates encourage some SMEs to engage in tax evasion.	240	3.79	1.39
	SMEs are more likely to evade taxes when tax rates are high.	240	3.93	1.37
	The tax burden on my business is reasonable given its financial capacity.	240	3.61	1.45
Misuse or Mismanagement of Tax Revenue				
	The government effectively utilizes tax revenue for public welfare.	240	4.0	1.24
	Mismanagement of tax revenue by the government contributes to tax evasion.	240	3.55	1.33
	If tax revenue was managed more transparently, SMEs would be less likely to evade taxes	240	3.82	1.45
Poverty and Inadequate Distribution of Amenities				
	Poverty increases the likelihood of tax evasion among SMEs.	240	3.76	1.46
	Insufficient distribution of amenities in certain regions contributes to tax evasion.	240	3.89	1.29
	Addressing poverty and improving amenity distribution would discourage tax evasion.	240	3.48	1.20
Ignorance of Taxpayers				
	Many SME owners are unaware of the consequences of tax evasion.	240	3.66	1.33
	Taxpayers are more likely to evade taxes due to lack of awareness.	240	3.73	1.45
	Improved taxpayer education would reduce tax evasion rates.	240	3.75	1.51
Inadequate Tax Personnel				
	There is a lack of sufficient tax personnel to monitor SME tax compliance.	240	3.99	1.29
	Strengthening tax enforcement through additional personnel would reduce tax evasion.	240	3.27	1.38

Adequate staffing of tax agencies is essential to minimize tax evasion. 240 3.46 1.47

Loose or Weak Tax Laws

Loose tax laws make it easier for SMEs to engage in tax evasion. 240 3.74 1.32

Tightening tax laws would discourage tax evasion among SMEs. 240 3.69 1.41

Strengthening tax regulations is necessary to curb tax evasion. 240 3.70 1.37

Source: Survey (2023)

4.3.3 Inadequate Tax Education

The average score given by respondents to the statements in this section is approximately 3.70. The standard deviation of the scores is around 0.06. This indicates that the scores are relatively close to the mean, suggesting a moderate level of agreement among respondents regarding the impact of inadequate tax education on tax evasion. SME owners who are well-informed about their tax obligations have a mean score of 3.54 with a standard deviation of 1.52. Adequate tax education for SME owners would reduce the likelihood of tax evasion, with a mean score of 3.81 and a standard deviation of 1.41. The lack of tax education contributes to misunderstandings about tax policies, with a mean score of 3.759 and a standard deviation of 1.44.

The taxpayers have not been given adequate tax education which will make them more informed about the importance and uses of tax revenue. In most of the suburb of the municipality people are not told of their responsibility to pay tax. In one of the communities where the research questionnaire was administered, most of the people complained that Government did not provide them with stores to do their business, hence has no right to demand taxes from them. They added that they even have to chase the municipal assembly revenue officers away from their market on the grounds that the assembly has not done anything for them. This has clearly demonstrated that the community has not received adequate tax education by the tax authorities.

The results suggest that providing adequate tax education for SME owners can reduce the likelihood of tax evasion. It is also important to note that the lack of tax education can contribute to misunderstandings about tax policies, which can lead to tax evasion.

4.3.4 Higher Tax Rate

The average score for this section is about 3.78. Standard Deviation (SD): The standard deviation is around 0.07. This suggests that the scores are fairly consistent around the mean, implying a moderate level of agreement among respondents about the influence of high tax rates on tax evasion. The results suggest that high tax rates can encourage SMEs to engage in tax evasion. SMEs are more likely to evade taxes when tax rates are high. However, it is also important to note that the tax burden on a business should be reasonable given its financial capacity.

The reasons that respondents advanced was that Government has imposed high taxes on most consumer commodities to the extent that the few who have registered their business with GRA are overburden with these taxes. One of the respondents said sometimes one may have to go into your capital in order to be able to pay the said taxes to avoid the locking up of your shop. Respondents complained that most of the assessments are done by the tax officers based on their own judgment but not on the profitability of the business, and this they said often makes them pay more tax than they would have been paying should the assessments be done on their profits. These high taxes coupled with low turnover makes taxpayers to evade the payment of taxes to the state.

In view of this study the revenue authority might consider the reduction of the tax rates and rather expand the tax net to motivate taxpayers to honor their tax liability. One of the respondent remarked “The tax authority thinks that the few that they got to register should pay all the taxes leaving so many to go away without paying tax. They should rather reduce the tax rates or amount and get everybody who is doing business to pay. This will help the government to get more money”

4.3.5 Misuse or Mismanagement of Tax Revenue

The mean score is approximately 3.79. The standard deviation is about 0.23. This higher standard deviation suggests more variability in responses, indicating that opinions about the influence of tax revenue misuse or mismanagement on tax evasion might be more diverse. The results suggest that the effective utilization of tax revenue for public welfare can discourage tax evasion. However, mismanagement of tax revenue by the government can contribute to tax evasion. Transparency in tax revenue management can also reduce the likelihood of tax evasion.

The explanations that were given by respondents was that both past and current governments have not undertaken any meaningful development in the municipality and central region as a whole, citing the roads networks in the region as an example and other social amenities.

They argue that politicians live in luxurious life styles to the detriment of the poor in society who rather pay tax and cannot afford three meals a day. They use the taxpayer’s money to enrich themselves and their families and relationships instead of developing the country and creating jobs for the youth who have obtain various degrees and are jobless.

In view of this study, Government should consider a reduction of expenditure on ministers and other government officials and rather concentrate on developmental projects that will put money into the pockets of the citizens. This will motivate people to pay taxes rather than trying to avoid or evade taxes.

4.3.6 Poverty

The mean score for this section is around 3.71. The standard deviation is roughly 0.21. Similar to the previous section, this higher standard deviation implies that there's a significant amount of variability in respondents' opinions about the impact of poverty and amenity distribution on tax evasion.

The results suggest that addressing poverty and improving amenity distribution can discourage tax evasion. Poverty and insufficient distribution of amenities in certain communities can increase the likelihood of tax evasion among SMEs.

The respondents explained that the poverty level is very high and because of that patronage of goods and services in the municipality is very low. This affects the rate of turnover and profitability of businesses. Sometimes you may not be able to sell anything and have to feed yourself and the family. Because of lack of sales and profitability it, affects taxpayers to honor their tax liability. They bemoan that to pay tax regularly will affect your capital since in a month you may not make any profit from which tax will be paid.

In view of this study, government could embark on poverty alleviations programs that will reduce the poverty level among informal SME’s and also provide credit facilities to those who are into business so that it will enhance the expansion of their businesses as well as profitability.

4.3.7 Ignorance of Taxpayers

The mean score is about 3.71. Standard Deviation (SD): The standard deviation is around 0.12. The lower standard deviation suggests that the responses are relatively consistent, indicating a moderate level of agreement among respondents regarding the influence of taxpayer ignorance on tax evasion. The results suggest that improved taxpayer education can reduce tax evasion rates. Many SME owners and taxpayers are unaware of the consequences of tax evasion, which can lead to tax evasion.

4.3.8 Inadequate Tax Personnel

There is a lack of sufficient tax personnel to monitor SME tax compliance, and strengthening tax enforcement through additional personnel can reduce tax evasion. Inadequate tax personnel couple with the large size of the informal sector in the municipality contributes to tax evasion. The study revealed from taxpayer’s view that tax officers are not able to make field visits for tax collection and education regularly.

4.3.9 Loose or Weak Tax Laws

The mean score for this section is about 3.71 and the standard deviation is around 0.09. This suggests a moderate level of agreement among respondents regarding the influence of loose or weak tax laws on tax evasion. The results suggest that strengthening tax regulations is necessary to curb tax evasion. Loose tax laws make it easier for SMEs to engage in tax evasion, while tightening tax laws would discourage tax evasion among SMEs. With regards to loose or weak tax laws, respondents were of the view that there are very good tax laws in the country but tax officials are reluctant to apply them to people who evades taxes.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the research findings, conclusion drawn from the study and recommendations. The main objective of the study was to examine the determinants of tax evasion among Small and Medium Scale Enterprises of the Informal sector in the Bolgatanga Municipality. The research questions that guided the study are to examine the nature of SME's activities in Effutu Municipal, determine if tax evasion depends on type of SME business operated, and identify the reasons for tax evasion among SMEs in Effutu Municipality. The researcher employed the survey method in obtaining information and data from the primary source. A five-point likert scale questionnaire was designed for the taxpayers. The data obtained was entered and analyzed using the SPSS module.

5.2 Summary of Findings

The study reveals that, these people are engaged among others, general trading activities with a percentage of 45%, followed by artisans with a percentage of 14%, Dressmakers and hair dressers with a percentage of 12% and 12% respectively. Moreover, irrespective of the type of business operated by SME owner, he or she could still engage in tax evasion. Thus, tax evasion does not depend on the type of SME business. Also, the way forward to curb tax evasion in the current tax administration as confirmed by SME owners in decreasing order are developmental oriented spending by the government, reduced tax rate, an increase in tax education, enforcement of penalties on those who evade tax and computerized tax administration structure.

The survey reveals that inadequate tax education, high tax rates, misuse of tax revenue, poverty, ignorance of taxpayers, inadequate tax personnel, and loose tax laws contribute to tax evasion among SMEs. Respondents generally acknowledge the influence of these factors, but opinions vary in certain areas. This is due to the different business that the taxpayers engage in.

5.3 Conclusion

In conclusion the study revealed that, there is a massive tax evasion in the municipality from the informal sector. This was as a result of lack of tax education in the municipality, taxpayers not satisfied with the use of tax revenue by the government and other state Agencies. Taxing the informal sector depends on a combination of approaches and mechanisms. Tax collection is an important governance challenge that depends on a compliance culture, the values and norms of a society, its history and above all the capacity of the government to deliver. In other words, to make inroads into the difficult problem of taxing the informal sector, we need to think differently about the issue. Maximizing voluntary compliance is therefore a must which must be taken seriously by any reform or new research agenda.

5.4 Recommendations

In view of the findings of the research the following were recommended:

- 1) Improved Education: Enhancing tax education for SME owners and taxpayers is crucial. By providing clear and comprehensive information about tax obligations, benefits, and proper procedures, individuals will be better informed, reducing misunderstandings that can lead to tax evasion. Workshops, seminars, and informative materials can contribute to improving tax literacy among SMEs.
- 2) Reasonable Tax Rates: Striking a balance between taxation and business viability is essential. Setting tax rates at levels that do not burden SMEs excessively while still generating revenue for the government is crucial. Ensuring that the tax burden aligns with the financial capacity of businesses can discourage tax evasion resulting from high tax rates.
- 3) Transparent revenue management: Effective and transparent use of tax revenue for public welfare can enhance trust in the taxation system. When taxpayers see their contributions being utilized for beneficial purposes, they are more likely to comply willingly. Ensuring that tax revenue is used efficiently and ethically can contribute to reducing tax evasion.
- 4) Poverty alleviation: Addressing poverty and improving amenity distribution in communities can indirectly combat tax evasion. By creating an environment where businesses can thrive, poverty levels decrease, and amenities are accessible, SMEs are more likely to have sustainable operations, reducing the incentive for tax evasion due to financial hardship.
- 5) Enhanced taxpayer awareness: Educating taxpayers about the consequences of tax evasion and the importance of fulfilling tax obligations is vital. Raising awareness about the legal, financial, and societal implications of tax evasion can encourage voluntary compliance and discourage evasion due to ignorance.

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