

UNIVERSITY OF GHANA

**FACTORS INFLUENCING TAX COMPLIANCE OF SMALL AND MEDIUM
ENTERPRISES IN GHANA**

BY

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PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MPhil
ACCOUNTING DEGREE**

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DECLARATION

I, Sophia Naroog Kuug, hereby declare that, this thesis was done by me under the supervision of Dr. Mohammed Amidu and Dr. Ibrahim Bedi of Department of Accounting, University of Ghana Business School.

I attest that, all relevant sources of information have been duly acknowledged; and the contents have not been previously published in this same or other form for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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CERTIFICATION

We hereby certify that, this thesis was supervised in accordance with the procedures laid down by the University of Ghana.

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DEDICATION

This work is dedicated to the Almighty God for seeing me through this study. It is also dedicated to the Naroog family for their immeasurable support both financially and emotionally during the period of my study. I am who I am because of the love shown me by these people.



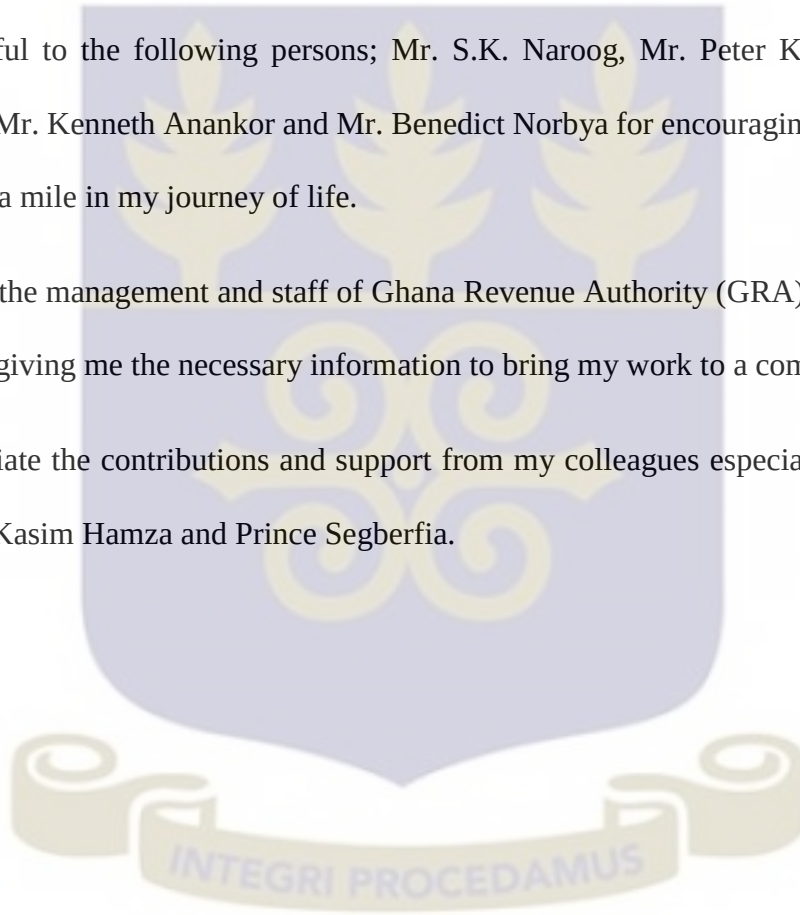
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ABSTRACT

Countries all over the world depend on taxation as a means of generating the requisite resources to meet expenditure requirements. Among the contributors to the tax revenue are businesses in the private sectors which largely consists of small and medium sized enterprises.

Although most businesses especially the small and medium sized enterprises are non-compliant with tax laws in Ghana, there is evidence that there are a few SMEs who try to pay their quota to the state every year. This study therefore sought to among others identify the factors that made these ‘good’ SMEs comply with the tax laws with the aim of increasing voluntary tax compliance among these entities.

A questionnaire was administered to gather data from respondents made up of 500 small taxpaying units and medium taxpaying units selected from 3 regions in the country. In addition to this, an interview guide was used to gather information from the management and staff of GRA.

The results indicated that capital structure, compliance cost, tax rates, tax audits and morals of taxpayers significantly influenced tax compliance. The GRA also indicated that unions and associations of businesses could help increase voluntary tax compliance of SMEs.

The study recommends among others that an in-depth interview is used in future studies to enable the researcher to interview owners and managers of SMEs on the factors that influence the tax compliance behaviour of these entities. Also, policy developers should endeavor to make tax systems less complex and less costly to encourage SMEs to comply with tax requirements.

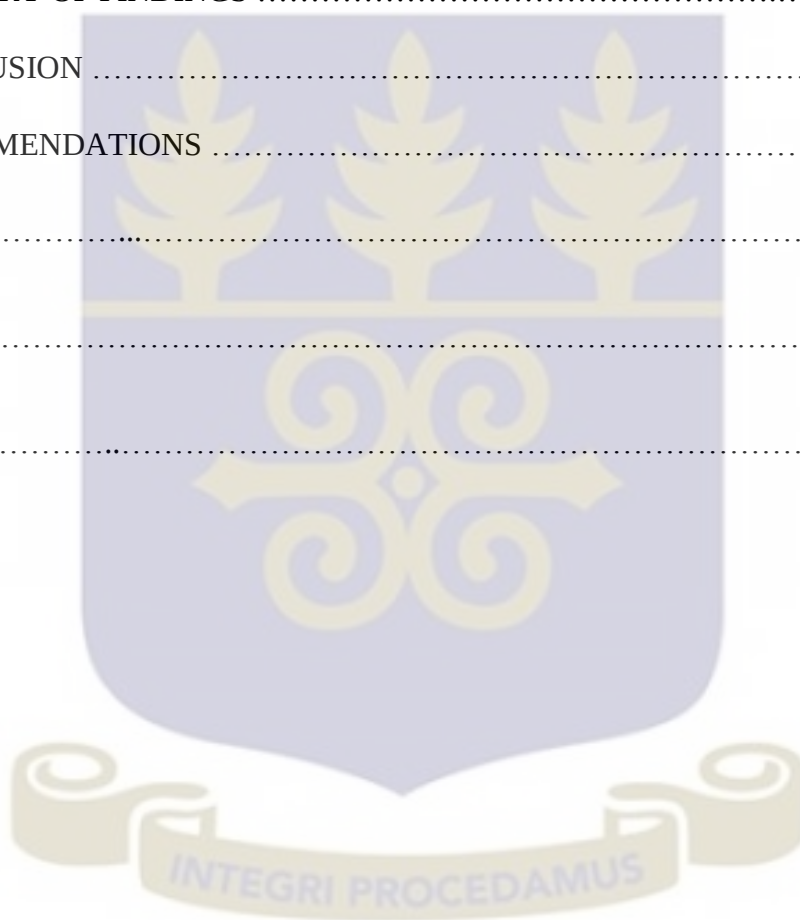
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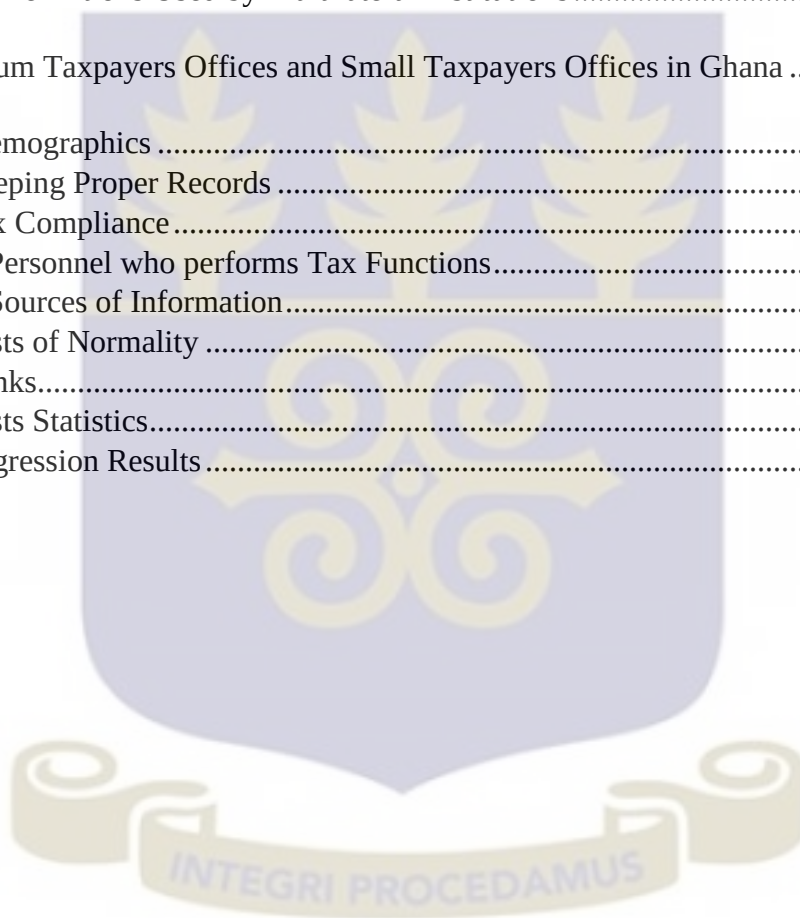
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LISTS OF ABBREVIATIONS

AfDB	African Development Bank
DTRD	Domestic Tax Revenue Division
ENSR	European Network for SME Research
GDP	Gross Domestic Product
GHABA	Ghana Hairdressers and Beauticians Association
GLSS	Ghana Living Standards Survey
GPRTU	Ghana Private Road Transport Union
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Survey
GUTA	Ghana Union of Traders Association
IADB	Inter-American Development Bank
LTO	Large Taxpayers Office
MASLOC	Microfinance and Small Loans Centre
YES	Youth Enterprise Support
MIF	Multilateral Investment Fund
MSE	Micro and Small Enterprises

MTO	Medium Taxpayers Office
NBSSI	National Board for Small Scale Industries
OECD	Organization for Economic Cooperation Development
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
STO	Small Taxpayers Office
TIN	Taxpayer Identification Number
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USD	United States Dollar



CHAPTER ONE

INTRODUCTION

1.1 RESEARCH BACKGROUND

Many countries, including Ghana, depend on taxation as a means of generating the requisite resources to meet their expenditure requirements. According to Atuguba (2006), the advancement of a country rest largely on taxation for in the absence of adequate revenue, progress efforts will be hindered. The budget of any country is financed mostly through the imposition of taxes thus taxes has a vital role in the budget of any economy. It is through the imposition of the taxes that governments are able to generate revenue to fund its expenditure requirements and redistribute resources. Taxes remain an important source of government revenues. These tax revenues are obtained from individuals and business activities in the country. The varying class of taxpayers in Ghana range from persons employed in the public sector, private formal sector and the self-employed also referred to as private informal sector (Aryeety & Ahene, 2004).

With the changing business environment in Ghana after the economic reforms of the mid 80's and early 90's, which saw a lot of state owned companies divestiture; SMEs have become an integral part of the nation's growth. In 2001, the government of Ghana proclaimed the "Golden Age of Business" with a popular slogan; "The private sector as the engine of growth." This was all in an effort to enable the citizenry see the importance of developing themselves to be entrepreneurs, which has brought to light the importance of SMEs.

A report from the Ghana Statistical Service in 2014 entitled Living Standards Survey shows that Ghana's economy is largely comprised of activities of enterprises in the private sector (GSS,

2014). The report indicates that over 90% of the citizenry are engaged in this sector. Even though available data on SMEs is not readily available, data from the Registrar General's Department suggests that ninety two percent (92%) of companies registered are micro, small and medium enterprises which indicates a chunk of companies registered are SMEs. SMEs in Ghana have been noted to provide employment to most of the citizens and also contribute greatly to Ghana's GDP. They are therefore credited with having an effect on economic growth, income and employment.

The problem of tax compliance is as old as taxes themselves. Tax administrations are challenged with finding ways to characterize and describe the perceived forms of non-compliance and eventually find ways to reduce it. Getting taxpayers to comply with the necessary tax laws has been and is still a major concern for most tax administrators around the world since it is not easy to convince tax payers to comply with tax requirements. This has an undesirable impact on the economy. (James & Alley, 2004; Chepkurui, Namusonge, Oteki, & Ezekiel, 2014).

The objective of most tax administrations is to increase voluntary tax compliance (Silvani, 1992) thereby reduce 'tax gap' and 'compliance gap'. It is in the quest of encouraging voluntary compliance that the self-assessment basis was introduced so that taxpayers could calculate their own tax obligations and to pay voluntarily whatever is due both regularly (through withholding from wages and through estimated tax payments, if necessary) and at year end (by filing tax returns and paying any additional balances due). By placing the onus on taxpayers, the government avoids the costly alternative of determining each individual's tax liability and doing whatever it must to collect it. However, one cost of relying so heavily on the voluntary compliance of taxpayers is that not all tax is voluntarily paid.

Compliance costs involved in taxation are major impediments to elicit compliance behaviour of taxpayers. It is also believed by most tax policy researchers that compliance costs for tax payment are quite high especially for SMEs, which lack knowledge and skills of the tax laws and regulation (Shome, 2004). Sometimes the administration of income tax creates problems for business taxpayers when it imposes burdensome reporting and record keeping requirements. This has led to increased costs of tax for those who try to comply with the tax law (Baurer, 2005).

The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. These factors which influence tax compliance and/or non-compliance behaviour are differing from one country to another and also from one individual to another (Kirchler, 2007).

1.2 RESEARCH PROBLEM

Tax non-compliance is an area of concern for all government and tax authorities, and it continues to be an important issue that must be addressed. Regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. Although there is a general perception that small enterprises do not pay their taxes, the fact still remains that some of these small and medium enterprises do pay their quota. The question that this research seeks to answer is to determine the factors that influence these tax compliant enterprises to be what they are.

There is a vast body of literature on tax compliance that details various attempts to describe tax resistance and to identify and explain the factors which influence non-compliance (Aryee, 2007;

Atawodi & Ojeba, 2012; Kamleitner, Korunka, & Kirchler, 2012; Otioku, 2013). Some other researchers have investigated the tax compliance costs of SMEs in countries like South Africa (Poutziouris, Chittenden, & Michaelas, 1999; Abrie & Doussy, 2006; Venter & de Clercq, 2007; Smulders et al, 2012; Adebisi & Gbegi, 2013). However, there exist little literature on the factors that account for the few enterprises to comply with their tax obligations voluntarily. Some factors like compliance cost, penalties, tax rates and training have been determined to influence tax compliance but however, business size, type of industry and form of capital structure has rarely been investigated to find out if such factors can influence voluntary tax compliance. There is therefore the need for more studies to be conducted in this area in other contexts like Ghana to test earlier findings in other contexts to aid in a better understanding of the factors that influences tax compliance of small and medium enterprises in Ghana with the aim in formulating policies that can help increase voluntary compliance.

1.3 RESEARCH OBJECTIVES

The main objective of the study is to identify the factors that influence tax compliance among small and medium enterprises in Ghana. Specific objectives are as follows:

1. To test the statistical difference between the compliance level of small taxpayers and medium taxpayers in Ghana.
2. To identify the factors that that may account for the difference in the compliance levels.
3. To determine the factors that influence the compliance level of small taxpayers and medium taxpayers in Ghana.

4. To identify Ghana Revenue Authority strategies for ensuring tax compliance by small taxpayers and medium taxpayers in Ghana.

1.4 RESEARCH QUESTIONS

In light of the first two research objectives, the questions of the study shall be:

1. Is there a statistical difference between the compliance level of small taxpayers and medium taxpayers in Ghana?
2. What factors are driving the difference in the means of the compliance levels?
3. What are the factors that influence the compliance level of small taxpayers and medium taxpayers in Ghana?
4. What strategies do Ghana Revenue Authority use in their quest to promote voluntary compliance of small taxpayers and medium taxpayers in Ghana?

1.5 LITERATURE REVIEW

1.51 DEFINITION OF SMALL AND MEDIUM ENTERPRISES (SMEs)

According to Martins (2001), “There is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined.” These entities vary in their level of assets, employment and income. It is hence difficult to apply one definition to all the firms since when one definition which employ measures of size (net worth, profitability, turnover, number of employees, etc.) when applied to one area could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to different results.

The National Board for Small Scale Industries (NBSSI) which is the governmental body for the promotion and development of the micro and small enterprises (MSE) sector in Ghana defines micro and small enterprises as those enterprises employing 29 or fewer workers. “Micro enterprises are those that employ 1-5 people with fixed assets not exceeding 10,000 USD excluding land and building. The board also defines small enterprises as employing between 6 and 29 or have fixed assets not exceeding 100,000 USD, excluding land and building (National Board for Small Scale Industries, 2015).”

Venture Capital Trust Fund Act, 2004 (Act 680) also defines a small and medium scale enterprise (SME) as “an industry, project undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the cedi equivalent of \$1 million in value.” The USAID defines “SME as any enterprise with fixed assets not exceeding US \$250,000 excluding land and building (USAID, 2008a).”

In lieu of the different definitions proposed by different authors and institutions, this research will use the one given by the Ghana Revenue Authority (GRA) which defines them along two strands; medium taxpayers and small taxpayers. “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 (GRA, 2015).”

1.52 TAX COMPLIANCE

The simple form of definition of tax compliance is often given in terms of the degree to which taxpayers comply with the tax law (James & Alley, 2004). Theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance (Brown & Mazur, 2003).

Tax compliance is taxpayers' willingness to pay their taxes (Kirchler, 2007). 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." This entails registering the business for tax purposes or informing tax authorities of status as a tax payer, submitting a tax return every year (if required), and finally making payments on the time frames given (Ming, Normala, & Meera, 2005). In simple words, tax compliance refers to satisfying all tax responsibilities as stated by the law freely and completely.

To be able to be comply with the tax law, it is required that a degree of honesty, sufficient knowledge and capability to use this knowledge, timeliness, accuracy and adequate records in order to complete the tax returns and associated tax documentation are adhered to (Singh & Bhupalan, 2001).

Tax compliance is a serious challenge for many tax authorities because it is not an easy task to convince tax payers to comply with tax requirements (James & Alley, 2004). SMEs in Ghana are mostly found in the informal sector of the economy hence are difficulty to tax. Hence, most of these SMEs succeed in evading tax payments. The few SMEs that are tax compliant are also overly taxed to the detriment of the growth of the business. Terkper (2007) posits that one of the key

problems facing the nation is how to widen the tax net since if taxes are levied on only a few citizens, the situation calls for concern.

According to Atawodi and Ojeba (2012) most of the SMEs in Nigerian prefer to remain in the informal sector because the cost of compliance is perceived to be high and a considerable number of those who pay only do so because they are pressed by the authorities. Tax compliance requirements is also said to be a stumbling block and places a heavy administrative burden on SMEs (Abrie & Doussy, 2006).

1.53 THEORETICAL FRAMEWORK

Economic Based Theory - Deterrence Theory

The Deterrence theory under the Economic Based theory suggests that in order to increase tax compliance, tax audits and penalties for non-compliance should be increased. It places emphasis on the benefits that can accrue individuals who comply with the law. Deterrence can be attained through either punitive approaches or persuasive approaches. Deterrence may therefore take on the form of increasing the probability of detection, reducing the tax rate or by the imposition of tougher penalties (Fischer, Wartick, & Mark, 1992).

The economic definition of taxpayer compliance views taxpayers as “perfectly moral, risk-neutral or risk-averse individuals who seek to maximize their utility, and chose to evade tax whenever the expected gain exceeded the cost” (Milliron & Toy, 1988). Alm, Jackson and Mckee (1992) supports the evidence that fines influences tax compliance though the impact was virtually seen to be non-existent. However, other studies suggest that an increase of penalties can lead to more

taxpayers evading which will have undesirable effect (Kirchler, The Economic Psychology of Tax Behaviour, 2007).

Psychology Theory - Norms theory

This theory posits that taxpayers are influenced by psychological factors to comply with their tax obligations. It focuses on the morals and ethics of the taxpayers. The theories suggest when the attitudes of a taxpayer towards tax systems is good, the fellow can comply with tax requirements even when the probability of detection is low hence changing individual attitudes towards tax systems is the key to increasing compliance levels.

Institutional Theory

The Institutional theory provides explanations for why organizations within a particular ‘organizational field’ tend to take on similar characteristics and form by considering the forms organizations take. According to Scott (1995), organizations that are rewarded through increased legitimacy, resources and survival capabilities for doing what the institutions want easily conform to institutional pressures for change.

1.6 RESEARCH METHODOLOGY

The study used both quantitative and qualitative approaches to study the factors that influence the compliance level among small and medium taxpaying units. Primary data was the major source of obtaining information.

1.61 SAMPLE POPULATION

The sample population was made up of small taxpaying units (having annual turnover below GHC 90,000.00) and medium taxpaying units (having annual turnover above GHC 90,000.00 but below GHC 5m) registered with the Ghana Revenue Authority. Also staff of the Ghana Revenue Authority were interviewed to solicit information on the strategies that their outfit were using to increase voluntary compliance of small and medium taxpayers.

1.62 DATA COLLECTION METHODOLOGY

A questionnaire on the factors influencing tax compliance of small and medium taxpaying units was administered to five hundred (500) firms. Simple Random sampling technique was used to select the firms.

1.63 MEASUREMENT OF VARIABLES

Tax compliance. It is measured along 3 strands; reporting compliance, filing compliance, and payment compliance.

1.64 OPERATIONALIZATION OF CONSTRUCTS

Table 1. 1: Operationalization of the Constructs and Measurement Items

Variable	Definition	Measures
Tax Compliance	Taxpayers' willingness to comply with tax laws.	Reporting compliance Filing compliance Payment compliance
Compliance cost	The costs of complying with tax obligations	Time spent Cash expenses
Business size	Size of the SME firm	small or medium taxpaying unit
Types of industry	The industry in which the business operates.	Trade, Financial service, Agro processing, Hospitality, manufacturing, transport and artisan sector
Business Experience	Number of years the enterprise has been in operation	Years of operation
Tax Knowledge/ Training Programs	Educating taxpayers of their social responsibilities to be tax compliant.	Number of tax training programs attended in a year
Penalties	Fines given to non-compliant firms	
Capital Structure	The method of financing.	Equity to debt ratio

1.65 DATA ANALYSIS

Data was analyzed using descriptive statistics, Mann-Whitney U. Test, Kruskal-Wallis Test and regression.

1.7 SIGNIFICANCE OF THE RESEARCH

The implication of the study is viewed along three strands: research, practice and policy. Significance to research; the study adds to the body of knowledge by investigating into the factors that enhance voluntary compliance by SMEs in Ghana.

Significance to practice; Small and Medium Enterprises will also find this study useful in that it will help them understand the moral obligations behind tax payment and the benefits that are derived when one complies.

Lastly, Significance to policy; the study will provide feedback to government on policies that should be undertaken and the needed education or training that should be embarked on to increase voluntary compliance.

1.8 RESEARCH LIMITATIONS AND DELIMITATION

The questionnaire to be used will be a closed one thus it is envisaged that it may not capture the definite factors influencing the compliance level of some of the taxpayers. Also, the researcher foresees some of the respondents not answering truthfully or returning the completed questionnaires to the researcher for analysis.

1.9 CHAPTER OUTLINE

The first chapter introduced the topic.

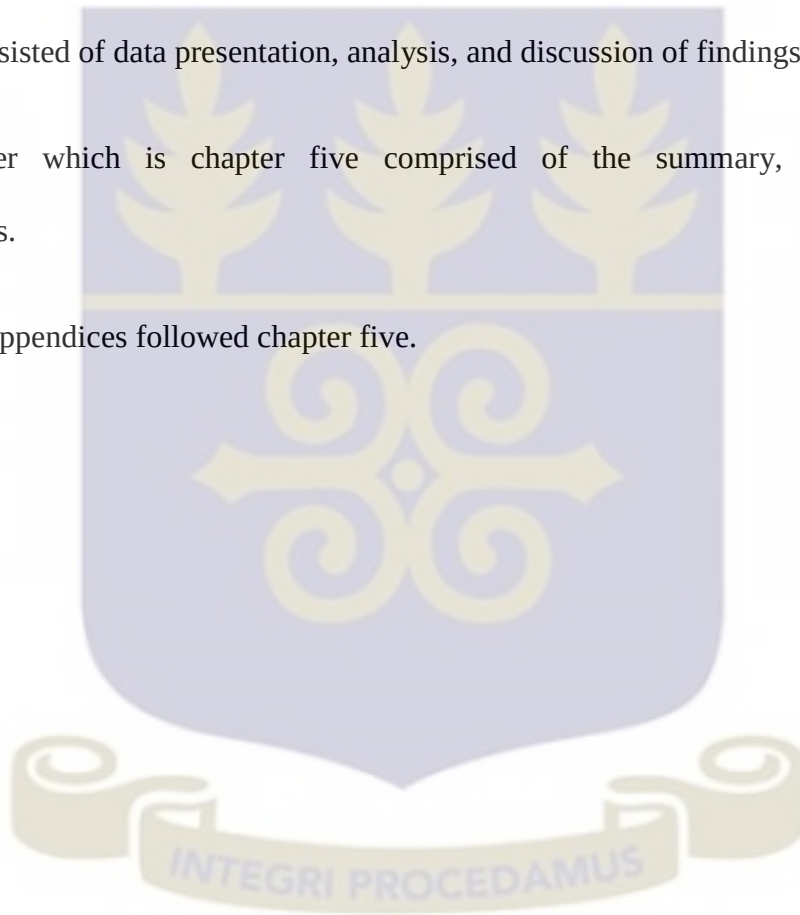
The second chapter focused on a review of relevant literature on tax compliance and the operations of small and medium enterprises.

The three chapter dealt with the methodological approaches which highlighted the on study area, source and study population, sampling techniques and sample size, data collection instrument and method, data processing and mode of analysis and ethical considerations.

Chapter four consisted of data presentation, analysis, and discussion of findings.

The last chapter which is chapter five comprised of the summary, conclusions and recommendations.

References and appendices followed chapter five.



CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviewed relevant literature on taxation of small and medium sized enterprises and tax compliance.

2.1 DEFINITION OF SMALL AND MEDIUM ENTERPRISES (SMEs)

The widespread use of the term “SME” in recent times has implied that it refers to the section of businesses occupying the space between micro enterprises and large firms.

The SME sector is seen to be formless thus defies a simple definition. There is no single and standard definition of small firms (Storey, 1994). In addition, Back (1995), believes there is no general acceptable meaning for SMEs since the definition rests on who is giving that definition and where it is being defined. The level of capitalization, employment and revenue distinguishes these firms. The definition of small and medium enterprises given by law differs from country to country and from industry to industry, but it is normally below 100 employees. They are often privately owned companies, partnerships, or sole proprietorships. It is hence problematic to apply one definition to all the firms since when one definition which employ measures of size when applied to one area could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to diverse outcomes.

European Union (2003) defines SMEs as, “Enterprises which have at most 250 employees and an annual turnover not exceeding 50 million Euros. Further there is the distinction of small enterprises; they have fewer than 50 staff members and less than 10 million Euros of turnover and micro-enterprises (less than 10 persons and 2 million Euros of turnover).”

Table 2. 1: SME Definitions Used by Multilateral Institutions

Institution	Maximum Employees	Maximum Turnover (\$)	Maximum Assets (\$)
World Bank	300	15,000,000	15,000,000
MIF – IADB	100	3,000,000	none
African Development Bank	50	none	none
Asian Development Bank	No official definition. Uses only definitions of individual national governments.		
UNDP	200	none	none

The various definitions given by these multinational organizations indicate disparities in the definitions. A key difference among these definitions is the considerable difference between how the World Bank and the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB) define SME. That given by the World Bank is more three times the definition given by the MIF – IADB when using the employment threshold. The African Development Bank (AfDB), definition is one fifth of that of the World Bank. The World Bank’s definition includes businesses six times larger by employees than AfDB and five times larger by turnover or assets than the largest SME under the MIF definition.

Other writers define SME as companies with not more than 500 employees (Audretsch, 1999). Some researchers attempted to provide different values for different sectors (Marwede, 1983). For an example; a firm located in an industry is small when it has less than 50 employees, but a trade business is medium-sized with more than 2 employees.

Some other definitions use qualitative characteristics like the legal form, the duty of the owner, their position on the market, the organizational structure or economic and legal autonomy (Marwede, 1983).

In 1987, the Ghana Statistical Service industrial census defined small scale enterprises as firms employing between 5 and 29 employees and with fixed assets not exceeding \$100,000; and medium scale enterprises as those employing between 30 and 99 employees.

An alternate criteria used in defining Small Scale Enterprises in Ghana is the value of fixed assets in the organization. The National Board for Small Scale Enterprises (NBSSI) in Ghana charged for the promotion and development of the micro and small enterprises (MSE) sector applies both the fixed assets and the number of employees' criteria. It defines micro and small enterprises as those enterprises employing 29 or fewer workers. "Micro enterprises are those that employ 1-5 people with fixed assets not exceeding 10,000 USD excluding land and building. The board also defines small enterprises as employing between 6 and 29 or have fixed assets not exceeding 100,000 USD, excluding land and building."

Venture capital trust fund Act, 2004 (Act 680) also defines a small and medium scale enterprise (SME) as, "An industry, project undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the cedi

equivalent of \$1 million in value.” The USAID also defines SME as any entity with capitalization excluding land and building not more than US \$250,000.

Ghana Revenue Authority (GRA) defines them along two strands; medium taxpayers and small taxpayers. Medium taxpayers have annual turnover between ninety thousand Ghana cedis (GHS 90,000.00) and five million Ghana cedis (GHS 5 million) while small taxpayers have annual turnover of ninety thousand Ghana cedis (GHS 90,000.00) and below.

2.2 CHARACTERISTICS OF SMALL AND MEDIUM ENTERPRISES

According to Bolton (1971) there are three major characteristics of small business: they have a relatively small share of the market and are unable to influence the price or quantity of goods or servicing; they are managed by its owner in a personalized way and are independent

Also, according to Kayanula and Quartey (2000), SMEs can be categorized into urban and rural enterprises. Urban enterprises can be subdivided into organized enterprises and unorganized enterprises. The organized ones tend to have paid employees with a registered office whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers. They rely mostly on family members or apprentices.

Rural enterprises on the other hand are largely made up of family groups, individual artisans or women engaged in food production from locally grown crops.

The major activities within this sector include soap making, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiths, ceramics/pottery, timber and small scale artisanal mining, local beverages production, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (Kayanula & Quartey, 2000).

It is generally a well-accepted argument among policy makers and scholars that small and medium enterprises (SMEs) play pivotal role in economic development of a country. SMEs are indispensable in all economies, can be described as a driving force of business, growth, innovation, competitiveness, and are also very important employer. Some of the benefits of SMEs growth include generating employment, alleviating poverty, and distributing wealth (Harvie, 2002; 2008, Harvie & Lee, 2002).

According to Essilfie (2009), SMEs are considered to be of high importance in ensuring a friction-free adaption to economical, technological and social changes. Most leading economies in the world today depend on this class of companies as important contributors to the increase of living standards, productivity and competitiveness. SMEs play a significant role in the socio-economic development in both developed and under-developed countries. Global experience demonstrates that a dynamic local SMEs sector is the basis for fast-growing economies.

Promoting a sustained and strong growth of SMEs, however, has always been, and continues to be, a challenging task. SMEs are inherently constrained by their capacity to grow and they usually face much stronger business challenges relative to their large counterparts (Asasen, Asasen, & Chuangcham, 2003).

The contributions of SMEs to a nation's economy are vital. Contributions can be divided into two groups, namely internal and external ones. Internal contributions include survival, success and

growth of SMEs. External contributions are mainly reducing unemployment and improving the health of an economy. SMEs are important for the wealth and stability of economy (Singh & Bhupalan, 2001; Alasadi & Abdelrahim, 2008; Bhutta, Khurram, Rana, & Asad, 2008; Golhar & Deshpande, 1997) and also contribute to social wealth. SMEs improve the wealth of economy and society through the creation of new businesses and jobs (Anderson & Tell, 2009; Eshima, 2003). They have the greatest potential to reduce unemployment, and major source of innovation (Bjuggren & Sund, 2001; Loan-Clarke, Boocock, Smith, & Whittaker, 1999)

The importance of SMEs to social and economic development in Ghana and even Africa is undisputed. SMEs form a large part of private sector in many developed and developing countries. Small and medium-sized enterprises (SME) represent more than 70% of all enterprises in the Europe Union (European Union, 2006) and play thus an important role in the economy as well as in society. Throughout the continent, SME promotion is a priority in the policy agenda of most African countries as it is widely recognized. There is no doubt that SMEs constitute the seed bed for the imminent generation of African entrepreneurs. It was therefore not a surprise when the former president of Ghana, H.E John Agyekum Kuffour (president from 2001 to 2009) pronounced the private sector as an engine of growth. This was all in an effort to whip up the spirit of entrepreneurship in the citizenry, which has brought to light the importance of SMEs. SME's are advantageous as they are able to survive cyclical downturns due to their flexible nature and their adaptability to changing market conditions.

Although there is no uniform definition of SME, the notion that SME play an important economic and social role seems to be well accepted (OECD, 1982; Acs, 1999). This is supported by surveys which state that 70 % of all labour relations and over 80 % of apprenticeship training positions in the German nonpublic sector are provided by SME (Gunterberg & Kayser, 2004). The distribution

of SME's across the nation facilitates distribution of income and generates additional value in raw materials and products. According to data from the European Observatory (ENSR, 1997), SMEs employing up to 250 people accounted for 68 million jobs in the European Union in 1995. According to United Nations Industrial Development Organization (UNIDO), SMEs account for more than 90% of all registered businesses in Africa. Furthermore, available data from some African countries show that in 2003 SMEs in Kenya employed 3.2 million people and accounted for 18 percent of the national GDP. In Nigeria, SMEs account for 95 percent of formal manufacturing activity and 70 percent of industrial jobs. In South Africa micro and small firms provided more than 55 percent of total employment and 22 percent of GDP in 2003 (OECD, 2005).

Also as indicated by Registrar General's Department of Ghana, 92% of companies registered are micro, small, and medium enterprises. It is also estimated that SMEs generate about 50% of national output and provide about 60% employment to Ghanaians (Minister of Finance, Dr Kwabena Dufour, reported by Business and Financial Times 13-07- 2009). The engine for the growth of the Ghanaian economy depends on the private sector which consist of SMEs. This statistics makes SMES the most important sector in the Ghanaian economy.

The performance of SMES in Ghana have not achieved its goal of playing significant role in the growth of the Ghanaian economy. Governments have stepped up efforts to promote SME development through the increase of incentive schemes comprising of budgetary allocations for technical assistance.

SMEs tend to utilize mainly local raw materials that would otherwise be neglected and have less foreign exchange. They mobilize and utilize financial resources that are otherwise dormant like family savings. SMEs by their activities promote indigenous know-how. The goals of the small

and medium sized companies are often based on personal goals and preferences of the owners. Determined goals in such a way are logically very subjective, they are often not chosen correctly in comparison with the milieu where the companies create activities.

Small companies follow more quality and development, but medium sized companies follow mainly development and profit. Examined small and medium sized companies consider their strong points mainly range and quality of labor and on the contrary as threat insolvency. Communication is usually face-to-face (Ghobadian & Galleary, 1997). SMEs apply a niche strategy with innovative new products, in other words they rely on low-risk strategy. With the help of the strategy, they think that they can easily control the market (Mosey, Clare, & Woodcock, 2002). To run their operations, owner/managers borrow from banks and use personal resources (Hormozi, Sutton, McMinn, & Lucio, 2002).

Some of the major characteristics of SME are the number of employees, sales volume, unique product, innovation, better and more complete customer service, new job creation, flexibility, day-to-day operational activities, and limited resources – financial, human, and time. Some critical success factors of SMEs are centralized management, satisfactory government support, marketing factors, overseas exposure, owner/managers level of education and training, personal qualities and traits, prior experiences, and political affiliation.

Owner/managers have the main responsibility for SMEs' fortunes (Wang, Wang, & Horng, 2010; Bhutta, Khurram, Rana, & Asad, 2008). Major characteristics of SME owner/managers include resilience, flexibility, high level of energy, the ability to stay calm, experience, education, long working hours, hard work, dedication, ability to communicate well, good customer service, a clear and broad business idea, autonomy and independence, centralized owner/manager decision

making, dealing with day-to day planning, low risk taking behavior, and good management employee relations (Anderson & Tell, 2009; Alasadi & Abdelrahim, 2008; Bhutta, Khurram, Rana, & Asad, 2008; Gilmore, Carson, & O'Donnell, 2004; Brand & Bax, 2002; Mosey, Clare, & Woodcock, 2002; Ghobadian & Gallear, 1997; Luk, 1996; Monkhouse, 1995; Acar, 1993).

Education, experience and training of SMEs owner/managers play an important role and can help the business to survive, that is, attending seminars and workshops (Wang, Wang, & Horng, 2010; Anderson & Tell, 2009; Billington, Neeson, & Barret, 2009; Zhang & Hamilton, 2009; Alasadi & Abdelrahim, 2008; Fletcher, 2000; O'Dwyer & Ryan, 2000). Fletcher (2000) proposes that SMEs can quickly learn about other cultures and change their working practices as a result of education and training. Billington, Neeson and Barret (2009); Zhang and Hamilton (2009); Alasadi and Abdelrahim (2008); and O'Dwyer and Ryan (2000) further noted that the development of owner/managers leads to the development of SMEs too.

Crick (1999) investigated the use of language and noted the importance of language used to minimize communication problems in international operations. Hutchinson, Quinn and Alexander (2006) also indicated that owner/managers were major part of the SMEs internalization process. They again stated the pivotal role of owner/managers in the internalization of SMEs and concluded that there was a close relationship between the characteristics of decision makers and the international activity.

SMEs planning is unstructured, irregular, and reactive (Sexton & Van Auken, 1985) and is highly affected by environmental uncertainty, that is, lack of knowledge for decision-making, choice, and turbulence, because the environment is highly dynamic and complex (Wyer & Mason, 1999). The physical and knowledge resources available to plan and execute strategy in SMEs are limited

(O'Toole, 2003). Strategic planning behavior of SMEs highly depends on several factors like size of a firm, staff, time, lack of information, lack of understanding as well as potential implementation barriers like communication, time, and employees' capabilities and type of owner/managers (Huang, 2009; O'Toole, 2003; O'Regan & Ghobadian, 2002; Matthews & Scott, 1995; Schwenk & Shrader, 1993; Pleitner, 1989; Sexton & Van Auken, 1985).

2.3 TAXATION OF SMALL AND MEDIUM ENTERPRISES

Growth of SMES is disturbed by high tax rates and tax complicity. Taxation can have important effects on many parts of the economy, including impacts on firm creation and on the development of small and medium-sized enterprises (SMEs). Taxes increase the cost of production of goods and services which eventually cause prices of goods to surge thus affecting the final consumers. However, revenue mobilized from taxes represent major funding for government expenditure. Developing an environment conducive to SME growth whilst ensuring tax compliance is a challenge all countries face.

Corporate tax rates can influence investment and financing decisions, as well as the choice of organizational form. Corporate tax rates which are below top marginal personal income tax along with provisions for deferral of personal taxation through reinvestment of profits can provide incentives for the self-employed to incorporate their businesses (King, 1977). A decrease in the rate of corporate tax increases the incentives for incorporation, *ceteris paribus*, and results in a lower level of self-employment than might otherwise have been the case (Robson, 1998). This type of tax induced changes in the form of organization may trigger income shifting in the form of compensation without affecting the real activity. Ignoring the presence of market failures and

externalities, such a tax system distorts the allocation of resources and reduces economic efficiency (Gordon, 1998). At the same time, there are advantages associated with reduced tax rates on SMEs: increased after-tax earnings and thus a lower cost of equity funds, increased equity investment and reduced tax distortion in favour of debt.

Many countries have lower tax rates for SMEs to foster their competitiveness. They impose several types of taxes to protect infant industries and ensure fair competition among SMEs. These measures are often motivated by both efficiency and equity objectives. The efficiency objectives are based on the notion that small businesses are prone to market failure, for example, due to higher compliance costs with regulations associated with diseconomies of scale and reduced access to financing, necessitating government policy. The equity objectives are in part motivated by the lower profits earned by SMEs.

However, favourable corporate tax treatment of SMEs may encourage underreporting of income or lead entrepreneurs to divide businesses into separate corporations for tax purposes. Lower corporate tax rates which can help address market failures in the availability of SME finance, should perhaps be accompanied by anti-fragmentation rules to prevent larger firms from artificial tax-induced divisions.

Tax systems may encourage debt financing and this discriminates against SMEs which depend on equity financing. In the absence of taxes and transaction costs, the firm will be indifferent to the method in which it finances investment, since the value of the firm is independent of its financing choice retaining profits, issuing new shares or borrowing (Modigliani & Millar, 1958). However, with the existence of taxes, the value of the firm is generally not independent of the choice of financing method.

2.31 PROVISIONAL ASSESSMENT AND SELF-ASSESSMENT

Entities in Ghana are required to pay tax on either a provisional assessment or self-assessment basis. Under the provisional assessment scheme, the GRA will provide an assessment based on their estimation of what the likely taxes payable will be. If agreed upon by, the company on which the assessment is served will then be required to settle these amounts on quarterly basis and net off any under or over payments at the end of the year when the corporate tax returns are filed (PricewaterhouseCooper web site, 2016).

On the other hand, self-assessment is a type of tax assessment whereby a taxpayer is responsible for accurately computing and reporting their tax liabilities which indicates that taxpayers must show all their taxable income and claim only the deductions and reliefs to which they are entitled. Being under self-assessment entails accounting for and self-reporting the entity's estimated chargeable income and its taxes payable for each year of assessment. This assessment would be used as basis of the entity's corporate tax payments and must be filed with the GRA on or before the commencement of the basis period to which the assessment relates. Payments of the self-assessed taxes are required to be made in four equal quarterly installments on or before the last day of each quarter of the basis period. The self-assessment scheme is applicable to large tax payers whose names have been gazette by the Commissioner-General of the GRA or whose names have appeared in the print media as such (PricewaterhouseCooper web site, 2016).

Self-assessment for both companies and individual taxpayers (including inheritance tax) was first introduced in Japan in 1947 (Kimura & Ando, 2005a). This was to help curtail the conflict between taxpayers and tax authority which came about as a result of perceptions of fairness and equity as well as inefficiency of the tax system.

In the UK, self-assessment for companies commenced for the accounting period ending after July 1999, while for individuals it began in the 1996/97 tax year (Lymer & Oats, 2009). The reason for the introduction in this country was not different from the reasons given in other jurisdiction. It was meant to make the tax system simpler, easier and fairer to taxpayers, to make it possible for the Inland Revenue to accept the Statement of Accounts without further review, and to allow taxpayers to pay the right amount of taxes at the right time without intervention by the Inland Revenue (IR) (Loo, 2006).

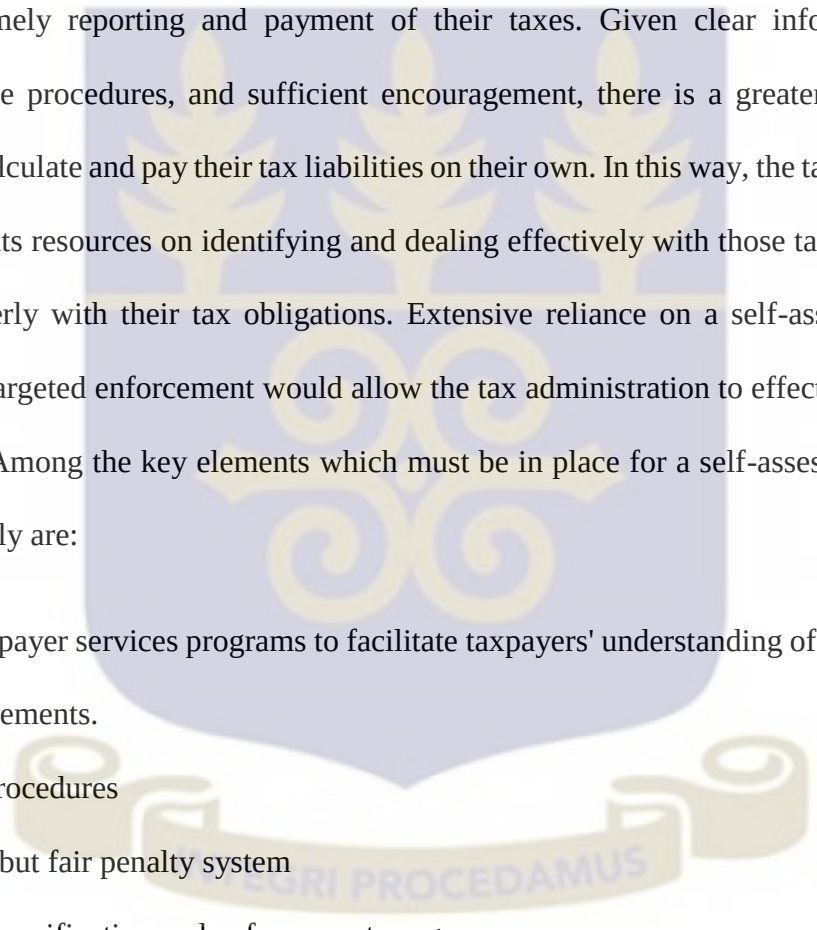
The system was introduced in Ghana around 2002 as a pilot project at Large Taxpayer Offices (LTOs). Self-assessment was restricted to taxpayers at the LTOs in Kumasi, Takoradi and Tema (GRA, 2015)

The wider perspective of compliance which requires a certain level of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation becomes a major issue in a self assessment system since the total amount tax payable is highly dependent on the levels of tax compliance this perspective reveals. It is however expected that tax authorities will seek to influence the areas that the taxpayers may have power over by reducing the risks of non-compliant behaviour through activities like continuously conducting tax audits of different sorts and tax education (Somasundram, 2003).

However, it is an argument in self assessment system that tax audits could not be exclusively applied because the nature of the self assessment system is shifting tax administrator's burden to taxpayers. The tax authority presumes that taxpayers are honest, knowledgeable and compliant (Kirchler, Hoelzl, & Wahl, 2008).

Voluntary compliance, administrative efficiency and improving fairness and equity are the key motivating factors for the introduction of self-assessment system in most of the countries that have adopted this system.

Voluntary compliance goes hand in hand with a system of self-assessment. Under a self-assessment system, taxpayers are responsible for determining their own tax liabilities and for the accurate and timely reporting and payment of their taxes. Given clear information, proper education, simple procedures, and sufficient encouragement, there is a greater possibility that taxpayers will calculate and pay their tax liabilities on their own. In this way, the tax administration can concentrate its resources on identifying and dealing effectively with those taxpayers who fail to comply properly with their tax obligations. Extensive reliance on a self-assessment system combined with targeted enforcement would allow the tax administration to effectively administer the tax system. Among the key elements which must be in place for a self-assessment system to operate effectively are:

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- The background of the list contains a large, faint watermark of the University of Ghana crest. The crest is a shield with a yellow border, featuring a yellow sunburst at the top, a yellow star in the center, and a yellow banner at the bottom with the Latin motto 'VERITAS PROCEDAMUS'.
- a. Good taxpayer services programs to facilitate taxpayers' understanding of their obligations and entitlements.
 - b. Simple procedures
 - c. A strong but fair penalty system
 - d. Effective verification and enforcement programs.

These two broad principles, voluntary compliance and self-assessment, are the foundation of modern tax administrations.

2.4 TAX COMPLIANCE AND SMEs

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). Tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of the accuracy of the completed tax returns (Chow, 2004; Harris, 1989).

2.41 PERSPECTIVES OF TAX COMPLIANCE

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).

The reporting compliance measure tracks the percent of true tax liability that is correctly reported. It involves reporting of complete and accurate information (incorporating good record keeping). The filing compliance measure tracks the percent of required returns that are timely filed. Paper returns are filed at the tax office accompanied by a pay-in slip. All tax returns are subjected to a 'desk audit'. Every 'desk audit' is concluded by the GRA sending a letter to the effect that the taxpayer assessment has become final.

The last which is payment compliance measure tracks the percent of reported tax that is timely paid. In Ghana, tax is paid in four installments while an annual income tax return is submitted within four months of the end of the tax year. Tax can be paid through banks or the tax office.

In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Singh & Bhupalan, The Malaysian Self -assessment system of taxation, Issues and Challenges, 2001).

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, Normala, & Meera, 2005).

Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003).

In simple words, tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely.

Tax compliance has been hindered by the substantial changes to tax laws, which exhibited complexity to the extent that only tax experts can understand. The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Those factors which influence tax compliance and/or non-compliance behaviour are differing from one country to another and also from one individual to another (Kirchler, 2007). They include: taxpayers perceptions of the tax system and Revenue Authority (Ambrecht & Ambrecht, 1998);

peer attitude / subjective norms; taxpayers' understanding of the tax system / tax laws (Silvani, 1992); motivation such as rewards (Feld, Frey, & Targler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992); enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioural control (Furnharn, 1983); ethics / morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004) and use of informants.

According to Plumley (1996), voluntary tax compliance is explained by dimensions like timely filing of any required return, accurate reporting of income and tax liability and timely payment of all tax obligations. However according to Terkper (2003), many small and medium taxpayers do not register voluntarily, while those who do register often fail to keep adequate records, file tax returns, and settle their tax liabilities promptly.

The problem of tax compliance is as old as taxes themselves. In developing countries the income tax compliance has been constrained by the significant number of changes to the tax laws, that are now so complex and only a handful of tax experts can understand them. This creates additional problems for compliance by taxpayers who do not have access to sophisticated tax specialists (Oberholzer, 2008). Moreover enforcement of these laws cannot reduce non-compliance among taxpayers because some tax measures put Small and Medium Taxpayers under severe liquidity pressure, forcing many to fold in the informal sector ((Terkper, 2003)

Characterizing and explaining the observed patterns of non-compliance and ultimately finding ways to reduce it are obvious importance to nations around the world. To date, the pervasiveness of tax noncompliance remains a serious concern to the majority of tax administrators around the

world. Tax noncompliance not only poses a serious threat to effective tax and voluntary compliance; it also has a negative impact on the economy. Tax compliance is a major problem for many tax authorities and it is not easy to persuade tax payers to comply with tax requirements (James & Alley, 2004; Chepkurui, Namusonge, Oteki, & Ezekiel, 2014).

Compliance is greater when the individuals perceive some benefits from a public good funded by the tax payments while changes in fine rates appear to have little effect on tax compliance behaviour (Alm, Jackson, & Mckee, 1992).

Tax fairness seems to involve at least two different dimensions (Jackson & Milliron, 1986): the first relates to the benefits one receives for the tax given; the second dimension involves the perceived equity of the taxpayer's burden in reference to that of other individuals. This second dimension relates to taxpayers' perceptions of the vertical equity of the tax system. If a taxpayer were to feel that they pay more than their fair share of tax when comparing themselves to wealthy taxpayers, they are more likely to see paying tax as a burden than a taxpayer not concerned about these issues.

Tax administration should encourage voluntary compliance and address the obstacles that prevent voluntary compliance. Important obstacles to taxpayers' compliance are: the perceived inequity of the tax system; the complexity of the tax laws; the lack of fairness of the penalty system; weak taxpayer education programs; low levels of integrity and professionalism of the tax administration's staff; the tax administration's inability to ensure impartiality in the appeal process; and weak audit programs.

In the Ghanaian community, most owners of SMEs have negative perception towards the taxes collected by the government. Although, they may be aware of the use of taxes as 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. Recently, the economy of Ghana is on a recess despite the numerous taxes paid by taxpayers. With respect to this issue, SMEs in Ghana see no reason to comply with taxes because the government is not able to align the payment of taxes to the socioeconomic development of the country. SMEs in Ghana may perceive tax obligations favourably when the government acts in a trust worthy manner. There may be existence of high levels of trust and tax morale if government makes good use of tax revenues.

2.5 THEORETICAL FRAMEWORK

The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Those factors which influence tax compliance and/or non-compliance behaviour are differing from one country to another and also from one individual to another (Kirchler, 2007).

According to Cuccia (1994) 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 smoothened 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).

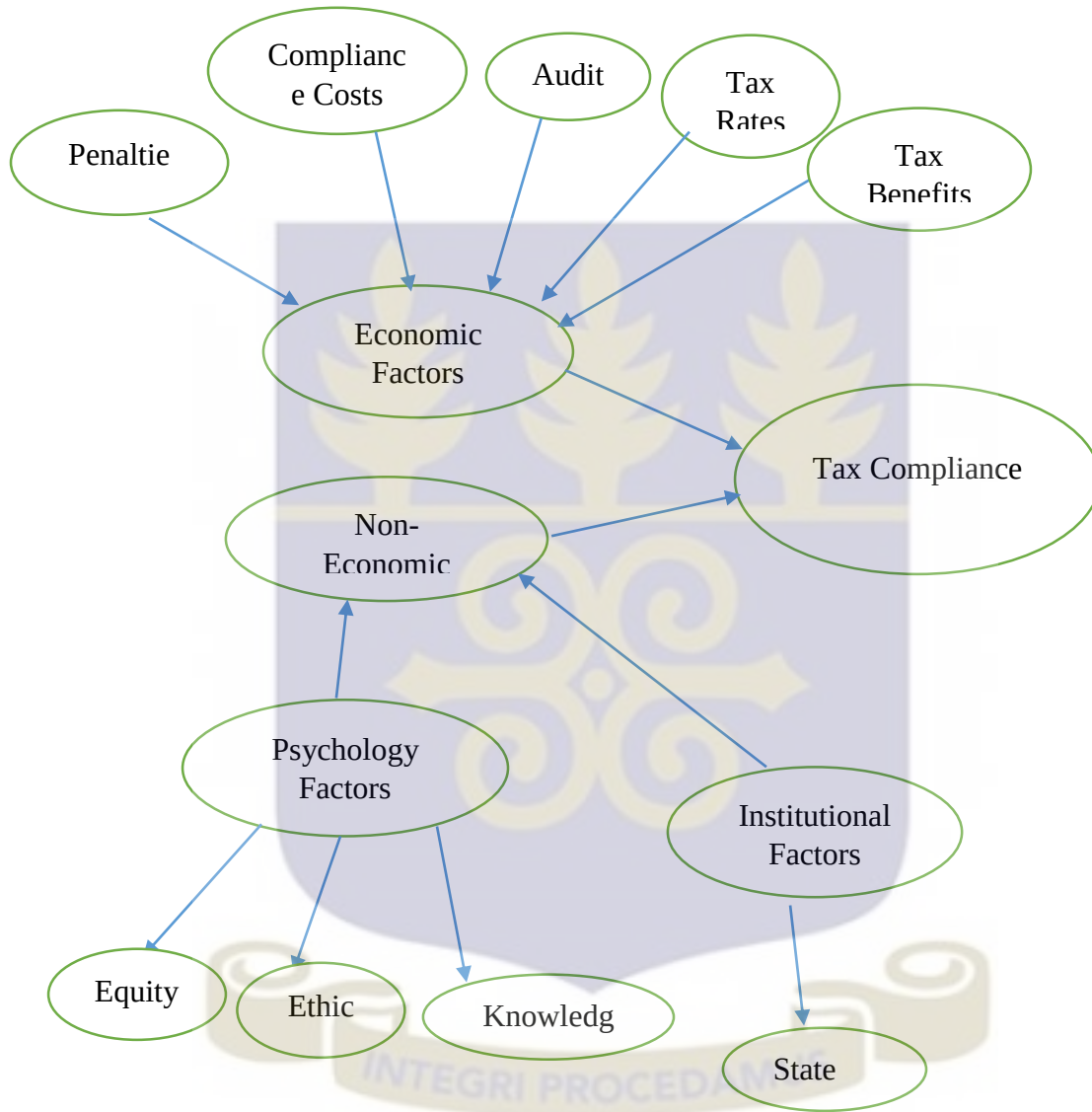


Figure 2. 1 Conceptual Framework

2.51 ECONOMIC FACTORS OF TAX COMPLIANCE

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.

2.511 ECONOMIC BASED THEORY - DETERRENCE THEORY

According to the theory, in order to improve compliance, audits and penalties for non-compliance should be increased. It places emphasis on incentives. Deterrence can be achieved through a number of approaches, punitive and persuasive. That is, deterrence may take on the form of increasing the probability of detection, reducing the tax rate or by the imposition of tougher penalties (Fischer, Wartick, & Mark, 1992).

The economic definition of taxpayer compliance views taxpayers as ‘perfectly moral, risk-neutral or risk-averse individuals who seek to maximize their utility, and chose to evade tax whenever the expected gain exceeded the cost (Milliron & Toy, 1988).

TAX AUDITS

Audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions. Tax audits can change compliance behaviour from negative to positive (Butler, 1993; Witte & Woodbury, 1985).

TAX RATES

High tax rates tend to discourage effort and entrepreneurship, while encouraging all manner of activities to avoid them. Raising marginal tax rates will be likely to encourage taxpayers to evade tax more (Witte & Woodbury, 1985; Ali, Cecil, & Knoblett, 2001; Torgler, 2007) while lowering tax rates does not necessarily increase tax compliance (Trivedi, Shehata, & Mestelmen, 2004; Kirchler, 2007). Allingham and Sandmo (1972) concluded that taxpayers may choose either to fully report income or report less, regardless of tax rates.

Since the impact of tax rates was debatable (positive, negative or no impact on evasion), Kirchler, Hoelzl and Wahl (2008); and McKerchar and Evans (2009) suggested that the degree of trust between taxpayers and the government has a major role in ascertaining the impact of tax rates on compliance. When trust is low, a high tax rate could be perceived as an unfair treatment of taxpayers and when trust is high, the same level of tax rate could be interpreted as contribution to the community (Kirchler, Hoelzl, & Wahl, 2008).

PENALTIES

Taxpayers when made to pay higher fines for evading taxes has the effect of deterring them from future evasion. Empirically, the deterrent effect of fines could not always be supported. The observed effects were weaker than expected and some studies even suggest that an increase of penalties can have undesirable effect and result in more tax avoidance (Kirchler, Hoelzl, & Wahl, 2008). Alm, Jackson and McKee (1992) supports the evidence that fines do affect tax compliance though the impact was virtually zero.

TAX COMPLIANCE COSTS

The costs of complying with tax obligations have generated widespread interest among academics, government policy makers and business organizations. Slemrod and Yitzhaki (1996) identified compliance costs as one of the three components of the social costs of taxation. These social costs can be paraphrased as costs incurred by society in the process of transferring purchasing power from the taxpayers to the government.

Compliance costs can be divided into three parts: time spent, cash expenses and psychological costs. The total time spent contains employee costs (in-house staff) and external costs (fees paid to outside accountants and other advisors). These compliance costs include costs that are incurred by a company, but are beyond the control of its management (Hijattulah & Pope, 2008).

Tax compliance costs must therefore be taken into consideration by various government to ensure that the tax legislation is obeyed.

TAX BENEFITS

Rewards could be more effective than punishments for eliminating undesired behaviour or for motivating acceptable behaviour (Nutin & Greenwald, 1968). According to Alm, Jackson and McKee (1992), positive inducements have a significant and positive impact on compliance. Benefits commonly take the form of access to credit and capital markets, government procurement contracts, other external markets, state-provided services and facilities.

2.52 NON-ECONOMIC FACTORS FOR COMPLIANCE

The analysis of tax compliance, which is only centered on economic factors, limits the decision-making process to the self-indulgent motives (Niesiobedzka, 2014). There are many non-economic factors to affect the level of tax compliance. Many researches have been done to include these non-economic factors to explain the behaviour of tax compliance under the framework of economic analysis (Alm, Sanchez, & DeJuan, Economic and Non-Economic Factors in Tax Compliance, 1995). These non-economic factors are categorized into psychological factors and institutional factors.

2.521 PSYCHOLOGY THEORY - NORMS THEORY

Taxpayers are swayed to comply with their tax obligations by psychological factors. These factors focus on the taxpayers' knowledge level, attitude/ethics and the perceived equity or fairness of the tax system. This theory suggest that a taxpayer may comply even when the probability of detection is low hence changing individual attitudes towards tax systems is the key to increasing compliance levels.

TAX KNOWLEDGE

From the tax administration viewpoint, researchers have concluded that compliance could be influenced by educating taxpayers of their social responsibilities to pay and thus their intention

would be to comply (Mohamad Ali, Mustafa, & Asri, 2007). Eriksen and Fallan (1996) claimed that knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. As a behavior problem, tax compliance depends on the cooperation of the public. There are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of no-compliers. Eriksen and Fallan (1996) study indicated that a successful means of reducing tax evasion is to provide more tax knowledge to as many taxpayers as possible in order to improve their tax ethics and perceptions of fairness and equity. Assisting tax payers by improving the flow and quality of information or educating them (e.g., TV campaigns) in to becoming more responsible citizens has the potential to yield greater revenue than if it were spent on enforcement activities.

ATTITUDES AND ETHICS TOWARDS TAX

While taxpayers are influenced by the system of tax structure either to comply or not, evidence suggest that attitudes and ethics of the taxpayers also play an important role in their compliance decisions (Eriksen & Fallan, 1996). Chan, Troutman and O'Bryan (2000) reported that Hong Kong taxpayers have less favorable attitude towards tax system as a result lower level of compliance.

It is assumed that ethics encourage individuals to act according to them and a taxpayer with a negative attitude towards tax evasion tends to be less compliant (Kirchler, Hoelzl, & Wahl, 2008). Roth, Scholz and Witte (1989) validates that there was a consistently positive relationship between moral commitment and compliance behaviour.

The relationships between tax personal norms and taxpayers' behaviour are immediate: the stronger (weaker) personal standards, the greater (smaller) tax compliance (Alm, McClelland, & Schulze, 1999; Braithwaite & Ahmed, 2005; Cummings, Martinez-Vazquez, McKee, & Torgler, 2009; Henderson & Kaplan, 2005; Traxler, 2010; Wenzel, 2007).

PERCEIVED EQUITY OR FAIRNESS OF TAX SYSTEMS

One of the canons of a good tax system by Smith (1776) is equality. This is viewed along two dimensions; horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes) and vertical equity (taxes paid increase with the amount of the tax base).

The driving principle behind vertical equity is the notion that those who are more able to pay taxes should contribute more than those who are not.

Wenzel (2007) suggested three areas of fairness from the taxpayers' point of view (social psychology):

1. Distributive justice (viewed as the exchange of resources i.e. benefit and cost): Taxpayers are concerned about the fairness of their actions, and want to be treated in relation to their merits, efforts and needs (Kirchler, Hoelzl, & Wahl, 2008). If a taxpayer feels that his tax burden is higher than other people within the same income group, his tax compliance probably decreases. If a specific group perceives that their tax liability is higher than other groups, then tax evasion might occur among the group members (Spicer & Becker, 1980).
2. Procedural justice (viewed as the process of resource distribution): the main elements for perceived fairness are neutrality of procedures used, trustworthiness of the tax authorities,

and the polite, dignified, and respectful treatment of taxpayers as individuals or groups. (Tyler & Lind, 1992). Taxpayers expect that tax authorities will provide sufficient information about the tax law and regulations so that they can complete their tax return as accurately as possible. It is argued therefore that increased information about tax law and regulations can increase fairness perception and compliance (Wartick, 1994).

3. Retributive justice (viewed as the appropriateness of sanctions when norm-breaking occurs): Retributive justice, unreasonable and intrusive audits and unfair penalties lead to stressful and dissatisfied taxpayers (Spicer & Becker, 1980). Unfavorable retributive justice perceptions could lead to non-compliant behaviour and consequently increase tax evasion and inflate the tax gap.

2.53 INSTITUTIONAL THEORY

This theory considers the forms organizations take and provides explanations for why organizations within a particular 'organizational field' tend to take on similar characteristics and form. According to Scott (1995), organizations conform to institutional pressures for change because they are rewarded for doing so through increased legitimacy, resources and survival capabilities.

ROLE OF THE TAX AUTHORITY/ GOVERNMENT

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.

2.54 OTHER FACTORS

EDUCATIONAL LEVEL

Greater education is directly linked to a likelihood of compliance (Jackson & Milliron, 1986; Roth, Scholz, & Witte, 1989; Chan, Troutman, & O'Bryan, 2000). They argue that educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Greater education potentially increases compliance, as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws, although other authors found a negative association between education and compliance. Richardson (2008) revealed that there is a negative association between education and compliance.

FIRM SIZE

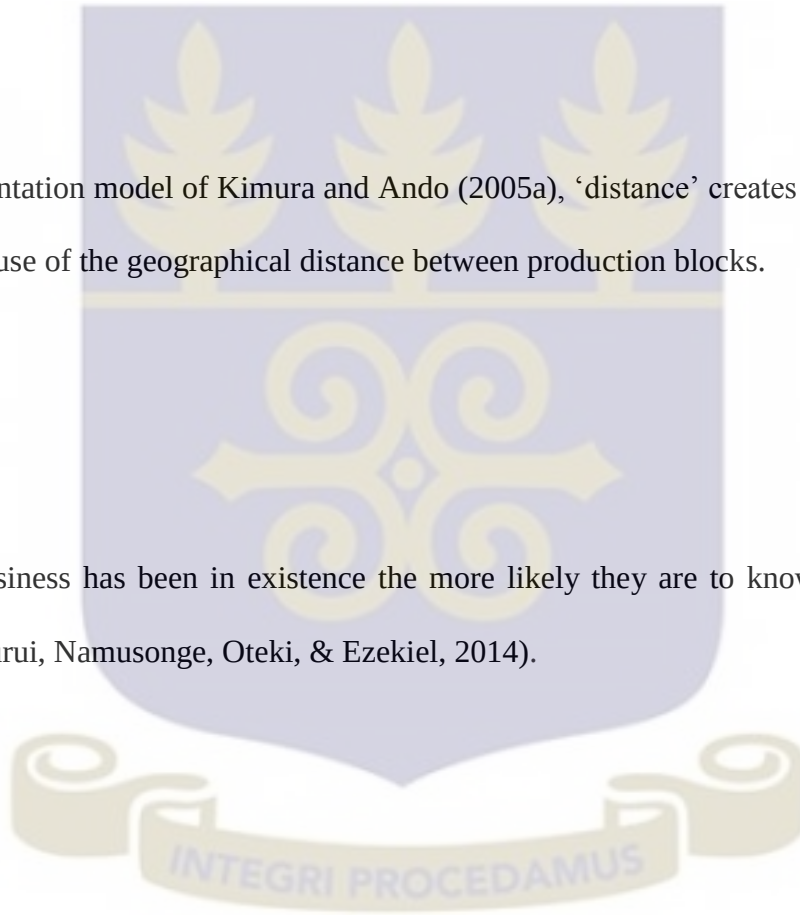
Firm size is strongly related to the level of compliance (DeLuca, Guyton, Wu-Lang, O'Hare, & Scott, 2007). Larger SMEs have a higher likelihood of participating and performing better than smaller ones. Traditionally, the importance of size is related to scale economies in production.

LOCATION

As in the fragmentation model of Kimura and Ando (2005a), 'distance' creates service-link costs which arise because of the geographical distance between production blocks.

EXPERIENCE

The longer a business has been in existence the more likely they are to know and understand taxation (Chepkurui, Namusonge, Oteki, & Ezekiel, 2014).



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter describes the research design and methodology involved in the study. It defines the survey method used, including the data collection method (survey procedures, sampling frame and development of the questionnaire). Details of the research framework, hypotheses and data analysis techniques are also discussed in this chapter.

3.2 RESEARCH DESIGN

In analyzing the research questions, quantitative and qualitative method was employed in both data collection and hypothesis testing to ensure the effective interpretation of the data by using SPSS version 20.

3.21 DATA COLLECTION METHOD

This section describes the data collection process including the sampling frame and survey procedures and the respondents involved.

3.22 RESEARCH POPULATION

The concept of population is basic to survey research and is defined as any set of persons or objects that possess at least one common characteristic (Busha & Harter, 1980). The population of the study constituted small and medium scale enterprises registered with the Ghana Revenue Authority (GRA) and also the staff of the Ghana Revenue Authority. Since the population was connected to GRA, 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.

3.23 SAMPLING FRAME AND SIZE

According to Kumekpor (2002), sampling involves the examination of a carefully selected proportion of the units of a phenomenon in order to help extend knowledge gained from the study of that part to the whole from which the part was selected.

The country was divided into three (3) areas namely; the northern belt, the middle belt and the coastal belt to make it easier for data collection purposes. The northern belt comprised of Upper East Region, Upper West Region and the Northern Region. The middle belt covered Brong Ahafo Region, Ashanti Region and Eastern Region. Last but not least, the coastal belt consisted of Volta Region, Western Region, Central Region and Greater Accra Region. This was done with the aim of making it easier to collect data from each zone. One region was selected from each zone for the

purposes of data collection since it was impossible to include all the taxpayers as respondents to this survey due to impracticality, cost, time consumption and lack of resources.

Below is the distribution of the number of medium taxpayers offices and small taxpayers offices in the country.

Table 3. 1: Medium Taxpayers Offices and Small Taxpayers Offices in Ghana

BELT	REGION	No of STOs	No of MTOs	Total Tax Offices	Region Selected
Northern	Upper East	2	0	2	Northern
	Upper West	2	0	2	
	Northern	2	1	3	
Middle	Brong Ahafo	4	1	5	Ashanti
	Eastern	5	1	6	
	Ashanti	8	2	10	
Coastal	Western	5	1	6	Greater Accra
	Central	5	1	6	
	Volta	3	1	4	
	Greater Accra	15	7	22	
TOTAL		51	15	66	

Source: Survey data, 2016

From the northern belt, the Northern Region was chosen to be used for the study because the region had the highest number of medium and small tax offices in the zone. The zone had six (6) small taxpayers offices (STOs) comprising of two (2) in each region and only one medium taxpayers office (MTOs) located in Tamale. In addition to this reason, the medium and small tax offices of the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority (GRA) in the Northern region recorded impressive performance in 2015 by collecting taxes in excess of their target for the year.

From the middle belt, the total number of medium taxpayers' offices (MTOs) were four and that of small taxpayers offices (STOs) were seventeen. Out of this, Ashanti region had two medium taxpayers' offices and eight small taxpayers' offices which were the highest in the zone. Therefore, Ashanti was selected to be used for the survey in the middle belt.

Greater Accra was chosen from the coastal belt. This was because it is estimated that more than eighty percent (80%) of the total domestic tax revenue collected by the authority including import and export duties, excise, value added tax, communication service and corporate tax are concentrated mainly in the Greater Accra Region. Aside this reason, the total number of medium taxpayers offices and small taxpayers offices located within the coastal belt summed up to ten (10) and twenty eight (28) respectively. Of this number, Greater Accra region had seven (7) medium taxpayers' offices and fifteen (15) small taxpayers' offices indicating that the region had a higher number of registered small and medium enterprises. Also, this region was the first to be used for the pilot cases when the authority made reforms in revenue administration under which taxpayers were classified as large, medium and small depending on their turnover and other criteria. The integration of the Domestic Tax Revenue Division offices were meant to ensure that taxpayers

were spared the inconvenience of filing their returns and paying their taxes in separate offices and also to help reduce the tax compliance cost.

Financial managers, general managers, accountants and owners of small and medium enterprises were targeted as sample elements/respondents because they were deemed to be adequate to have the requisite knowledge to answer the questionnaire. A total number of five hundred (500) questionnaires were administered to individual taxpayers. The distribution per region was linked to the number of offices in each region. Since the Northern region had fewer offices out of the selected regions, one hundred (100) questionnaires were administered there. One hundred and fifty (150) questionnaires were administered in the Ashanti region since it had the second highest number. Lastly, two hundred and fifty (250) questionnaires were distributed in the Greater Accra region which had the highest number of offices in the country.

In addition to these, heads of the medium taxpayers' offices and small taxpayers' offices were interviewed on the strategies that the units were using to enhance voluntary compliance among the small and medium scale entities.

Simple Random Sampling Technique was used to select the respondents from each selected region and Purposive Sampling Technique was used to select the heads of the various units responsible for the operations of small and medium enterprises.

3.24 DATA SOURCE

The survey method helps acquire information that was not available at other sources and there was standardization of measurement, that is, the same information was collected from all respondents

(Owens, 2002). A survey is one of the oldest and most widely used methodologies in the social sciences (Busha & Harter, 1980). The collection of data was done through primary sources. Primary data was obtained from SME owners by the administering of questionnaires. An interview guide was also used to gather data from the staff of Ghana Revenue Authority on the strategies that they use in their quest to increase voluntary compliance.

3.3 DATA COLLECTION INSTRUMENTS

A number of tools were accessible for the collection of the data. However, questionnaires and interviews guides were used. These two instruments according to Frankel and Wallen (1993) are virtually identical, except that the former is self-administered by the respondent, while the latter is self-administered by the researcher.

Unstructured interview lasting for about 45 minutes was used for the collection of qualitative data whereas questionnaire was used to collect quantitative data from respondents. A 5 point Likert-scale was employed in the administration of questionnaire with scales ranging from “Strongly Disagree” denoted by 1 to “Strongly Agree” represented by 5.

3.4 QUESTIONNAIRE DESIGN, VARIABLES DEVELOPMENT AND MEASUREMENT

The questionnaire was partly adopted from Investment Climate Advisory Services of the World Bank Group report on *Surveying Businesses on Tax Compliance Costs*. The questionnaire was divided into three (3) sections;

3.41 SECTION A: DEMOGRAPHICS CHARACTERISTICS

This section consisted of demographic variables including location, business type, business size, sector of business, method of financing, number of staff employed and years of experience. These variables became independent variables in further analysis so that an association between these demographic variables and factors influencing tax compliance could be analyzed.

3.42 SECTION B: TAX OBLIGATIONS

This section comprised of nineteen (19) questions which focused on the number of years the business operated before registering for tax purposes and the reasons for registering. Other questions looked at the number of people who worked on tax accounting, their qualifications and the percentage of time spent on it.

3.43 SECTION C: COMPLETION OF TAX TASKS

The last section of the questionnaire had thirty five (35) questions. Most of the questions under this section were a five point likert scale. The first eight questions were on whether accounting

related assignments were outsourced or performed in-house or both. This was followed by the reasons for either outsourcing or not outsourcing. The next questions comprised of the factors that influenced tax compliance. Also, questions were asked on which sources were useful in obtaining information on tax in Ghana. Lastly, respondents were asked to suggest strategies that GRA can use to increase voluntary compliance. This last question was to aid in comparing the strategies implemented by GRA to the strategies that taxpayers deem fit.

3.5 MEASUREMENT OF VARIABLES

3.5.1 DEPENDENT VARIABLE

The dependent variable used in this study is tax compliance. Tax compliance was measured using a score. Since all the respondents had a certain level of compliance because they were all paying their taxes, the objective was to find out if the respondents were practicing proper bookkeeping and whether filing of returns were done on time. Total score was derived through a set of four (4) questions. Keeping all physical receipts in an organized manner was given a minimum score of 0.2 (1 mark multiplied by 0.2) and a maximum score of 1 (5 marks multiplied by 0.2). Practicing physical bookkeeping to record income and expenses in an organized manner was given a minimum score of 0.2 (1 mark multiplied by 0.2) and a maximum score of 1 (5 marks multiplied by 0.2). Record income and expenses in an organized manner using a computer and specialized software was given a minimum score of 0.2 (1 mark multiplied by 0.2) and a maximum score of 1 (5 marks multiplied by 0.2). Finally, period in which tax returns were filed was given a minimum score of 0.25 (1 mark multiplied by 0.25) and a maximum score of 1 (4 marks multiplied by 0.25). A total minimum score of 0.85 was given to entities with poor recording keeping systems and

inability to file tax returns on time. On the extreme end, a total maximum score of 4 was given to entities that filed their tax returns on time and also had an excellent system for record keeping.

3.52 INDEPENDENT VARIABLES

The independent variables for the study were tax training/ knowledge, tax compliance costs, size of the business, type of industry or sector, business experience, penalties, capital structure, tax rates, tax audits and moral reasons. Minimum score of 1 was given if the factor didn't influence tax compliance and maximum score of 5 if the factor influenced tax compliance.

3.6 PROCEDURES FOR DATA ANALYSIS

Descriptive analysis tools were used to develop tables and frequencies which were constructively analyzed. Non-parametric tests such as Mann-Whitney U and Wilcoxon W. (for 2 independent samples) were used to test the difference in tax compliance levels among small taxpayers and medium taxpayers. In addition, Kruskal Wallis (for more than 2 independent samples test) was used to test the tax compliance level between industries or sectors.

The following hypothesis were developed;

1. H_0 : The level of tax compliance among small taxpayers and medium taxpayers are equal.
 H_1 : The level of tax compliance among small taxpayers and medium taxpayers are not equal.

2. H_0 : The tax compliance level between industries are the same.

H_1 : The tax compliance level between industries are not the same.

Regression analysis was used to identify the factors that influence tax compliance among SMEs in the country and also to establish relationships.

General model

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_k X_k + \varepsilon$$

Specified Regression Model

$$TC = \beta_0 + \beta_1 TK + \beta_2 TcC + \beta_3 BS + \beta_4 BI + \beta_5 BE + \beta_6 TA + \beta_7 R + \beta_8 P + \beta_9 CS + \beta_{10} Mt + \varepsilon$$

Where

TC= Tax compliance

TK= Tax Knowledge

TcC= Tax Compliance cost

BS= Business size

BI= Industry of business

BE= Business Experience

TA= Tax Audit

TR= Tax Rate

P= Penalties

CS= Capital structure

M= Morals of taxpayer

The results were organized under the subjects of the objectives and research questions.



CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

This chapter presents the results of the study starting with summary of the survey, response rates and respondents' background. This is followed by a division into the following sections: Stage 1 which identifies the statistical difference in the tax compliance level between small and medium scale enterprises; Stage 2 which identifies the factors that influence tax compliance among small and medium scale enterprises; and Stage 3 which identifies the strategies that GRA use in their quest to increase voluntary compliance among small and medium scale entities.

The remainder of this chapter will then proceed with the discussion of the results.

4.2 SURVEY DISTRIBUTION AND RESPONSE RATES

Out of a total of five hundred (500) surveys distributed, two hundred and fifty (250) were distributed in the Greater Accra Region, one hundred and fifty in the Ashanti Region and one hundred in the Northern Region. Out of the 500 number, four hundred and sixty two (462) questionnaires were returned answered. Two hundred and twenty two (222) of the two hundred and fifty (250) administered in the Greater Accra Region representing 88.80% were answered, 140 out of 150 in the Ashanti Region representing 93.33% were answered. In the Northern Region, all 100 questionnaires distributed in the region were answered representing 100%.

4.3 DEMOGRAPHICS

This section describes respondents' demographic and tax background including business type and size, sector of business, income levels, method of financing, number of staff and years of operations. Some descriptive statistics are also illustrated in this section.

Table 4. 1 *Demographics*

Demographics		Frequency	Percent
Business Type	Sole Proprietorship	237	51.3
	Partnership	108	23.4
	Limited Liability Company	117	25.3
Business Size	Small	231	50
	Medium	231	50
Average Sales	Less than GHc 50,000	132	28.6
	GHc 50,000 - GHc 90,000	125	27.1
	GHc 90,001 - GHc 2,000,000	132	28.6
	GHc 2,000,001 - GHc 5,000,000	73	15.8
Business Sector	Agro-processing	61	13.2
	Manufacturing	65	14.1
	Transport	68	14.7
	Trade	75	16.2
	Artisan	68	14.7
	Financial Services	64	13.9
	Hospitality	61	13.2

Method of Financing	Equity	125	27.1
	Debt	12	2.6
	Leasing	4	.9
	Equity and Debt	267	57.8
	Equity and Leasing	6	1.3
	Debt and Leasing	8	1.7
	Equity, Debt and Leasing	40	8.7
Number of Staff	0 - 5	195	42.2
	6 - 10	127	27.5
	11 - 20	114	24.7
	21 - 50	25	5.4
	More than 100	1	0.2
Business Experience	0 - 5	86	18.6
	6-10	237	51.3
	11-15	109	23.6
	16 - 20	29	6.3
	More than 20	1	0.2
Operating before Tax	Yes	339	73.4
	No	123	26.6
Period before registering for tax	Less than 1 year	58	12.6
	1-2 years	91	19.7
	3-5 years	127	27.5
	More than 5	68	14.7
	N/A	118	25.5
	0 - 2	291	63

	3 - 5	157	34
Tax Accounting	10-Jun	8	1.7
Employees	More than 10	6	1.3
Qualification	BECE	59	12.8
	WASSCE/SSCE	197	42.6
	First Degree	167	36.1
	Masters	15	3.2
	Professional Accounting	22	4.8
	Others	2	0.4
Percentage of Time Spent on Tax Accounting	0 - 20%	333	72.1
	21 - 40%	114	24.7
	41 - 60%	15	3.2

N=462

Table 4.1 represents the demographics of the respondents. Out of the 462 businesses, 237 of them considered their businesses as a sole proprietorship, 108 said they were a partnership and 117 limited liability company. Their respective percentages were 51.3%, 23.4% and 25.3%. This indicated that most of the small and medium scale enterprises registered their businesses as sole proprietorship followed by limited liability companies and lastly partnership. Also, they comprised of 231 each of small taxpaying units and medium taxpaying units.

With regard to the average turnover or sales of the businesses over the last three years, 132 respondents (28.6%) had an average sales less than GHc 50,000 and 125 respondents (27.1%) received sales of between GHc 50,000 and GHc 90, 000. Another 132 respondents representing

28.6% also made average sales between GHc 90,001 and GHc 2,000,000. The remaining 73 respondents (15.8%) made average sales of between GHc 2,000,001 and GHc 5,000,000.

The respondents interviewed belonged to a total of seven (7) sectors namely; Agro-Processing, Manufacturing, Transport, Trade, Artisan, Financial Services and Hospitality. The highest sector with regard to respondents was the trade sector with a total of 75 respondents representing 16.2%. This was followed by the transport and artisan sectors with 68 respondents each representing 14.7%. The next sectors with regard to numbers were manufacturing and financial services. They had frequencies 65 and 64 respectively. Their respective percentages were 14.1 and 13.9. The last set of respondents belonged to the agro-processing and the hospitality sectors. They each had 61 respondents representing 13.2%.

The highest choice of financing methods employed by most of the respondents to run the day to day affairs of the business was equity and debt (57.8%), followed by only equity (26.8%) and equity, debt and leasing (8.7%). The least choice was leasing which had a percentage of 0.9.

Majority of the businesses employed between 1 to 5 persons (42.2%). 27.5% of the respondents employed between 6-10 staff, only 1 entity engaged the services of more than 100 people with the remaining 30.1% respondents engaging the services of 11-50 people. Also, according to the information presented in table, majority of the businesses (97%) employed less than six (6) staff to handle tax accounting tasks.

The largest group of the respondents, (237 respondents) had operated between 6 and 10 years. Cumulatively, respondents operating between 0 and 15 years made up the largest portion with 432 responses (93.5%) hence they were likely to know and understand taxation issues. 86 entities had 0 – 5 years' experience. This had a percentage of 18.6%.

Most of the persons employed to perform tasks related to tax accounting for the businesses were holders of WASSCE or SSCE certificates (42.6%). This was closely followed by First Degree certificates holders (36.1%). BECE, masters, professional accounting and other certificates holders all summed up to 21.2%.

When respondents were asked what percentage of their time was spent on tasks relating to tax accounting, majority of them indicated that they spent less than 20% of their time performing tax accounting activities. All the respondents spent less than 60% of their time on tasks relating to tax accounting.

Most of the entities had operated for a while before registering their businesses for tax purposes. Only 123 (26.6%) respondents indicated they had their business registered immediately for tax purposes. Out of the 339 respondents who had been in operations for a while before registering for tax purposes, 37% operated for 3–5 years before registering for tax, 26% worked for 1-2 years before registering, 20% existed for more than 5 years before registering for tax and 17% operated for less than a year before registering for tax purposes.

Respondents were asked to indicate what reasons made them register their businesses for tax purposes. The two major reasons that made most of the respondents register for tax purposes were legal requirements and to avoid being sanctioned. 337 and 348 respondents scored the ‘legal requirement’ and ‘to avoid being sanctioned’ factors as ‘very important’ respectively. This was followed by getting access to funds and industry requirements. The least of the reasons for registering for tax purposes was revealed to be ‘moral reasons’. Less than 100 and 70 of the respondents scored this factor as ‘very important’ and ‘important’ respectively.

Table 4. 2: *Keeping Proper Records*

	Keep all Receipts	Practice proper Bookkeeping	Use Specialized Software
Very Poor	4	9	198
Poor	57	119	81
Good	147	101	73
Very Good	109	117	65
Excellent	145	116	45
Total	462	462	462

Source: Survey data, 2016

To be able to comply with tax requirements, businesses are mandated to keep proper records of their activities. When the respondents were asked how they did their bookkeeping, more than 400 of them said they kept all the physical receipts (such as sales slips, invoices and receipts) in an organized manner. Of this number, 145 respondents scored it excellently, 109 very good and 147 said it was good. Only 4 of the respondents said their physical receipts were kept in a very poor manner. Similar results were produced when the respondents were asked to what extent they practiced physical bookkeeping to record income and expenses in an organized manner. 334 of the respondents scored it between 'good' and 'excellent'. 128 respondents (27.7%) indicated that theirs was either very poor or poor. Majority of the respondents did not score highly the use of a computer and specialized software in the recording of income and expenses in their businesses. Only 45 of the respondents (9.7%) scored it excellently. 42.9% (198 respondents) scored it 'very poor'. This indicated most of the businesses interviewed did not use computers and softwares in recording their incomes and expenses.

Table 4. 3: Tax Compliance

Tax Compliance		Frequency	Percent
Payment Times	Monthly	38	8.2
	Quarterly	332	71.9
	Semi annually	23	5
	Annually	69	14.9
Method of Assessment	Provisional Assessment	251	54.3
	Self-Assessment	210	45.5
Period of Filing Returns	Not at all	267	57.8
	After 30th June	138	29.9
	After 30th April but before 30th June	44	9.5
	Before 30th April	13	2.8
Tax Compliance Costs	GHc 0 - GHc 500	273	59.1
	GHc 501 - GHc 1,000	151	32.7
	GHc 1,001 - GHc 1,500	19	4.1
	GHc 1,501 - GHc 2,000	9	1.9
	More than GHc 2,000	10	2.2
Not Outsourcing Reasons	Have sufficient in-house tax expertise	8	1.7
	It costs too much to outsource	216	46.8

	It is not difficult to complete tax forms for my business	5	1.1
	N/A	233	50.4
Outsourcing Reasons	Tax is a specialist field	90	19.5
	No time to do it internally	12	2.6
	Tax expertise of my current tax practitioner	7	1.5
	It is difficult to keep up-to-date with changes in tax laws	114	24.7
	N/A	239	51.7
Outsourcing Cost	GHc 0 - GHc 500	124	26.8
	GHc 501 - GHc 1000	110	23.8
	GHc 1001 - GHc 1500	15	3.2
	N/A	213	46.1

N=462

As represented in table 4.3, 332 of the respondents (71.9%) paid their tax liabilities quarterly. 14.9% paid their tax obligation annually with another 8.2% of the respondents saying they paid monthly. The remainder of the respondents indicated that they paid it semiannually.

The two methods available for assessment in Ghana are the provisional assessments and the self assessments. In Ghana, most medium taxpayers are allowed to use the self-assessment to ascertain their tax liabilities whiles the small taxpayers are under the provisional assessments. From the

table, 251 of the respondents (54.3%) indicated that their businesses were under the provisional assessments where GRA official estimate their tax liability and they pay quarterly. The remaining 210 respondents (45.5) said they used the self-assessment to estimate their tax liability.

From the responses received from the respondents, it was noticed that most of the respondents defaulted in filing their company tax return on required dates. 267 of the respondents representing 57.8% did not submit any returns for filing purposes. 138 respondents (29.9) managed to file their tax return but usually did so after 30th June which was after the extension of the period for filing of tax returns. This brought the percentage of the respondents who defaulted to 87.7%. 44 respondents making up of (9.5%) were able to file their company tax returns after 30th April but before 30th June. The only group who were able to file their returns on time per the law consisted of only 13 of the respondents (2.8%). They said they were able to file their tax return by 30th April each year. On the average, most of the respondents spent below GHc 1,000 annually to be able to comply with tax requirements.



Table 4. 4a: Personnel who performs Tax Functions

	Book-keeping	Compiling financial statements	Compiling documents for tax	Filing of company tax
Employee	455	387	238	84
Outsourced	2	47	66	53
Both Employee and outsourced	2	22	53	67
N/A	3	6	105	258
Total	462	462	462	462

Source: Survey data, 2016*Table 4. 4b: Personnel who performs Tax Functions*

	Compiling doc for VAT	Filing of VAT returns	Compiling PAYE documents	Filing of PAYE Returns
Employee	38	37	39	36
Outsourced	25	24	62	66
Both Employee and outsourced	23	23	72	69
N/A	376	378	289	291
Total	462	462	462	462

Source: Survey data, 2016

Table 4.4 presents the results of the persons who perform tax accounting jobs. It is noticed that most of the entities use their staff to do most of the activities especially bookkeeping, compiling annual financial statements and compiling necessary documentation for provisional and company income tax. When it came to tasks like compiling necessary documentation and filing of PAYE returns, compiling necessary documentation and filing of VAT returns, it was realized that most of the respondents who performed these tasks chose to either outsource or use both the an employee and an outsourced personnel to perform the tasks.

The main reason for not outsourcing tax accounting tasks was the costs associated with outsourcing the tasks. Out of the 229 respondents who did not use the services of outsourced personnel, 216 of them (94.3%) indicated that their reason was that it cost too much to outsource the tasks thus they will rather do it themselves even when the expertise was lacking. Other reasons given were they having sufficient in-house tax expertise and it is not difficult to complete tax tasks for their businesses.

For the entities who outsourced some of their functions, the main reason for doing so was because they were of the view that it was difficult to keep up-to-date with changes in the tax law. Others gave reasons such as tax being a specialist field and no time to do it internally. Most of the respondents who outsourced some of their tax functions spent between GHc 0 and GHc 1,000 to be able to do it.

Table 4. 5a: Sources of Information

	GRA Brochures	GRA Website	GRA Seminars	GRA Billboard
Not useful	11	39	32	11
A bit useful	18	33	23	39
Fairly Useful	46	49	50	72
Useful	117	117	150	180
Extremely Useful	270	224	207	160
Total	462	462	462	462

Source: Survey data, 2016*Table 4. 5b: Sources of Information*

	Bulletin Boards	Newspaper	Radio	Tv	Email
Not useful	11	13	15	22	178
A bit useful	38	46	51	53	178
Fairly Useful	62	85	80	82	63
Useful	193	201	162	160	25
Extremely Useful	158	117	154	145	18
Total	462	462	462	462	462

Source: Survey data, 2016

Table 4. 5c: Sources of Information

	Tax Consultant	Family and Friends	Community	Telephone	SMS
Not useful	30	41	72	92	252
A bit useful	59	160	148	150	149
Fairly Useful	100	181	164	153	32
Useful	155	66	63	55	20
Extremely Useful	118	14	15	12	9
Total	462	462	462	462	462

Source: Survey data, 2016

Tables 4.5a, 4.5b and 4.5c present the sources through which taxpayers get information on tax and how useful respondents see them. Out of the 14 sources that were given for respondents to grade the usefulness, the 3 extremely useful ones were the brochures from GRA, seminars or workshops organized for businesses by the GRA and the website of GRA. Respondents considered the billboards, the bulletin boards, newspapers, radio, television, and tax consultants sources as somehow useful in getting information on tax. The sources which were not considered to be so much useful were emails, family and friends, community, telephone calls and sms.

4.4 LEVEL OF TAX COMPLIANCE BETWEEN SMALL ENTERPRISES AND MEDIUM ENTERPRISES

This section explains the tax compliance level of small and medium scale enterprises in Ghana. Also it answers the question if the sector of one business has an influence on the tax compliance of entities.

A normality test was done to determine whether the distribution of the scores of tax compliance were normally distributed in order to choose the right statistical tool. A separate normality test was done for small enterprises and medium enterprises; and also for the different sectors (using the Factor List option that is available in the Explore dialogue box in SPSS).

The results from table 4.6 indicated that the data for the size of the business is not normally distributed because both the significant values of the Kolmogorov-Smirnov test and the Shapiro-Wilk test were all 0.000. This figure was less than an alpha of 0.05 hence violating the normality assumption. A non-parametric test (Mann-Whitney U.) was therefore used to test the statistical differences in the tax compliance level between small and medium scale enterprises.

The results also showed that the data from the various business sectors was also not normally distributed since all the variables had significant values of less than 0.05 according to the Shapiro-Wilk test. The same was seen in the results from the Kolmogorov-Smirnov with the exception of the result of the financial services. Hence a non-parametric test (Kruskal-Wallis) was used to test the statistical differences in the tax compliance level among the various sectors.

Mann-Whitney U. and Kruskal-Wallis were therefore used to test the statistical differences in the tax compliance level between small and medium scale enterprises and also among the various sectors.

Table 4. 6: Tests of Normality

			Kolmogorov-Smirnov ^a			Shapiro-Wilk		
			Statistic	df	Sig.	Statistic	df	Sig.
Tax compliance score	Business Size	Small	0.176	2	0	0.845	231	0
				3				
		Medium	0.086	1	0.958	231	0	
				2				
Tax compliance score	Business Sector	Agro-processing	0.193	1	0	0.864	61	0
				6				
		Manufacturing	0.172	5	0	0.896	65	0
				6				
		Transport	0.215	8	0	0.856	68	0
				7				
		Trade	0.181	5	0	0.937	75	0.001
				6				
		Artisan	0.291	8	0	0.755	68	0
				6				
		Financial Services	0.134	4	0.006	0.891	64	0
				6				
		Hospitality	0.182	1	0	0.924	61	0.001
a. Lilliefors Significance Correction								

Source: Survey data, 2016

Table 4. 7: Ranks

			N	Mean Rank	Sum of Ranks
Tax compliance score	Business Size	Small	231	133.67	30877
		Medium	231	329.33	76076
Tax compliance	Business Sector	Agro-processing	61	215.09	
		Manufacturing	65	299.55	
		Transport	68	151.24	
		Trade	75	215.6	
		Artisan	68	114.48	
		Financial Services	64	385.35	
		Hospitality	61	253.45	

Source: Survey data, 2016

From Table 4.7, it was noticed that the medium scale enterprises had a higher mean rank in terms of tax compliance score (329.33) than the small scale enterprises (133.67). Also, the businesses in the financial service sector had the highest mean rank in terms of tax compliance score of 385.35 with the lowest mean rank (114.48) recorded in the artisan sector.

Table 4. 8: Tests Statistics

		Tax compliance score
Mann-Whitney U Test	Mann-Whitney U	4081
	Wilcoxon W	30877
	Z	-15.786
	Asymp. Sig. (2-tailed)	0
Kruskal Wallis Test	Chi-Square	183.154
	df	6
	Asymp. Sig.	0

Source: Survey data, 2016

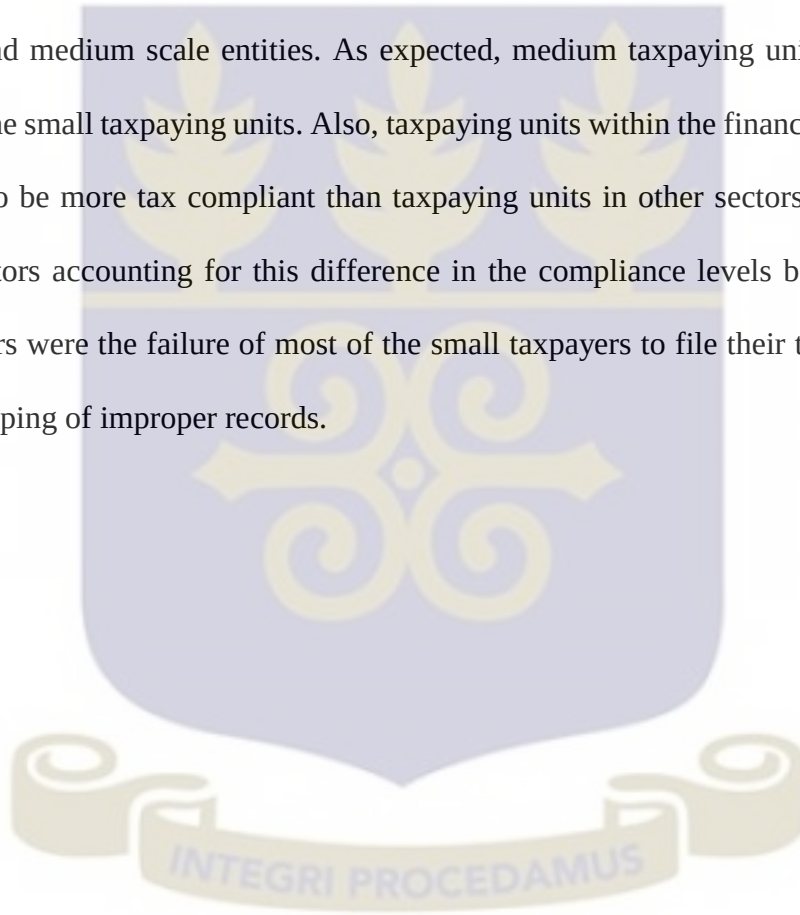
Mann-Whitney and Wilcoxon (MWW) tests showed that there were significant differences between small and medium enterprises in terms tax compliance levels ($p < 0.05$, $z = -15.786$). The Z value is -15.79 (rounded) with a significance level of $p = 0.00$. The probability value (p) is less than 0.05 , so the result is significant. There is therefore a statistically significant difference in the tax compliance scores of small and medium scale enterprises.

A Kruskal-Wallis Test also showed that there was a statistical significant difference in the tax compliance score among the different sectors. A chi-square of 183.154 and a p value of 0.00 with

mean ranks of agro processing (215.09), manufacturing (299.55), transport (151.24), trade (215.60), artisan (114.48), financial services (385.35) and hospitality (253.45).

The first objective of this study was to determine the statistical significance difference in the compliance level between the small and medium scale enterprises.

The results from the study suggested that there was a statistical difference in the tax compliance level of small and medium scale entities. As expected, medium taxpaying units were more tax compliant than the small taxpaying units. Also, taxpaying units within the financial services sector were also seen to be more tax compliant than taxpaying units in other sectors like the artisans. Some of the factors accounting for this difference in the compliance levels between small and medium taxpayers were the failure of most of the small taxpayers to file their tax returns on due dates and the keeping of improper records.



4.5 FACTORS THAT INFLUENCE TAX COMPLIANCE AMONG SMEs

Table 4. 9: Regression Results

Model	Coefficients ^a			t	Sig.
	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	1.086	.259		4.191	.000
TK	.067	.070	.058	.954	.341
TcC	.230	.066	.226	3.471	.001
BS	-.038	.052	-.059	-.723	.470
BI	.009	.056	.014	.155	.877
BE	-.082	.058	-.101	-1.414	.158
P	-.059	.052	-.065	-1.135	.257
TR	-.146	.070	-.158	-2.080	.038
CS	.245	.048	.320	5.059	.000
Mt	-.128	.034	-.200	-3.766	.000
TA	.166	.061	.195	2.720	.007

Dependent variable is represented by a score for Tax Compliance. The independent variables comprise of tax knowledge (TK) which measures the understanding and application of tax requirements; tax compliance costs (TcC) measures all the costs incurred by taxpayers to be able to comply with the tax laws with exception of the tax liability; business size (BS) is a dummy variable which measures whether the business is small or medium. Business industry (BI) refers to the sector the business belongs. Business experience (BE) is the number of years the entity has been in operation, Penalties (P) refers to the fines given to business for defaulting in their tax obligations, Tax Rates (TR) are the rates used to compute the tax liability of businesses, Capital Structure (CS) is the method of financing used to finance the day to day operations of the businesses, Morals of Taxpayers (Mt) measures the attitudes or norms of the taxpayer. Tax Audits (TA) represents the likelihood of the firm to be audited.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.383 ^a	.147	.128	.73962

a. Predictors: (Constant), Tax Audits, Moral Reasons, Tax training/knowledge, Size of business, Penalties, Capital Structure, Tax compliance costs, Business experience, Tax Rates, Type of Industry

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.349	10	4.235	7.742	.000 ^b
	Residual	246.715	451	.547		
	Total	289.065	461			

a. Dependent Variable: Tax compliance score

b. Predictors: (Constant), Tax Audits, Moral Reasons, Tax training/knowledge, Size of business, Penalties, Capital Structure, Tax compliance costs, Business experience, Tax Rates, Type of Industry

The study found that the model only explains 15 percent of the variation in tax compliance thus the model is not well fit since R^2 is less than 50 percent. The Anova results presented indicated that the variables jointly had a statistically significance with p-value of 0.00 and an F statistic of 7.74.

The main objective of the study was to determine the factors that influence tax compliance among SMEs in Ghana. Ten possible factors of tax compliance were examined in this research namely, tax knowledge, compliance costs, business size, industry, experience, penalties, capital structure,

tax rates, tax audits, and morals of people. The results showed that the variables that largely predicted tax compliance of small and medium scale enterprises from the study were capital structure and compliance costs. In addition to these variables Tax Rates, Tax Audits and Morals of the taxpayer also contributed to the prediction of tax compliance by the SMEs. Capital structure, compliance costs, and audits had a positive relationship on tax compliance. However, rates and ethics had a negative relationship on tax compliance.

Previous researchers had questioned whether enhancement in tax knowledge increased tax compliance (Singh, 2003; Harris, 1989). Eriksen and Fallan (1996) were of the view that the level of education of a taxpayer played an important role in the understanding of taxation, especially regarding laws and regulations of taxation. Lewis (1982) was also of the view that poorer tax knowledge correlated with negative attitudes towards taxation implying that a better attitude could be achieved through better tax knowledge. This study however showed that tax knowledge did not have a significant impact on the taxpayers' ability to comply.

A research conducted by Chepkurui, Namusonge, Oteki and Ezekiel (2014) showed that tax compliance costs was rated average in influencing SMEs tax compliance. However in this study, it was found that tax compliance costs and capital structure were the most influencing factors on tax compliance out of the 10 factors.

Atawodi and Ojeba (2012) concluded that tax rate was the most crucial factor influencing SMEs to either comply with tax laws or fail to comply with tax laws. They were of the view that high tax rates accounted for SMEs failure to pay taxes in Nigeria. This was supported by another research conducted by Acevska (2002). He also found that the most serious institutional barriers for

Macedonian SMEs was the high taxes. This research goes to support the views of the mentioned researches because tax rates was in this study was seen to be an important factor.

According to Chepkurui, Namusonge, Oteki and Ezekiel (2014), there was a positive relationship between attitudes and tax compliance. They were of the view that, an increase in the attitudes of SMEs could lead to an improvement of tax compliance. However, this research goes contrary to those findings since it discovered a negative relationship between ethics and tax compliance. Interestingly, tax knowledge, business size, industry type, business experience and penalties did not have the predictive power to explain tax compliance.

4.6 GRA STRATEGIES TO INCREASE VOLUNTARY COMPLIANCE AMONG SMEs

Four of the heads of the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority (GRA) were interviewed on the strategies that their unit used to increase voluntary compliance.

One of the respondents said one of the difficulties that as an outfit they were facing was the inability of entities especially the small taxpayers to file their income tax returns. He noted that some did file but mostly after the given date which is usually on 30th April each year. When asked what they usually did about it, he indicated that their service department usually placed calls to entities who were yet to submit their returns when the time for filing was near elapsing to remind them they had not yet filed. When this notice was left unheeded, the compliance and enforcement unit then proceeded with the necessary process to get the entity to comply.

In addition to this, another respondent did say that there were times when a common mistake in relation to tax issues was being committed by entities either in the same sector or the same geographical area. When such issues arose, what the unit did was to organize workshops or seminars for those identified entities in groups to train them on the right treatment of the said issue.

Respondents from the selected businesses were asked an opened-ended question on what strategies the revenue authority could use to increase voluntary compliance among SMEs. Majority of them believed the GRA could increase voluntary compliance if they could organize workshops to educate businesses on the need to pay taxes and the benefits that could accrue to them by being compliant with tax laws and regulations. Some were of the view that, the authority could increase voluntary compliance if they came out with innovative incentives for entities that complied with the laws. This could make potential taxpayers eager to register their businesses and also to comply with the regulations. In addition to these suggested strategies, some indicated that frequent visits from officials from the GRA to the premises of their businesses, fairness in the handling of issues, friendly and welcoming staff of GRA and enforcing the laws on tax could go a long way to increasing voluntary compliance among SMEs in Ghana.

One respondent of the GRA indicated that as part of their strategies, they were targeting unions and associations like the Ghana Private Transport Union (GPTRU), Ghana Union of Traders Association (GUTA), Ghana Hairdressers and Beauticians Association (GHABA) so they can train their members on the need to register for tax purposes and stay compliant with the tax laws. Although the findings from the business owners and managers did not consider the industry one was operating as being able to exert so much influence on its members to be tax compliant, the heads of the various units at GRA believed that unions and associations could help their outfit to increase voluntary compliance.

Between 1987 and 2003, the tax administration of Ghana introduced a strategy called Identifiable Grouping Taxation (IGT). This approach allowed the associations of the informal sector to collect income taxes from their members. The arrangement started with the Ghana Private Road Transport Union (GPRTU) which is the largest passenger transport union (Joshi & Ayee, 2008). This policy was later extended to thirty two other associations in the informal sector because of the good achievements attained in the early years.

IGT was recognized for improving the revenue collections from the informal sector (Joshi & Ayee, 2008). The unions and associations had the burden of identifying their members and making sure they complied with tax requirements. Being tax compliant granted the associations and unions legitimacy and protected them from arbitrary harassment by public officials and police.

The benefits that can accrue to businesses that register for tax are stated in the Taxpayer Identification Numbering System (TIN) Act 632, 2002. Also he said that, per the new strategy, businesses cannot get contracts like the supply of goods or provision of services to any of the state owned enterprises (SOEs), district assemblies or any government institution unless that business has obtained a tax clearance certificate from GRA. He added that business enterprises could not also qualify for funds from the state like the Microfinance and Small Loans Centre (MASLOC), and Youth Enterprise Support (YES).

Other strategies that the authority were using to increase voluntary compliance among the small and medium taxpayers included organizing workshops to educate businesses, highlighting benefits of paying taxes for businesses, frequenting the premises of businesses, handling tax issues fairly, identifying and registering new businesses for tax, imposing necessary penalties for defaulters and being friendly and welcoming to the various stakeholders.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarizes the research that has been conducted, draws conclusions from the findings and provides recommendations for policies and advice for future research.

5.2 SUMMARY

Countries in the world depend on taxation to generate resources to meet the government spending and also to redistribute the wealth of the nation. According to Aryeety and Ahene (2004), the class of taxpayers in Ghana are employed in the private and public sectors. Also according to the Ghana Statistical Service (2014), 90% of the employed citizens are engaged in the private sector which consists of mostly SMEs.

SMEs have catalytic impacts on the economic growth by providing employment and income to the citizens. However, majority of the SMEs in Ghana are non-compliant with tax laws and regulations. Tax non-compliance poses a lot of problems to the government because non-compliant means less revenue which also means that government expenditure cannot be met on time.

Tax compliance is and has been a major problem for tax authorities all over the world. Getting individuals and businesses to voluntarily comply with tax laws and regulations continues to be a huge task that tax authorities are battling with. According to Chepkurui, Namusonge, Oteki and

Ezekiel (2014), tax compliance is a major problem to many tax authorities since it is not easy to persuade the individual to be comply.

Although it is difficult to persuade taxpayers especially the SMEs to comply with the tax laws, it is also a truism that there a few SMEs who try as much as possible to comply with the law. The study therefore sought to identify the factors that influenced these businesses to comply with the tax laws. It also tried to find out if there was a significant difference in the tax compliance of small and medium scale enterprises in Ghana and also to identify the strategies that GRA was using to increase voluntary tax compliance by SMEs.

The country was divided into 3 zones namely; the northern zone, the middle zone and the coastal zone. One region was selected from each zone depending on the number of small tax offices and medium tax offices. The selected regions were Northern Region, Ashanti Region and Greater Accra Region.

A questionnaire was distributed to 500 small and medium taxpaying units in Ghana. Respondents were selected using the simple random sampling technique. Out of the 500 questionnaires administered, 462 were returned completed and usable.

In addition to the questionnaire, an interview guide was used to solicit for information from the heads of the Domestic Tax Revenue Division of the Ghana Revenue Authority (GRA).

The responses were analyzed using descriptive statistics, Mann-Whitney U. Test, Kruskal Wallis Tests and Regression.

5.3 CONCLUSION

These study findings provide evidence that there is a significance difference in the tax compliance level between small and medium scale enterprises. The difference can be largely attributed to the inability of small enterprises to file their tax returns on due dates and also to keep proper books or records of their business transactions.

It also finds that capital structure of the business or entity, tax compliance costs in order to comply with the tax requirements, tax rates, tax audits and ethics of taxpayers had significant influence on voluntary tax compliance of taxpayers. Capital structure, compliance costs, and audits had a positive relationship on tax compliance while rates and ethics had a negative relationship on tax compliance.

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 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.

5.4 RECOMMENDATIONS

The study finds strong support for the argument that tax compliance costs highly impact tax compliance levels. For this reason, policy developers should endeavor to make the process of complying with tax requirements less complex and less costly. Tax systems should be aimed at

reducing the costs associated with complying with the tax laws so that more SMEs will be motivated to comply because when taxpayers spend little or no income to be able to comply they will be motivated to comply with the tax laws.

In addition, tax audit was found to also influence tax compliance. Therefore, management and staff of GRA should endeavor to frequent businesses for their records to be audited. This way, SMEs will be encouraged to comply since they will keep accurate records for taxation purposes in order to avoid fines and penalties.

The study finds that tax rates impact highly on tax compliance, thus there should be moderate rates of taxes for SMEs. The rates of tax should not be so burdensome that business growth is hampered thereby making evading tax a wise choice. But rather, efforts should be made to promote the growth and sustainability of the small business.

The ethics of business owners has been found to negatively influence tax compliance levels of SMEs in Ghana. It is therefore recommended that workshops and seminars should be organized for business owners and managers to train them on the need to be tax compliant to improve their perceptions and ethics. Government should also be transparent in their expenditure activities so as to win the confidence of the taxpayers.

Lastly, the various unions and associations that most of these SMEs belong can be targeted to train and make their members comply with the tax laws. This can be done by highlighting the benefits that can accrue to the various unions or association that SMEs belong.

5.50 FUTURE RESEARCH RECOMMENDATION

In future, researchers should consider using a qualitative approach to determine the determinants that accounts for the tax compliance of SMEs 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.



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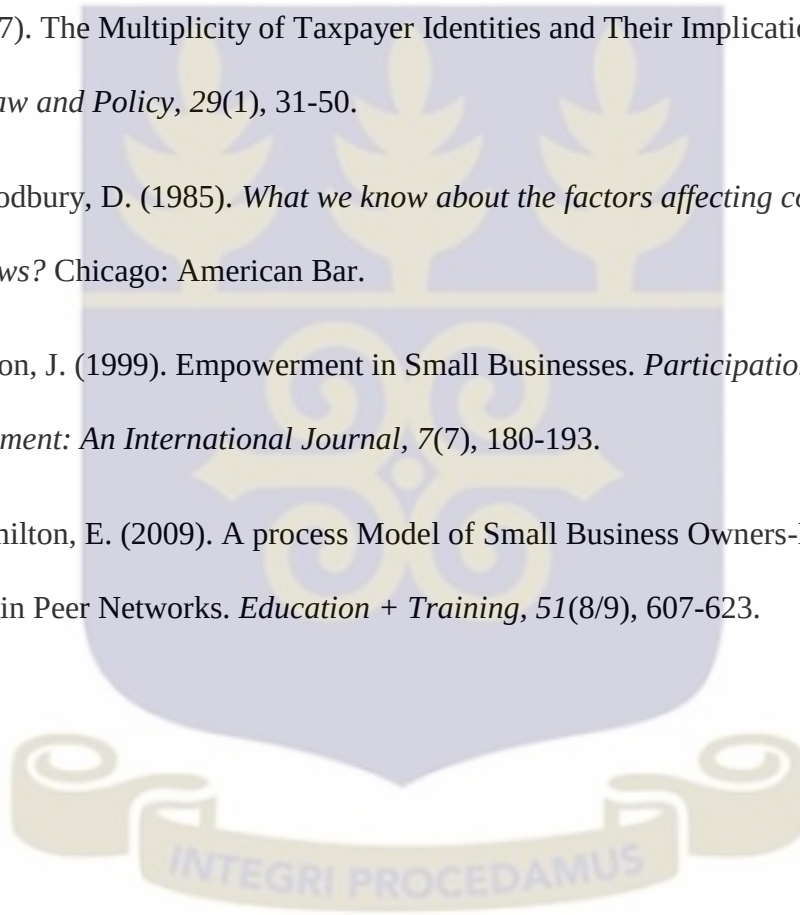
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Appendix A

UNIVERSITY OF GHANA BUSINESS SCHOOL

DEPARTMENT OF ACCOUNTING

RESEARCH QUESTIONNAIRE FOR SMES

Dear Sir/Madam,

This survey is part of a research work being undertaken to identify the “Factors Influencing Tax Compliance among Small and Medium Scale Enterprise in Ghana.” This is done in partial fulfilment of the requirements for Master of Philosophy in Business Administration Degree in University of Ghana Business School. Your opinion is of much importance to the study and any information provided by you will be treated as confidential and for academic purposes only. Kindly assist this project by taking some time off your busy schedule to complete the questionnaire. Thank you.

SECTION A: DEMOGRAPHIC CHARACTERISTICS

1. Where is your business located in Ghana?
 - a. Northern Belt []
 - b. Middle Belt []
 - c. Coastal Belt []
2. Which of the following best describes this business?
 - a. Sole proprietorship []
 - b. Partnership []
 - c. Limited Liability Company []
 - d. Other, please specify
3. What is the size of your business?
 - a. Small []
 - b. Medium []
 - c. Other, please specify

4. Over the last three (3) years, what is the average turnover or sales of your business?
 - a. Less than GHc 50,000 [] b. GHc 50,000 – GHc 90,000 []
 - c. GHc 90,001 – GHc 2,000,000 [] d. GHc 2,000,001 – GHc 5,000,000 []
 - e. Above GHc 5,000,000 []
5. Which sector of the economy does your business belong?
 - a. Agro-processing [] b. Manufacturing [] c. Transport [] d. Trade []
 - e. Artisan [] f. Financial Service [] g. Real Estate [] h. Hospitality []
 - i. Other, please specify
6. How do you finance the operations of your business?
 - a. Equity [] b. Debt [] c. Leasing [] d. Equity and Debt []
 - e. Equity and Leasing [] f. Debt and Leasing [] g. Equity, Debt and Leasing []
7. How many staff are employed in your company?
 - a. 1 – 5 [] b. 6 – 10 [] c. 11 – 20 [] d. 21 – 50 [] e. 51 – 100 []
 - e. More than 100 []
8. How many years has your business been in operation?
 - a. 0-5 years [] b. 6-10 years [] c. 11-15 years [] d. 16-20 years []
 - e. More than 20 years []

SECTION B: TAX OBLIGATIONS

9. Did this business operate for a while before registering for tax?
 - a. Yes [] b. No []

If No, please proceed to Question 10.

10. How long did this company operate before registering for tax?

- a. Less than 1 year [] b. 1 – 2 years [] c. 3- 5 years []
 b. More than 5 years []

What are some of the reasons for registering this business for tax? (5 means ‘Very Important’, 4 means ‘Important’, 3 means ‘Moderately Important’, 2 means ‘Of Little Importance’ and 1 means ‘Unimportant’):

	1	2	3	4	5
11. Legal Requirements	[]	[]	[]	[]	[]
12. To avoid being sanctioned	[]	[]	[]	[]	[]
13. To get access to funds	[]	[]	[]	[]	[]
14. Moral Reasons	[]	[]	[]	[]	[]
15. Industry Requirement	[]	[]	[]	[]	[]

Others, please specify

.....

16. How many employees in this business perform tax accounting?

- a. 0 – 2 [] b. 3 – 5 [] c. 6 – 10 [] d. 11 – 20 [] e. More than 20 []

17. What is the highest qualification of the persons who perform tax accounting?

- a. BECE [] b. WASSCE/SSCE [] c. First Degree [] d. Masters []

- e..PhD [] f. Professional Accounting []

- f. Other, Please specify

18. How long does it take this business to prepare, complete, and submit the forms?

..... months weeks days

19. On average, what percentage of their time would you say is spent on tasks relating to tax accounting?

- a. 0 – 20% [] b. 21 – 40% [] c. 41 – 60% [] d. 61 – 80% []
e. 81 – 100% []

To what extent do you agree with the following statements with regard to record keeping in your business (5 means “Excellent”, 4 means “Very Good”, 3 means “Good”, 2 means “Poor” and 1 means “Very Poor”):

	1	2	3	4	5
20. Keep all physical receipts in an organized manner (such as sales slips, invoices, receipts, and so on).					
21. Practice physical bookkeeping to record income and expenses in an organized manner.					
22. Record income and expenses in an organized manner using a computer and specialized software.					

23. How often do you pay your taxes?

- a. Monthly [] b. Quarterly [] c. Semi Annually [] d. Annually []

24. How do you estimate the tax liability to be paid in a year?

- a. Provisional Assessment [] b. Self – Assessment []

25. On the average, in which period do you usually file your tax returns?

.....

26. On the average, how many returns do you file annually?

.....

27. On the average, how much do you spend annually to be able to comply with tax compliance requirements?

- a. GHc 0 - GHc 500 [] b. GHc 501 - GHc 1000 [] c. GHc 1001 – GHc 1500 []
 d. GHc 1501 – GHc 2000 [] e. More than GHc 2000 []

SECTION C: COMPLETION OF TAX TASKS

Who performs accounting related assignment in your organization? Please tick.

	Employee	Outsourced	Both Employee and Outsourced	N/A
28. General keeping of books and record-keeping				
29. Compiling annual financial statements				
30. Compiling necessary documentation for provisional and company income tax				
31. Filling out provisional and company tax returns				
32. Compiling necessary documentation for VAT				
33. Filling out VAT returns				

34. Compiling necessary documentation for PAYE				
35. Filling out PAYE returns				

36. What are the main reasons for not outsourcing some of the tax tasks? (For entities that did not choose “outsourced” in Question 28-35).

- a. Have sufficient in-house tax expertise [] b. It costs too much to outsource []
- c...It is not difficult to complete tax forms for my business []
- d. Other (please specify).....

37. What are the main reasons for outsourcing some of the tax functions? (For entities that chose “outsourced” in Question 28-35).

- a. Tax is a specialist field [] b. No time to do it internally [] c. Tax expertise of my current tax practitioner [] d. It is difficult to keep up-to-date with changes in tax laws [] e. Other (please specify).....

38. If the business outsources any tax compliance tasks, how much did this business spend on outsourced tax tasks in the last complete financial year?

- a. GHc 0 - GHc 500 [] b. GHc 501 - GHc 1000 [] c. GHc 1001 – GHc 1500 []
- d. GHc 1501 – GHc 2000 [] e. More than GHc 2000[]

To what extent does the following influence tax compliance (5 means “Very Highly”, 4 means “Highly”, 3 means “Fairly Highly”, 2 means “Low” and 1 means “Very Low”):

1 2 3 4 5

39. Tax Training/ Knowledge [] [] [] [] []

40. Tax Compliance costs ☐ ☐ ☐ ☐ ☐
41. Size of Business ☐ ☐ ☐ ☐ ☐
42. Type of Industry ☐ ☐ ☐ ☐ ☐
43. Business Experience ☐ ☐ ☐ ☐ ☐
44. Penalties ☐ ☐ ☐ ☐ ☐
45. Capital Structure ☐ ☐ ☐ ☐ ☐
46. Tax Rates ☐ ☐ ☐ ☐ ☐
47. Tax Audits ☐ ☐ ☐ ☐ ☐
48. Moral reasons ☐ ☐ ☐ ☐ ☐

To what extent do you find the following sources useful in obtaining information on tax? (5 means “Extremely Useful”, 4 is “Useful”, 3 is “Fairly Useful”, 2 is “A Bit Useful” and 1 is “Not Useful”)

	1	2	3	4	5
49. GRA brochures/newsletters/ booklets					
50. GRA website					
51. GRA seminars					
52. GRA billboards					
53. Bulletin boards at GRA offices					
54. Newspapers					
55. Radio					
56. TV					
57. Email					

58. Specialist tax consultants/ accountants/bookkeepers					
59. Friends and family					
60. Community members					
61. Telephone					
62. SMS					
63. Others (please specify).....					

64. What are some of the factors that the Ghana Revenue Authority can use in their quest to increase voluntary compliance?

- a.
- b.
- c.



END OF QUESTIONNAIRE

Thank you for your time and effort.

Appendix B
UNIVERSITY OF GHANA BUSINESS SCHOOL
DEPARTMENT OF ACCOUNTING
INTERVIEW GUIDE FOR GRA

SECTION A. BACKGROUND DATA OF RESPONDENTS/ INTERVIEWEES

1. Number of years of working with GRA
2. Designation of respondent

SECTION B: TAX COMPLIANCE

1. How many medium and small tax offices are in each region?
2. How does GRA estimate the tax obligation for entities under the provisional assessment?
3. How does GRA measure tax compliance?
4. What happens when an entity pays its tax obligations but fails to file tax returns?
5. What strategies are used by the authority to increase voluntary compliance by SMEs?
6. Does the authority organize training programmes for SMEs?
7. If yes, how often are these programmes organized?
8. How are participants for the training programmes selected?
9. What are the benefits of being compliant with tax laws for SMEs?