

UNIVERSITY OF GHANA

**ASSESSING THE TAX COMPLIANCE BEHAVIOUR 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 hereby declare that this thesis work is the result of my own original research and has not been presented in part or as a whole for any academic award in this or any other university. All references used in this work have been duly acknowledged. I am solely and exclusively responsible for any short comings of this work.

.....
Felix Naah Date

CERTIFICATION

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

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Dr. Joseph Mensah Onumah Date
(Supervisor)



DEDICATION

I dedicate this work to the Almighty God for how far He has brought me in the educational ladder, to my late parents Mr. & Mrs. Naah, to my siblings, wife, two lovely daughters, and Manager and Staff of SIC Insurance Company Limited, Wa for their immense support and contributions in this pursuit.



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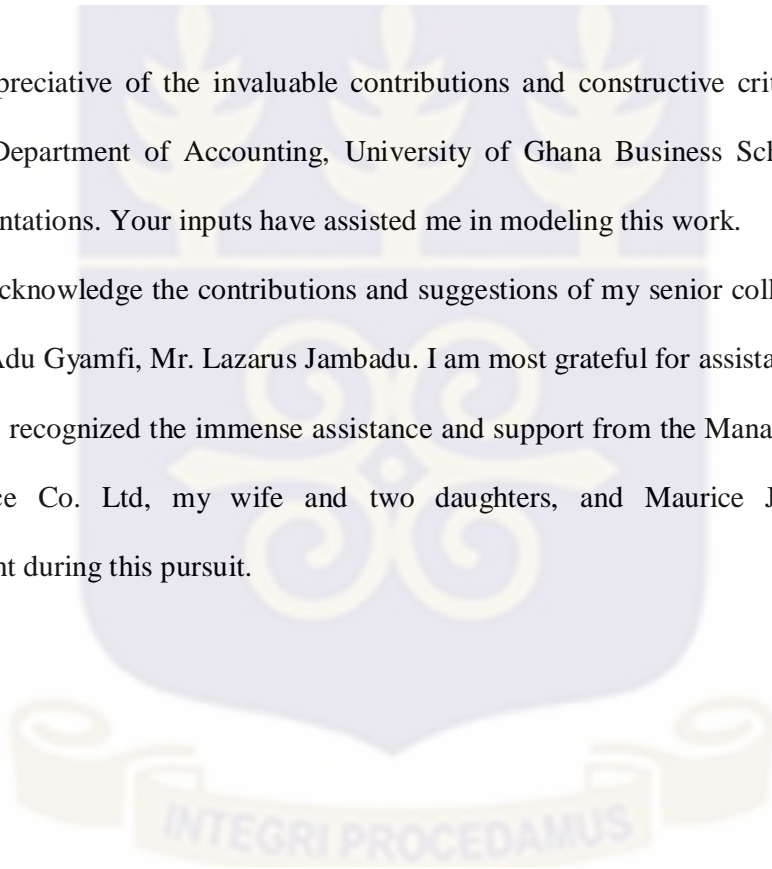


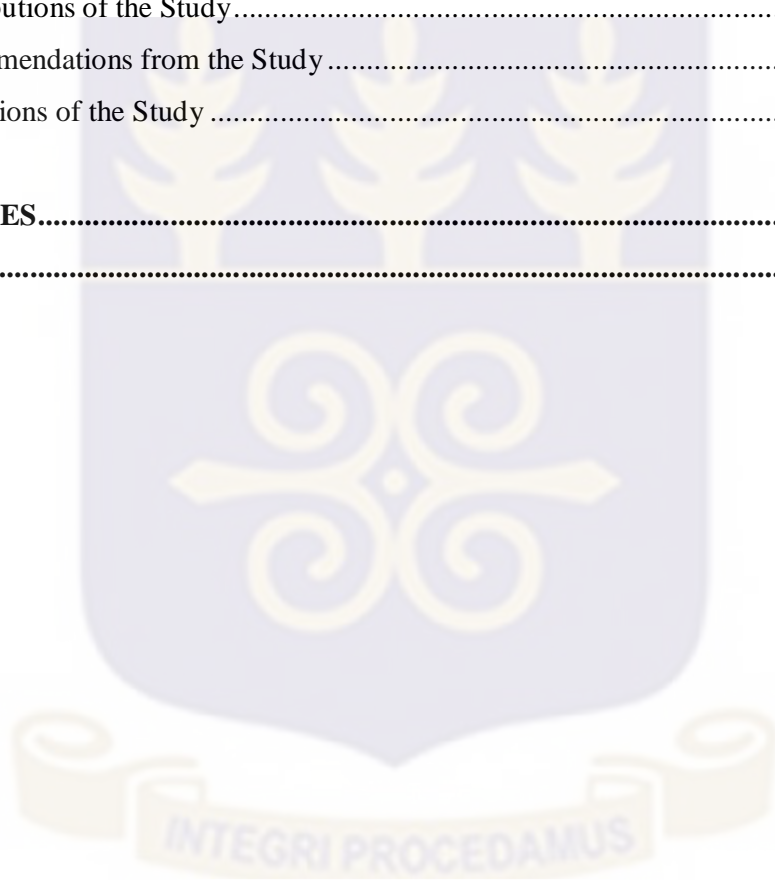
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LIST OF ABBREVIATIONS

ABBREVIATION	MEANING
SMEs	Small and Medium Enterprises
GDP	Gross Domestic Product
SMU	Skkim Manipal University
UNIDO	United Nations Industrial Organization
IBES	Integrated Business Establishment Survey
OECD	Organization for Economic Cooperation and Development
GRA	Ghana Revenue Authority
TPB	Theory of Planned Behaviour
GSS	Ghana Statistical Service
NBSSI	National Board for Small Scale Industries
UNCTAD	United Nations Conference on Trade And Development
VAT	Value Added Tax
TIN	Tax Identification Number
ACT	Act of Parliament
US	United States
AMA	Accra Metropolitan Area
MMDAs	Metropolitan, Municipal, and District Assemblies
SPSS	Statistical Package for Social Scientist
RGD	Registrar General Department of Ghana
PAYE	Pay As You Earn
SSNIT	Social Security and National Insurance Trust

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ABSTRACT

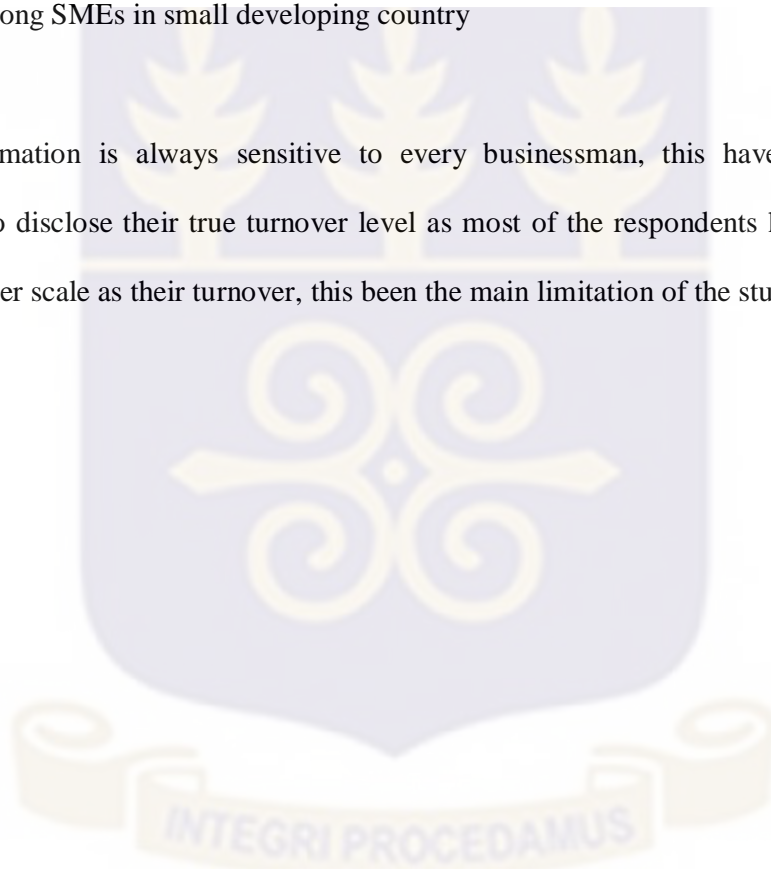
SMEs play crucial role in the economic development of a country. Their role with regards to employment creation, production, and contribution to Gross Domestic Products are overwhelming. They are also the bedrock and conduit for all multinational businesses dominating their industry today. SMEs are therefore potentially, government main source of income through effective and efficient taxation system.

There are chronicle of tax literature on tax compliance behaviour of SMEs as an attempt of understanding SMEs and how to properly tax them. Results of research in Ghana found a low tax compliance level among SMEs in Ghana (Acheampong, Debrah & Yeboah, 2016). More worrisome is the fact that Bedi (2016) found a weak impact of tax audit on tax compliance behaviour in Ghana. Results of these researches are inconclusive, necessitating the need for more researches in the quest to understand tax compliance behaviours of SMEs.

This study therefore assessed the tax compliance behaviour of SMEs in Ghana. In achieving the objectives of the study, the researcher adopted the mixed study approach. A combination of closed ended scale-like and open ended questionnaires were administered. Analysis of data from field suggested that most SMEs agreed it was not an acceptable practice to overstate your expenses during computing your tax returns with the sole aim of reporting lower tax liability. Also, majority of respondents agreed that monies paid as taxes could have been used to expand their businesses; hence they would not pay taxes if it were voluntary. The study also found three main forms of tax compliance behaviour in Ghana namely; loyal compliance, defensive compliance, and social compliance. Furthermore, majority of respondents perceived our tax rates to be high, our tax system is complex and non-transparent, as well as lack equity and fairness.

The study highlighted and suggested many issues to many stakeholders as contribution. To the government, the tax policy maker, it has been recommended to equip the NBSSI to assist SMEs file their tax returns for free. Also, GRA should institute regular tax education, frequent surveillance and auditing of SMEs as well as apply severe sanctions and penalties for tax non-compliance. Again, GRA is also recommended to ensure the strict enforcement of the TIN Act of Ghana, ACT 632 (2000) which would broaden and widen the tax base. The study also contributed to the academia by offering a unique insights on tax compliance behaviour among SMEs in small developing country

As tax information is always sensitive to every businessman, this have affected their willingness to disclose their true turnover level as most of the respondents have chosen the lowest turnover scale as their turnover, this been the main limitation of the study.



CHAPTER ONE: OVERVIEW

1.1 Background of the Study

Small and Medium Enterprises (SMEs) play a pivotal role in economic development all over the world. In many developing economies, Small and Medium Enterprises (SMEs) serve as the bedrock for accelerating the development of the economy. SMEs account for 90% of all businesses in the world and contribute about 60% to the world's employment (UNIDO, 1999). In Singapore, SMEs provide 62% of available jobs and make 47% contribution to the country's Gross Domestic Product (GDP), Tanui, (2016). Malaysia's SMEs constitute 97.3% of the total business establishments (Tanui, 2016). Also, SMEs form 90% of business ownership and contribute over 50% to employment in Africa (Okafor, 2006). Similarly, in Ghana, 92% of companies are SMEs' and 82% of these SMEs' offer employment (Abor & Adjasi, 2007), and contribute 70% to GDP (Villars, 2004).

In a survey by the Statistical Service of Ghana called "Integrated Business Establishment Survey (IBES)" in 2014, they categorized the total businesses of 638,234 in Ghana into four according to size as follows (table 1.1)

Table 1.1: Distribution of SMEs in Ghana

Name	Number of employees	Number of business	Percentage
Micro-sized	less than 5	509,033	79.80%
Small-sized	from 6 to 30	117,329	18.40%
Medium-sized	from 31 to 100	9,333	1.50%
Large-Sized	More than 100	2,539	0.40%
Total		638,234	100%

Source: Ghana Statistical Service IBES report of 2014

Table 1.1, shows Ghana's SME sector is dominated by micro and medium sized enterprises, constituting 98.20% of the entire population of SMEs in the country. Typically, these type of

SMEs are family owned businesses employing less than thirty (30) people. Due to their sizes, most of them have turnovers less than Gh¢500,000.00 annually.

Table 1.2: Regional distribution of total SMEs in Ghana

Size	Western	Central	Greater Accra	Volta	Eastern	Ashanti	Brong Ahafo	Northern	Upper East	Upper West	Total
Micro-sized	49,883	42,644	142,221	34,138	47,687	101,041	38,679	29,753	12,367	10,620	509,033
Small-sized	12,429	9,679	29,234	7,561	10,351	20,901	9,980	9,811	4,431	2,952	117,329
Medium-sized	875	526	4,465	343	546	1,387	550	327	189	125	9,333
Totals	63,187	52,849	175,920	42,042	58,584	123,329	49,209	39,891	16,987	13,697	635,695
Total Percentage	9.94	8.31	27.67	6.61	9.22	19.4	7.74	6.28	2.67	2.15	100

Source: Ghana Statistical Service IBES report of 2014.

The contribution of SMEs to any country cannot be overemphasized. Beside their tremendous contribution to employment creation, they serve as the root for many conglomerates and multinational firms dominating their industry today (Atawodi & Ojeka, 2012). Due to their significant contribution to employment, they are potentially government main source of finance by way of taxation.

All over the world, the main source of revenue for governments to finance their activities whether in a developed or developing economy is taxation. Governments impose tax through enacting tax laws.

Tax statistic available on the Organization for Economic Cooperation and Development (OECD) countries of 34, indicates that the average tax collection to gross domestic products (GDP) ratio for these countries are stated below:

Table 1.3: Tax to GDP ratios of OECD countries

Year	2009	2011	2012	2013
OECD Average	33.50%	33.50%	33.60%	33.70%

Source: <http://www.oecd.org/tax/tax-policy/revenue-statistics-tax-structures.htm>

Date: 27th April, 2017

These statistics clearly indicate that even developed nations have enormous challenges in collecting taxes. In Africa, these statistics should not be different, as in Ghana the projected taxes to GDP ratios for five years period are stated below:

Table 1.4 Projected taxes to GDP ratio of Ghana

Year	2012	2013	2014	2015	2016
Tax Revenues	16% actual	19.3%est,	19.3%est,	18.8%est.	18.2%est.
Pages:	p.66,par, 181	p.76,par, 225	p.42,par, 141	p.21,par, 73	p.42, par, 156
Source:	2013 budget	2013 budget	2014 budget	2015 budget	2016 budget

Sources: Budget Statements of the Republic of Ghana

Even though research has not established optimum level of tax to GDP ratio worldwide, these statistics indicate that there are wide variations among these indices in developed and developing nations.

The current low tax to GDP ratio of Ghana stemmed from the negative tax compliance behaviour of SMEs, which formed about 98% of all businesses in the country. Supporting this preposition, Acheampong, Debrah, and Yeboah (2016) found low tax compliance level among SMEs in Ghana partly due to the fact many of these SMEs are unregistered and are mobile without permanent places of business. They further found that low tax compliance exist among SMEs due to lack of financial records keeping culture among this group of tax payers. Similarly, Bedi (2016) discovered a low tax impact of tax audit on tax compliance behaviour in Ghana. This implied that SMEs in Ghana does not take tax audit seriously since tax audit doesn't influence their compliance behaviours positively. Contrary, Amanamah (2016) in his study of tax compliance of SMEs in Kumasi metropolitan Assembly of Ghana, concluded that there is high tax compliance level among self-employed businesses in the Ghana as a results of sanctions which include closure of businesses meted out to non-compliant SMEs. The foregoing results amplify and the underscored the need for further

studies, for deepening the understanding of tax compliance behaviour of SMEs in Ghana, especially for informing tax reforms and education. This study was therefore envisioned to among other things examine the overall SME tax compliance behaviors among SMEs in Accra, with particular focus on SME's operation, tax declaration, and filling of tax obligations.

1.2 Statement of the Problem

The amount of taxes and grants a government raise and receive would determine the amount of borrowings such a government needs in order to execute her agenda. There is therefore a linear relationship between the total amounts of taxes and grants a country raise and receive, and her total debt to GDP ratio (Checherita-Westphal & Rother, 2012). A country with a high debt to GDP ratio calls for an empirically investigation into the tax compliance of her citizenry and corporate bodies including all SMEs. The debt to GDP ratio in Ghana for example stood at 71.60% at the end of 2015 according to Bank of Ghana (May, 2016) monetary report.

Tax compliance behaviour is of great concern to many tax administrations in developing countries (Nkwe, 2013), since taxation is the most important sources of governments revenue (Adams, 2001; Abdul-Razak & Adafula, 2013; Bruce-twum, 2014, as cited in Gbadago & Awunyo-Vitor, 2015). Low tax compliance and inefficient tax administration are often prevalent in all developing countries despite the increasing need for tax collection (Korir, 2012). Buttressing this assertion, Bird (1984) stated that the prevalent high portion of uncollected taxes otherwise known as tax loss in developing countries is solely due to tax non-compliance.

There are many empirical researches that attempt to explain tax compliance behaviour. However, many of these researches have concentrated on individual tax compliance (Eze, Kasipillai & Sapiei, 2014). Batrancea and Batrancea (2012) stated that most of these studies about tax compliance are focused on analyzing the determinants of tax compliance.

However, Alabede, Kamil, and Zainol (2011) argued that results of these findings cannot be adequately applied in developing countries as a result of multiples tax regimes, socio-cultural, and political constitutions.

More research is therefore needed in a quest to understand tax compliance behaviour among SMEs all over the world, especially in developing countries (Atawodi & Ojeka, 2012). Supporting the calls for more research, Otieku (1988) stated that many of the tax researches in developing countries including Ghana have been concentrated on resolving the problems in tax administration.

In Ghana, tax research has been limited to various aspect of tax administration, understanding individual taxpaying culture, and reduction of corruption in taxation systems. Terpker (2007) investigated the ways of improving tax accounting system among SMEs in Ghana. Also, Atuguba (2006) explored the taxpaying culture of Ghanaians. An attempt of exploring SMEs tax compliance in Ghana was done by Amanamah (2016), who researched on SMEs' perception on tax compliance and the challenges they face in complying with tax payment obligations in Kumasi metropolis. The influence of demographic characteristics on tax compliance among SMEs in Tamale metropolis was studied by Antwi, Hamza, and Inusah (2015). Despite these numerous researches on taxation in Ghana, there has not been a comprehensive study to further deepen the understanding of tax compliance behaviour of SMEs in Ghana. This research particularly focused on the three dimensions of tax compliance

namely; accurate reporting of the taxes, accurate determination of the tax liabilities, timely submission of tax returns, and timely payment of tax liability due. Any tax behaviour contrary to these three amounts to tax non-compliance (Chaltopadhyay & Das-Gupta, 2002; Franzoni, 2000, as cited in Antwi et al, 2015).

As Ghana attained a lower middle income status, more attention is needed in understanding the tax compliance behaviour among SMEs which constitute the bedrock of the economy. Ghana's current status as a middle income country means that the country is disqualified from accessing certain categories of loans from donor agencies and must therefore rely more on debts and internal sources of income largely through taxation. More taxes need to be collected to execute governments' business in order to reduce the debt to GDP ratio of the country. Tax compliance is also a critical phenomenon in Ghana considering the country's low tax to GDP ratio since Cobham (2005) opined that tax compliance is measured by tax to GDP ratio.

Furthermore, it has been observed that almost all these empirical researches were done in Ghana using a single lens theory and methods in explaining the various aspect of tax compliance behaviour (Atuguba, 2006; Terpker, 2007; Antwi, Hamza & Inusah, 2015; Bedi, 2016; Amanamah, 2016). These approaches do not fully explain the tax compliance behaviours of SMEs most especially due to the multi-facet nature of tax compliance. Tax compliance has both economic and social conation that demand the usage of multiple theories to fully explain it (Ansari & Bell, 1991; Hoque & Hopper, 1994; Carpenter & Feroz, 2001). Also, understanding tax compliance demand the application of mixed method in order to fully explain the subjects. Mixed method, which has not been used in most research in Ghana, allows the researcher draws on the strengths of both qualitative and quantitative methods.

The study therefore comprehensively assessed the tax compliance behaviour among SMEs in Ghana.

1.3 Research Objective

Broadly, the study explored tax compliance of SMEs in Ghana. In more specific terms, the study envisioned to;

- i. explore the tax compliance behaviour of SMEs during reporting, filing, and payment of their tax liability.
- ii. assess the forms of tax compliance behaviour exhibited by SMEs in Ghana.
- iii. measure the perceptions of SMEs taxpayers about tax administration and practices in Ghana
- iv. identify the factors that promote tax compliance behaviours in Ghana

1.4 Significance of the Study

This study makes a bid for relevance in three main areas. First, research, second policy making and third professional practices. In research, the study would contribute to the existing literature on tax compliance among SMEs by highlighting SME's perspectives with regards to tax compliance. Specifically, the research also highlight barriers and drivers of SMEs noncompliance behaviours. Consequently, the research findings and recommendation could be useful for guiding policy making, especially with regards to SME taxation in Ghana. Thus, the research output will assist policy makers to understand SME's behaviours and how to design tax laws that would promote voluntary compliance by incorporating the taxpayers' views and morale of improving tax compliance. More specifically, the findings of this study will assist tax authorities, Ghana Revenue Authority (GRA), to be able to fashion out

effective strategies for promoting tax compliance among SMEs. It would also spotlight the current practices of GRA that do not promote tax compliance for remedial action to be taken.

1.5 Organization of the Study

The first chapter comprises; research background, research problem, objectives of the study, research questions, research significance, and limitations of the study.

The second unit contained information on a review of relevant literature on tax compliance among SMEs. It began by exploring the various definitions of SMEs and tax compliance as pertained to literature as well as adopting one of the definitions for the purpose of this research. The review further examined the contributions of SMEs in the world, Africa, and the Ghana.

The advantages of SMEs pertained to literature were also examined. This was followed closely by an explanation of the theoretical underpinnings for the study. Literature was reviewed on taxpayers' behaviours, forms of tax compliance behaviour, perception of taxpayers on tax system, structure, and practices as well as the various ways of improving tax compliance.

Chapter three dealt with methodological approaches which described and highlighted the study area, study population, sample size and sampling techniques, data collection instrument and method, data processing and mode of analysis, variables and ethical consideration.

Chapter four entailed data presentation, analysis, and discussion of findings. Finally, chapter five conveyed entails the summary, conclusion, and recommendations. Reference and appendices of exhibits and data collection instruments shall followed this chapter.

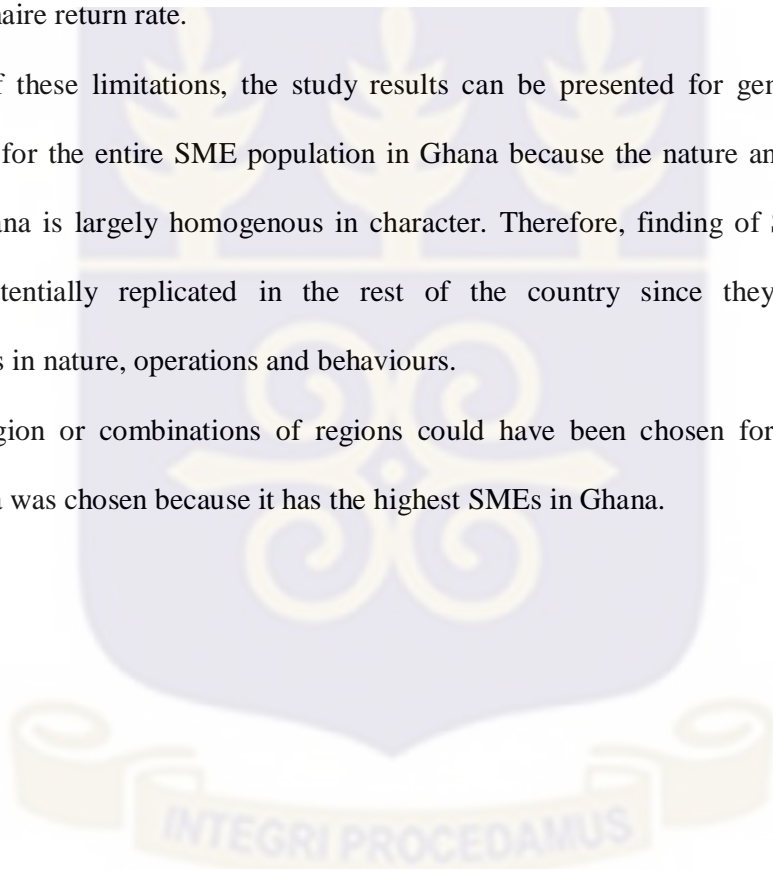
1.6 Research Limitations and Delimitations

The under listed are the challenges by way of limitations and delimitations, the researcher encountered in carrying out this research.

First, the study was carried out among randomized sample SMEs in Accra. Thus, a specific delimitation of the study is that sampling was non representative of Ghana's SME. Secondly, due to fear of victimization by tax authorities, some SMEs were unwilling to participate in the study and or gave inaccurate data with regards to their tax information. This resulted in low questionnaire return rate.

Regardless of these limitations, the study results can be presented for generalization and extrapolation for the entire SME population in Ghana because the nature and operations of SMEs in Ghana is largely homogenous in character. Therefore, finding of SMEs in Accra could be potentially replicated in the rest of the country since they share similar characteristics in nature, operations and behaviours.

Also, any region or combinations of regions could have been chosen for the study, but Greater Accra was chosen because it has the highest SMEs in Ghana.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is organized into two main segments. Whilst the first section dealt with the theoretical literature review of tax compliance behavior of SMEs, the second section looked at the empirical literature review.

2.1 Theoretical Literature Review

This section discussed the various theories that individually or collectively, explained the themes and various aspects of the topic. It embodied discussions on the various aspects of the theories namely, their origins, their assumptions and conditions, and how these theories have been used in past research. The theory triangulation approach was adopted to discuss the following theories; Theory of Planned Behaviour, Social Learning Theory, Economic Deterrence Theory of Tax Compliance, and Fischer Model of Tax Compliance.

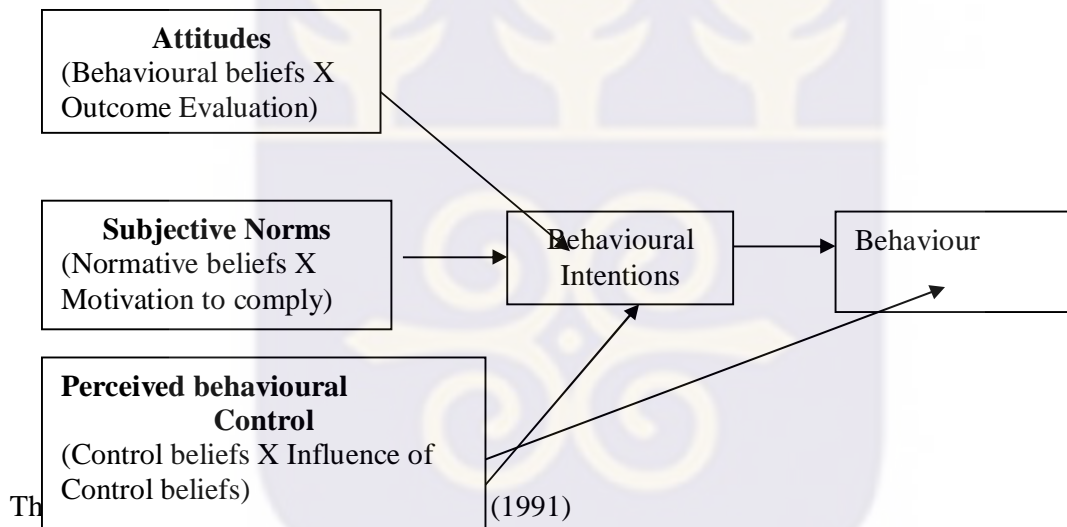
Accounting researchers in recent times have postulated the use of variety of theories jointly in understanding organizational phenomenon such as tax compliance behaviour (Ansari & Bell, 1991; Hoque & Hopper, 1994; Carpenter & Feroz, 2001). This was in recognition of the increasing perceived inadequacy of single theory in explaining management accounting practice (Braithwaite, 2009; Phillips, 2011). The theory triangulation approach has been adopted since the phenomenon of tax compliance behaviour cannot be adequately explained by a single available theory.

The theory of planned behaviour has therefore been principally used for the research collaborating it with social learning theory and the economic deterrence theory of tax compliance. These theories are explained below.

2.1.1 Theory of Planned Behaviour (TPB)

This theory was developed by Ajzen in 1991 in an attempt to explain why people behave the way they behave. This theory has been extensively used in many social science researches especially in psychology. According to TPB, human behaviours are products of many combined variables namely; the likely consequences of the behaviour, norms and expectations of others, and belief about factors that may impede or facilitate behaviour (Ajzen, 1991). The theory attempts to predict the occurrence of an intentional behaviour. This theory has been presented in the diagram below.

Diagram 2.1: Theory of Planned Behaviour



Components of this model are further explained below;

2.1.1.1 Attitudes

A person's attitude toward his/her behaviour is the person's overall assessment of the behaviour. A person's attitude can be influenced by two factors namely; beliefs regarding the consequence of the behaviour, and the final outcome of the person's evaluation. A positive or negative outcome would have different reactions (Kraus, 1995; Quintal, Lee & Soutar, 2010).

In tax compliance behaviour, a person's evaluation about tax evasion and the perceived consequence of non-compliance would shape the person's tax compliance behaviour.

2.1.1.2 Subjective Norms

Subjective norm refers to "the perceived social pressure to perform or not to perform the behavior" in question (Ajzen, 1991). Subjective norms are dictated by two factors which work in interaction: the beliefs about how other people, especially people who are related to the person, would expect the person to behave and the final evaluation on each belief (Kraus, 1995; Quintal, Lee & Soutar, 2010).

Flowing from the above discussion, it is undisputable to conclude that the expectations of a group, association, or family can influence the tax compliance behaviour of their members. Similarly, a person's social status or estimated perceived expectation by society can influence their tax compliance behaviours. Hanno and Violette (1996) measured the belief of taxpayers' with regards to specific social groups such as, family, employers, friends, church groups etc.

2.1.1.3 Perceived Behavioural Control

This refers to the extent of control an individual assume to exert on a certain action. It concerns primarily about the individual perception regarding the availability or absence of resources and opportunity as well as encumbrance or obstacles that would facilitate or impede the performance of the intended behaviour (Kraus, 1995; Quintal, Lee & Soutar, 2010). Taxpayers' opportunity for both compliance and non-compliance goes a long a way to shape their compliance behaviours

Peoples' social network and association also help in shaping their perception, norms, and attitudes which also determines their tax compliance behaviour (Eriksen & Fallan, 1995).

Prior tax researchers have identified income opportunity as an important factor for tax compliance behaviour (Antonides & Robben, 1995; Carne & Englebrecht, 1995).

The theory of Planned Behaviour has been widely applied in many tax compliance behaviour researches. Many researchers have subsequently applied this theory in tax compliance researches (Hanno & Vilotte, 1996; Blanthorne 2000; Bobek & Hatfield, 2003; Pickens, 2005; Asante & Baba, 2011; Abubakari & Adafula, 2013). Arum (2012) opined that the theory of planned behavior is applicable in explaining the behaviour of taxpayers in meeting their tax obligations

2.1.2 Social Learning Theory

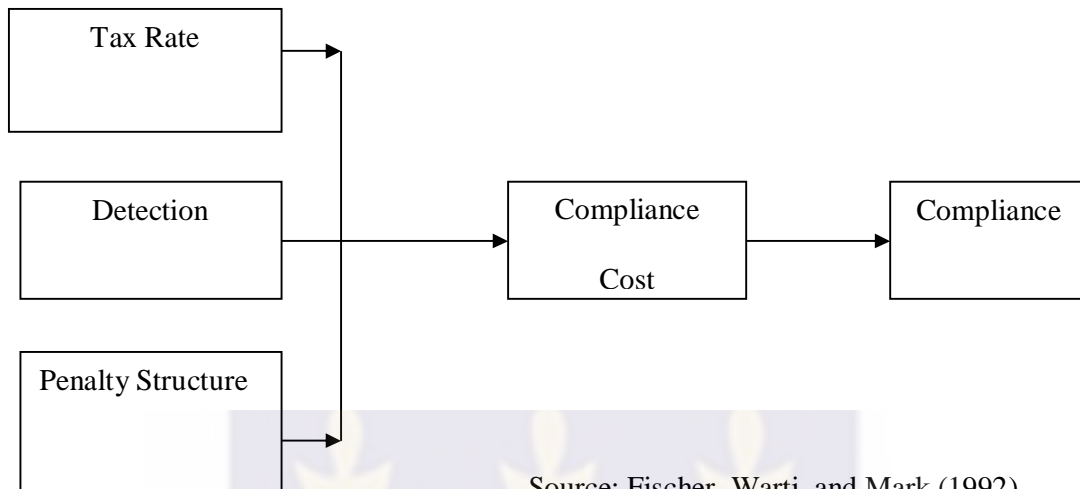
This theory was developed by Albert Bandura in 1977 as a quest for explaining how human beings learn and behave. He concluded that human beings acquire knowledge principally through observation and direct involvement of participation. The underlying principle of this theory is that people learn by observing what others do and through modeling of behaviour. Behaviour is also influenced by its consequences and rewards system in society. Social learning theory specifically asserted that most human behaviours are acquired by observing and modeling (Decker, 1986). Through the means of observing others, people form an idea of how particular behaviours are exercised and the outcome of the action. Social learning theory is applicable to explain the behaviour of taxpayers in meeting their tax obligations. Somebody will obey to pay his/her taxes on time, if they believe based on observation and experience that taxes paid are substantially used in the development of their country (Jatmiko, 2006) as cited in Nurlis 2015). Individual's tax payers' desire to pay their tax obligation has been shaped by the system of taxation services, especially service provided by the

government. Just as individuals behaviours are shaped by praises are provided a positive or punishment stimulus for behaving according to a particular model, it looks fairly relevant to be linked with the effect of the tax penalties on tax compliance behavior (Jatmiko 2006) as cited in (Nurlis 2015).

2.1.3 Economic Deterrence Theory of Tax Compliance

Economic deterrence theory was developed by Allingham and Sandmo (1972) as a result of further refinement of Becker's framework of economics -of-crime tax compliance model. Becker (1968) studied the economics of criminal behavior. Economic deterrence theory is based on the expected utility and deterrence theories (Sapie, Kasipillai & Eze, 2014). Expected utility theory stipulates that taxpayers are rational and perfectly utility maximizers who will not comply with tax laws anytime the expected gain are in excess over the cost of non-compliance (Allingham & Sandmo, 1972, as cited in Sapie et al, 2014). Deterrence theory on the other hand believed that tax compliance behavior is achieved by issuing severe sanctions and threats of sanctions (Cuccia, 1994). Proponents of this theory according to Sapie, et al (2014) suggested that "punishment and or / sanctions determined taxpayer compliance behaviour and that an increase in the penalty rate and a greater probability of detection would result in lower non-compliance". They opined that tax rate, the likelihood of been found out for non-compliance, and the penalty systems dictate the economic benefit of compliance, and this would further dictate the taxpayers' compliance behaviour. This can be represented diagrammatically below:

Diagram 2.2: Fischer tax compliance Model



Source: Fischer, Warti, and Mark (1992)

In order to encourage tax compliance, more of tax audit needs to be embarked upon (Trivedi & Shehata, 2005). Also, tax compliance can be enhanced by increased publicity/advertising, education and incentives for compliance (Feld & Frey, 2007). Economic deterrence model has subsequently been used extensively in tax compliance studies (Pate & Hamilton, 1992; Cuccia, 1994; Chau & Leung, 2009; and Atawodi & Ojeka, 2012).

2.2 Empirical Research

This section embodied an analysis of what previous researchers have identified with respect to the study of tax compliance behaviour particularly emphasis will be placed on specific micro units as explained below.

2.2.1 Definitions of Tax Compliance

Roth, Scholz, and White (1989) defined tax compliance “as filing all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the tax code, regulations and court decisions applicable at the time the return is filed”. Also, James and Alley (2004) espoused that tax compliance concept can be explained by different

attributes but they defined tax compliance as “the willingness of individual and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity”. Brown and Mazur (2003) adduced that tax compliance has many measures and can be theoretical measured by looking at the three different types of compliance such as, reporting compliance, filing compliance, and payment compliance. Supporting this view, Chaltopadhyay and Das-Gupta (2002), Franzoni (2000) as cited in Antwi et al (2015) affirmed that any tax compliance behaviour contrary to these three amounts to tax non-compliance. In an earlier finding, Plumley (1996) stated that voluntary compliance is occasioned by measuring the timely filing of tax, the accurate reporting of tax liability, and the prompt payment of tax liability due. Additionally, Kirchler (2007) defined tax compliance as “the willingness of the taxpayers to comply with all tax laws, file, report, and pay all tax liability in time”.

Tax compliance level is usually assessed by measuring the compliance indicators; one of the ways is to ascertain the ratio of tax to GDP (OECD, 2004). In Ghana, the Ghana Revenue Authority classified taxpayers into three namely; small taxpayers, medium taxpayers, and large taxpayers using turnover thresholds.

2.2.2 Definitions of Small and Medium Enterprises (SMEs)

There are various definitions of the term SMEs all over the world by policy makers, and researchers in a quest to understand the concept of SMEs (Kayanul & Quartey, 2000). The multiplicity of SMEs definitions stemmed from numerous criteria for classifying them, such as, number of the employees employed, annual turnovers, and value of fixed assets (Ayyagari, 2003). SMEs nomenclature includes micro, Small, and Medium Enterprises (Mbwambo, Mungaya & Tripathi, 2012).

The European Union considers SMEs as one with less than 250 employees or total annual turnover of US\$ 200,000.00 (Abor & Adjasi, 2007). Also, the World Bank (2013) classifies SMEs as an entity with up to 300 employees, or with an annual total turnover of US\$15m. Van der Wijst (1989) considers SMEs business as “privately held firms with 1-9 and 10-99 people employed” (cited in Abor & Adjasi (2007). The term was defined by Chittenden, Michealas, and Poutziouris (1999) as small independent private limited companies with less than 200 employees.

In Ghana, there seems to be a consensus on the definition of SMEs by institutions such as the Ghana Statistical Service (GSS) and National Board for Small Scale Industries (NBSSI) (Ackah & Vuvor, 2011). GSS categorized business in Ghana into four, based on number of employees as follows;

Table 2.1: Categorization of SMEs

Name	Number of employees
Micro-sized	less than 5
Small-sized	from 6 to 30
Medium-sized	from 31 to 100
Large-Sized	More than 100

Source: Ghana Statistical Service IBES report of 2014

The NBSSI’s (as cited in Amanamah, 2016), also defined SMEs in terms of number of employees and their categorization was is in consonance with GSS’s categorization as above.

The researcher has therefore adopted the Ghana Statistical Service (GSS) and National Board for Small Scale Industries (NBSSI) definition and categorization of SMEs in his research.

2.2.3 Importance of SME's in the Economy

The growing recognition of the significance of SMEs in any economy cannot be over-emphasized. They are often the largest employer of workers in many developed economies (Mullineux, 1997) and serve as the engine for accelerating economic development in developing economies (Abor & Quartey, 2010). SMEs accounts for 90% of all businesses in the world and contribute about 60% to the world's employment (UNIDO, 1999). In Singapore, SMEs provide 62% of available jobs and make 47% contribution to the country's gross domestic product (GDP) (SMU, 2008) as cited in Tanui (2016). Malaysia's SMEs constitutes 97.3% of the total business establishments (Ayyagari et al (2003), as cited in Tanui (2016). Also, SMEs form 90% of business ownership and contributes over 50% employment in Africa (Okafor, 2006). Similarly, in Ghana, 92% of companies are SMEs and 82% of these SMEs offer employment (Abor & Adjasi, 2007), and contribute 70% to GDP (Villars, 2004).

SMEs assist in accelerating rural development while decreasing rural urban migration and the problems accruing from congestion in the cities. This is because they are easy to establish, flexibility in operations, less capital start-up, and are less competitive (López & Aybar (2000).

2.2.4 Characteristics of SME

Fisher and Reuber (2000) suggested that the characteristics of SMEs in developing countries can be grouped under the broad headings; labour characteristics, gender of ownership, sectors of activities, and efficiency (Abor & Quartey, 2010). SMEs operations by design are less labour intensive than larger firms and need relatively smaller capital start (Abor & Quartey, 2010). SMEs are usual one-person operated, assisted by family relatives and friends and are

mostly owner-managed (Cook, 2001). Olorunshola (2003) stated that SMEs in Ghana are owner-managed and usually offer basic services and goods, and lack management structures. Furthermore, in Ghana, SME's are usually categorized into organized and unorganized enterprises (Abor & Quartey, 2010). Organized enterprises usual have paid employees with permanent registered locations or offices while the unorganized are usually composed of artisans without locations, operating in temporary wooden structures, homes, and may or may not have employee or any of them (Kayanula & Quartey, 2000).

The composition of male versus female ownership of SMEs in Ghana can be adequately measured by looking at industry or sector specific indicators as well as the economic-wide indicators (Quartey, 2003). The Ghanaian Statistical Service report of IBES (2014) indicated that 60.30% of all persons engaged on non-household establishments are men. They further revealed that six out of every ten persons engaged in small establishment are men while twice the numbers of males to females are engaged in medium size establishments. These support earlier findings of some researchers. Sowa (1992) discovered that 74% of sampled SMEs operating in Ghana were owned by males while 26% were owned by females. This shows clearly that Ghana's SMEs market is predominantly dominated by males.

SMEs in Ghana have largely engaged in retailing, trading, or manufacturing (Fisher & Reuber, 2000). The IBES report of the Ghana Statistical Service (2014) disclosed that 82.60% of all establishments in Ghana are in the service sector which comprises wholesale and retail trade, arts, entertainment and recreation, human health and social work, education, public administration and defense, administrative and support services, professional, scientific and technical, real estates, financial and insurance, information and communication, accommodation and food, transportation and storage and other services. This was followed

by the industry sector which accounted for 17.00% of total business establishments in the country embodying manufacturing, mining, quarrying, construction, gas, water supply and sewerage. Lastly, the agricultural sector accounts for 0.4% of the total business establishments in Ghana. Majority of SMEs in Ghana are however in the retailing and trading sector (Abor & Quartey, 2010).

Efficiency in business varies across and within industries (Abor & Quartey, 2010). The size of a firm correlates with its level of efficiency. Studies in developing countries suggested that micro or smallest firms are least efficient, considerably evidence further suggested that both large and micro firms are least efficient relative medium enterprises (Little et al, 1987).

The ability of SMEs to withstand adverse economic conditions coupled with their flexibility engineered the existence of multiples SMEs in Ghana, attributes that are lacking in large firms (Kayanula & Quartey, 2000). Flexibility attributes enable SMEs to switch to different business lines to ensure diversification and spread of business risk hence their ability to withstand various economic conditions. SMEs are usually characterized with lacking of recording keepings with little or no financial information (UNCTAD, 2002).

2.2.5 Taxation of SMEs

Salemi (2010) stipulated that there are various types of taxation with respect to SME's namely; income tax, corporate tax, sales tax, exercise tax, custom duties, fees, fines, prices, special assessment, and Value Added Tax (VAT). Taxes are normally used to achieve many purposes including to raise revenue, maintain economic stability, offer protection policy, solve unemployment problem, social welfare, and to ensure fair distribution of resources (Mwangi & Nganga, 2010). In fulfilling the revenue mobilization function of taxation, the tax

system should be well designed, efficient, and equitable between and within various groups in the economy (Bolnick, 2004; Gbadago & Awunyo-Vitor, 2015).

For any tax system to be effective, certain ingredients must be present. These include equity, convenience, economy and certainty.

Evidence suggests that there is a high correlation between perception of tax equity and tax compliance behaviour, this is fuel by the fact that trust and legitimacy are usually linked with fairness (Braithwaite, 2009; Delaney & Harmon, 2009). When taxpayers believe that the tax administration would not fairly collect taxes, this will fueled tax non-compliance (Murphy, 2004). Also, Mukasa (2011) disclosed that improved tax fairness correlates with the enhancement of compliance behaviours.

A good tax system must not be difficult to administer by the government and the taxpayer should not unduly suffer in order to comply with the tax laws (Ali-Nakyea, 2014). Convenience in tax administration is synonymous with the tax compliance cost. The administrative cost of collecting, enforcing, and supervising the tax system should be relatively lower with respect to the amount of taxes collected (Ali-Nakyea, 2014). This cannon is referred to as economy.

An effective and efficient tax system should allow taxpayers to predict or determine their tax liability with an average level of accuracy (Ali-Nakyea, 2014). In achieving the above, tax laws should not be ambiguous coupled with no discretionary powers for tax administrators.

2.2.6 Elements of Taxation

The implementation of tax laws requires a series of processes or activities to be undertaken by the tax authorities in order to raise the expected revenue for governments. These processes and activities are referred to as elements of taxation.

2.2.6.1 Identifying the SME Taxpayer

The first stage in the tax administration process refers to identification of the SME taxpayer and roping then in into the tax net. This process includes having knowledge about the taxpayers' business location and nature of business (Otieku, 1988). According to Lewis (2005) identification of SMEs for taxation has been a major challenge in developing nations since there are no centralized or unique numbering system used to identify all taxpayers.

In an attempt to resolve this situation, many countries in Africa including Ghana have introduced the Taxpayer Identification Number (TIN) System in order to identify all taxpayers through the passage into law the Taxpayers Identification Numbering System (TIN) ACT, 632 (2002).

According to Section 8 of ACT 632 (2002), the following are the uses of the TIN

- i. "To clear goods in commercial quantities from any port of factory"
- ii. "To register any title to land, interest in land or any document affecting land"
- iii. "To obtain any Tax Clearance Certificate from the Internal Revenue Service, Custom Exercise and Preventive Service, or the Value Added Tax Service"
- iv. "To obtain a certificate to commence business or a business permit issued by the Registrar-General or District Assembly"
- v. "To receive payment from the Controller and Accountant-General or a District Assembly in respect of a contract for the supply of goods or the provision of any services unless that person quotes the TIN issued in respect of that person under the system"

2.2.6.2 Ascertaining and Assessing the Income of the Taxpayers

The next stage after identifying the SME taxpayer is to ascertain their various sources of income. Since there is no universal acceptable definition of what constitute income for various professionals, for examples such as, between an economist and an accountant, the tax laws of the various countries always specify what constitute an income (Otiaku, 1988).

In Ghana, according to Section 3(2) (a) and (b) of the Income Tax ACT 2015(ACT 896), a resident person including business is taxed on all incomes irrespective of the source (called worldwide basis of taxation) while a non-resident person is taxed on only incomes derived or accruing in Ghana.

Also, Section 3(2) of the Income Tax ACT, state

the chargeable income of resident person for a year of assessment shall include the person's total income from employment, business, or investment whether or not the source from which the income is derived has ceased and in case of anon-resident person, the total income of that person from employment, business or investment for a year to the extent that the income has a source in Ghana, and where the person has a permanent establishment in Ghana, the income of that establishment irrespective of their source.

2.2.6.3 Levying, Collecting and Paying Taxes into National Coiffers

Levying of taxes refers to the determination of tax liability, and it involves the application of the relevant tax rates on the chargeable income (Otiaku, 1988). Otiaku added that where an objective assessment is possible, the determination of tax liability is quite routine, the absence of which will demand an imposition of standard assessment. It is however important to state that the levying of taxes demand an updated working knowledge of the relevant tax laws (OECD, 2010). The levying of taxes usual serves as the genesis of corruption in the tax

administration system, as corrupt tax officials always overvalue revenues of taxpayers in order to compute a higher tax liability which would serve as the basis for negotiation (Saha, 2003)

Collection of taxes and penalties refers to the interface between the tax officials and the taxpayers (Saha, 2003) and it is the most crucial stage in the tax administration (Otiaku, 1988). Officials engaged in collecting taxes and penalties must possess an updated working knowledge about the tax laws (Otiaku, 1988). Tax officials must be honest not to divert funds or collude with taxpayers (Otiaku, 1988). Tax collection is often bedeviled with corrupt behaviours of tax officials. A revenue collector is susceptible to corrupt behaviour if his/her's expected gains exceed the expected cost of being caught and fined (Huther & Shah, 2000). Revenue collection should satisfy the canon of being convenient to the taxpayer as well as economical in terms of cost of collection to the government (Otiaku, 1988).

When taxes are collected, they must be fully accounted to the state by paying them into the national coffers, and in the case of Ghana, the consolidated fund (Otiaku, 1988). Article 176 (1) of the Constitution of the Republic of Ghana states "there shall be paid into the Consolidated Fund, subject to the provisions of this article", continuing, clause (a) states "all revenues or other moneys raised or received for the purposes of, or on behalf of, the Government".

2.2.6.4 Tax Penalties

The impact of tax penalties for non-compliance on taxpayer's compliance behaviour is another variable worth examining. Nurlis (2015), who examined the relationship between tax penalties and tax compliance, indicated that tax penalties have a positive and significant

relationship to the individual taxpayer's compliance. Tax penalty has been identified to be key factor in moderating tax compliance behaviour by serving as a deterrence factor, motivation, and the correction of improper behaviours (Wenzel, 2004; OECD, 2010; Poppelwell, 2012). Researchers have however, discovered that tax penalties cannot be an effective standalone mechanism for promoting desired tax behaviours but have to be applied with other factors (Tyler, 2006; OECD, 2010).

Enforcement of tax penalties on SMEs need to be done carefully since most SMEs who are owner-managed lacked the capacity to accurately fulfill all tax requirements and obligations (Evans, Carlon & Massey, 2005; Engstom & Holmlund, 2006). This is supported by the fact that average SMEs cannot afford the cost of the services of professional tax experts which would promote compliance (McKerchar, 1995; Coleman & Freeman, 1997)

2.2.7 Behaviour of SMEs during Reporting and Computing Taxes

In discussing the behaviour of SMEs in reporting and computing taxes, Kirchler and Wahl (2010) distinguished between tax avoidance and tax evasion. They stated that tax avoidance is legal and it referred to the practice of taking advantage of loopholes in the tax system in order to pay less tax. Supporting this view, Webley (2004) opined that deliberately breaking the tax laws through under reporting income, exaggerating deductions and business expenses are known as tax evasion. Christian (1994) also reported, based on the 1988 TCMP study, that higher-income people evade less than those with lower incomes, relative to the size of their true income.

Also, Long and Caudill (1987) found a higher percentage of taxpayers paying for professional tax assistance in higher income earners than lower income earners in US. They

concluded that higher income earners pay for the services of professional tax experts than low income earners. Supporting this earlier assertion, Klepper, Mazur, and Nagin (1991) stated that “individuals with higher incomes are more likely to engage preparers or use their services more intensely”. They also added that taxpayers with more complex returns are more likely to seek the services of professional tax experts than simple and self-employed businesses. Commenting on the issue of bribing tax officials, Sevansson (2003) stipulated that firms typically have to pay bribes when dealing with public officials whose actions directly affect the firms’ business operations. Corroborating these findings, Torgler (2005) confirmed that bribing tax officials to pay fewer taxes were higher among higher income earners than lower income earners. . In another study, Imam and Jacobs (2014) concluded that complex tax systems and rules promote bribing of tax officials by businesses in Middle East.

In a similar vein, Keen (2008) postulated that not withholding taxes for payment of goods and services are more pronounced in self-employed businesses and low income earners than corporate bodies and higher income earners. In an earlier finding, Beck (2007) stated that the main challenge of SMEs in developing countries that does not promote financing was the fact that most SMEs operate using cash transaction with minimal records keeping. Furthermore, Maseko and Manyani (2011) discovered that SMEs in Zimbabwe operates mainly using cash transaction and do not keep accurate records.

2.2.8 Behaviour of SMEs during Filing and Payment of Taxes

In measuring the attitude of Ghanaian taxpayers, Atuguba (2006) in his study of the taxpaying culture of Ghanaians indicated that while 44% of the total respondents agreed they would pay taxes if it were voluntary, 51% disagreed. Similarly, Ali, Fjeldstad, and Sjursten

(2014) confirmed that taxpayers in Kenya, Tanzania, Uganda, and South Africa would not pay taxes if it were voluntary.

Also, Agbadi (2011) in his study of VAT flat rate scheme in the Greater Accra metropolis reported that 71.70% of respondents rated the process of filing and paying taxes in Ghana as simple. Silvani and Baer (1997) adduced that a simplified process of filing and paying taxes encourage taxpayers to voluntarily comply with tax laws since they can complete their tax return on their own without recourse to tax agent.

Furthermore, Song and Yarbrough (1978) discovered that 77.70% in Eastern North Carolina disagreed that tax evasion was not a serious crime. In a later research, Burton, Karlinsky, and Blanthorne (2005) confirmed that majority of taxpayers in US rated tax evasion as somewhat a serious crime. Recently, Oladipupo and Obazee (2016) confirmed it in Nigeria.

In another development, Busieney (2012) espoused that a significant percentage of taxpayers in Kenya believed that monies used in paying taxes could have been used to expand their businesses. This was confirmed in another study by Agba, Attah, and Ebong (2015) that SMEs operators would prefer to use their business income to expand to paying taxes.

Tax in Ghana can either be paid based on provisional assessment or self-assessment (GRA, 2017). Under the provisional system, payments are made on quarterly basis based on interim assessment of GRA using estimated revenue and expenses usually based on their previous performance. Final assessment would then be made on these businesses by the GRA at the end of the year not later than 31st March. Upon final assessment, businesses would then either pay their outstanding liability net of taxes already paid in the year or claim tax credit for

overpayments within the year. Final assessment would be based on the actual performance of the business at the year end.

On self-assessment, businesses are required to submit their own estimates of revenues and expenses to GRA within the year. These estimates can be revised by the business any time before the end of the year. At the end of the year, these businesses are required to accurately compute their own tax liability and file them at GRA before 31st March. Under this system however, GRA would also reassess these businesses based on accounts filed. Unallowable expenses and deductions are added back while tax reliefs and capital allowances are granted. Tax liabilities are expected to be paid on equal installment on or before the last day of each quarter of the basis period (Pricewaterhouse Cooper web site, 2017; GRA, 2017). Self-assessment promotes voluntary tax compliance and engender vigorous tax audit by GRA.

2.2.9 Determinants of Tax Compliance Behaviours

Research has identified numerous factors that affect taxpayers' compliance (Richardson & Sawyer, 2001; Alm, 1999; Brook, 2001). Some researchers have also identified economic, social, and psychological factors as the drivers of tax compliance behaviours (Devos, 2008; Fischer, 1993; Fischer et al, 1992; Jackson & Millron, 1986; Kirchler, 2007). Expanding the horizon of understanding the determinants of tax compliance behaviours, Batrancea, Batrancea, and Nichita (2012) discovered political determinants of tax compliance behaviour to include the complexity of the tax law, complexity of the tax system, and the fiscal policy.

2.2.9.1 Taxpayers' Attitude and Tax Compliance Behaviour

Taxpayers attitude refers to the magnitude of their like and dislike towards tax (Mohamad, 2014). Nugi (2013) examined taxpayer's attitude and compliance behaviour among SMEs in

Botswana and found that taxpayer's attitudes did affect their compliance behaviour and it was recommended that the tax authority intensify educational activities on SMEs relating to tax. In a similar incident, Abubakari and Christopher (2013) who evaluated taxpayers' attitude and its influence on tax compliance decisions in Tamale, Ghana, also stated that the attitude of taxpayers influence how they analyze the tax system and their compliance decision. In an earlier finding, Eriksen and Fallan (1996) opined that there is a dimensional approach to understating the impact of attitudes on tax compliance behaviour.

Also, research have shown that taxpayers who owe tax (loss situation) may be tempted to reduce the amount of money owed and more often decide to evade taxes (Cullis, Jones & Lewis 2006; Hasseldine & Hite, 2003; Kirchler & Maciejovsky, 2001; Lewis, Carrera, Cullis & Jones, 2009; White, Harrison & Harrell, 1993).

2.2.9.2 Tax Knowledge of Taxpayers and Tax Compliance Behaviour

Mohamad, Mustafa, and Asri (2007) examined the influence of tax knowledge on compliance behaviour and indicated that, regarding the rules and regulation of taxation, the level of education received by taxpayers is an important factor that contributes to the general understanding. In an attempt to demystify this phenomenon, Loo, McKerchar, and Hansford (2008) disclosed a mixed research findings about taxpayers' knowledge and tax compliance and stated that increases in taxpayers' knowledge have a negative impact on their perceptions and conversation fairness. They further explained that, individual taxpayers who have good knowledge of tax felt that they are not receiving their fair share of benefits, funded by tax revenue. Although the benefits have been provided in terms of public facilities such as free education and subsidized wellbeing system, the fact that the detailed information on the source of expenditure are not publicly available may have created this negative perceptions

on the fairness of the income tax system in the country (Loo et al, 2008). Some researchers have however found tax knowledge as an essential driver for increasing tax compliance behaviour (Richardson, 2006; Kasipillai, 2007; Kirchler, Hoelzl & Wahl, 2008). On this score, Ayoki, Obwama, and Ogwapus (2005) acknowledged that lack of expertise and knowledge about tax laws and procedures promote tax non-compliance behaviours. In an earlier findings, Kasipillai and Mustafa (2000) discovered that knowledge about tax laws serve as important tool for attitudes towards taxation as well as accelerating voluntary tax compliance.

2.2.9.3 Tax Education

Hyun (2003) asserted that tax education is an effective tool for promoting tax compliance behaviour. In a similar development, Machogu and Amayi (2013) discovered that tax education assist taxpayers in understanding the dynamics of tax hence, influencing their compliance behaviours.

2.2.7.4 Cost of Complying With Tax

Available evidence suggests that there is a relationship between tax compliance cost and tax compliance behaviour. The rise of tax compliance costs for the small business sector in Australia was confirmed to be contributing to tax non-compliance (Lignier & Evans, 2012, McKerchar et al, 2006; Tran-Nam et al 2004). These findings were in consonance with earlier findings (Pope, 1995; Evans, 2003). Coolidge, Ilic, and Kisunko, (2009) stated that the cost of using professional tax service providers to ensure tax compliance is an integral part of tax compliance cost. Many researchers have subsequently stated that compliance costs have been consistently shown to be highest for SMEs across countries (Chittenden, Kauser & Poutziouris 2005; European Commission, 2004; Joumard, 2002; Pope & Abdul-Jabbar,

2008). There are however consensus among research findings that the cost of using experts tax professional services is too high for SME's (Pope, 2001; Lignier, 2006; Abrie & Doussy, 2006)

2.2.9.5 Social and Cultural Norms and Tax Compliance

Cultural norms refer to the patterns of behaviour that are usually found in groups. Such behaviours are accumulated and transferred to generation and are based on revered values, attitudes, beliefs, and behaviours taken place in the context of their own organizational culture (Mohamad, 2014). Studies have shown that social and cultural norms influence tax compliance behaviours of SMEs operators (Wenzel, 2005; Alm & McClelland, 2012). Social norms on the other hand are defined by Cialdini and Trost (1998) as “rules and standards that are understood by members of a group, and that guide and/or constrain social behavior without the force of law”. Wenzel (2004) disclosed that there is a high correlation between social norms and tax compliance behaviours.

2.2.9.6 View of SME's Taxpayers and Tax Compliance

Mungaya (2012) studied the impact of the tax system on the growth of SMEs in Tanzania and reported that most respondents perceived an adverse impact of existing tax policies on the growth of SMEs and suggested for reforming the tax policies in the Country in order to help to improve tax compliance. Furthermore, Batrancea and Batrancea (2012) recommended the development of tax systems which foster compliance and reduce the distance between taxpayers and tax authorities.

2.2.9.7 Tax Audit

Tax audit has been defined by Awe (2008) as an “independent examination of the books and accounts of an organization by duly appointed person”. Many researchers have found that there is a high impact of tax audit on tax compliance behaviour (Jackson & Jaouen, 1989; Shanmugam, 2003; Dubin, 2004). Similarly, Witte and Woodbury (1985) in their earlier study of small proprietors disclosed that tax audits have significant role in tax compliance. Supporting these assertions, Butler (1993) also stated that tax audits can change compliance behavior from negative to positive. In the Ghanaian context however, Bedi (2016) found a weak correlation between tax audit and tax compliance behaviour.

2.2.9.8 Perception of Tax Fairness and Tax Compliance

The perception of taxpayers about the fairness of the tax system can influence their compliance behaviours. Gillingham and Richardson (2005) stipulated that the perceived unfairness of citizens about the tax system will encourage non-compliance behaviour. Perception of tax fairness is influenced by the attitude of taxpayers such as tax knowledge and tax complexity (Saad, 2010). Supporting the above assertion, Tan and Chin-Fatt (2000) noted that compliance behaviour and tax fairness have been significantly influenced by the increase in tax knowledge.

2.2.9.9 Tax Complying Benefit

Empirical researches have indicated that tax compliance does not only come with a cost; there are also associated benefits (Sandford, Godwin & Hardwick, 1989). Three types of tax benefits have been identified in literature (Lignier, 2009a, Tran-Nam, 2001; Tran-Nam et al., 2000; Pope, 1993; Sandford et al., 1989).

2.2.9.9.1 Cash Flow Benefits

Certain taxes collected could be used as free loans or delayed by the collecting agent before they are finally paid to the tax authorities (Rametse, 2010; Tran-Nam et al., 2000). In Ghana, VAT collected are payable by the 15th of the month following the month of collection.

2.2.9.9.2 Managerial Benefits

Managerial benefits, may accrue to a firm from diverse forms such as better record-keeping and use of technology (Rametse, 2010; Coolidge et al., 2009), improved knowledge of the financial affairs of the business, particularly in the form of increased knowledge of their complex accounting information systems (Lignier, 2008, 2009b, Lignier, 2009c), and improved business or managerial decision-making due to a requirement in terms of tax legislation to maintain records (Tran-Nam et al., 2000; Lignier, 2009c).

2.2.9.9.3 Tax Deductibility Benefits

Tax deductibility benefits arise when the income tax system permits some tax compliance costs to be treated as a legitimate deduction for tax calculation purposes (Tran-Nam et al., 2000; Pope, 2001).

2.2.9.10 Types of Industry

The existence of various rates for different economic activities across various tax jurisdiction serves as an opportunity for tax planning, and can also trigger various tax compliance behaviours (Doran, 2009). In Ghana for example, the Income Tax Act 896 of 2015 prescribed the following tax rate

Table 2.2: Tax rates of various industries

Sector	Tax Rates
Hotel/Hospitality	22%
Mineral Operations	35%
Income from loans to farming business by financial institutions	20%

Source: Income Tax Act, 896 (2015)

Empirical research findings further indicated that certain industries are more tax compliant than others. Rice (1992) and Tedds (2010) stated that services oriented industries are more tax compliant than others. However, Chan and Mo (2000) disclosed that businesses in the service industry are relatively less tax compliant than manufacturing sector. Similarly, Juahir, Norsiah, and Norman (2010) found the construction industry to be engaged more in fraudulent financial reporting than others.

2.2.9.11 Tax Complexity

Tax complexity is one of the major identifiable important taxpayers' compliance variables that influence compliance behaviour and may be the genesis of tax avoidance (Isa, 2012; Sapiei & Kasipillai, 2012). Demystifying the phenomenon, Doran (2009) opined that there is a positive relationship between tax complexity and compliance behaviour. Loo, McKerchar, and Hansford (2010) noted that when the tax laws are complex and tedious the taxpayers may find it difficult to understand, hence resulting in non-compliance behaviours. In an earlier research, Pope (1993) stated that the simplification of tax laws and procedures are surest ways of reducing tax non-compliance among taxpayers. Tax complexities crystallize in the usage of tax experts professionals and suffer the associated cost by taxpayers (Sapie, 2012).

However, Massarrat-Mashhadi and Sielaff (2012) argued that taxpayers do not understand tax complexity. Atuguba (2006) reported that 78% respondents in Ghana disagreed that the tax system in Ghana is transparent.

2.2.9.12 Record Keepings and Tax Compliance

Records keeping in any business establishment have become the engine with which modern businesses depend (Abdul-Rahamon & Adejare, 2014). Records keepings provide the needed data for all the functional areas of the business namely sales, accounting, taxation, production, human resources, marketing etc. (Amoako, 2003). Proper record keepings without which no accurate business decision can be made including computing the right tax liability (Amoako, 2013). Maingot and Zeghal (2006) stated that the purposes of SMEs financial reports are for tax purposes, bank purposes, review of performance and planning decision.

Maseko and Manyani (2011) who studied 100 SMEs in Zimbabwe found that SMEs do not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging professional accountants. Proper recording keeping is a necessary ingredient for the accurate assessment of tax liability (Okoye, Akenbor & Obara, 2012). Similarly, Evans, Carlon and Massey (2005) conducted a study titled: “record keeping practices and tax compliance of SMEs disclosed that lack of record keepings results in increase exposure to tax audit, higher tax compliance cost, corrupt tax officials demands, and difficulties in remitting taxes collected on behalf of tax authorities. All of these irregularities crystallize into non-compliance behaviours.

2.2.10 .Typology of Tax Compliance

One of the various ways of demystifying the phenomenon of tax compliance behaviour of SMEs is to comprehensively study the types of tax compliance behaviours SMEs exhibited and this require a review of the types of compliance behaviours in literature. There is however very little empirical studies on the categorization of tax compliance behaviour (Braithwaite, 2001, 2003; Torgler, 2003). The following types were however discussed by Otiaku (1988):

2.2.10.1. Defensive Compliance

Defensive tax compliance according to Otiaku (1988) is a behaviour that has been occasioned by the deterrence mechanism, fueled by the capacity and effectiveness of the tax system in imposing penalties for non-compliance, tax audits, and surveillance to identify tax non-compliant. In other words, the taxpayer only complies with tax for fear of been found out and punished for non-compliant. This group of taxpayers are referred to by Braithwaite (2002) as disengagement taxpayers. Slemrod (2007) suggested that more effective deterrence factors such as fines, penalties, surcharges for delay, and effective surveillance. Also, Cardozo (2011) referred to this category of taxpayers as under-compliant. He concluded that they do not have very clear image of their rights and obligations, and lack the ability to solve tax related problems, and often require assistance from their acquaintances.

2.2.10.2 Structured Compliance

The behaviours of this group of taxpayers are conditioned by the strict enforcement of tax laws by eliminating all opportunities for non-compliant behaviours Otiaku (1988). For example, the deducting and payment of PAYE and withholding taxes does not give the taxpayer the opportunity to decide whether to comply or not.

2.2.10.3 Self-Serving Compliance

This group of taxpayers strive to comply with the tax laws in order to reduce their tax liabilities by utilizing all opportunities created by tax laws to minimize their tax burden (Otieku, 1988). He stated further that this group engage in tax planning and would utilize the services of professional tax experts in order to comply with the tax laws. Tyler (2003) clarified that these group of taxpayers engage in assessing the gains and losses to maximize outcomes; and sees tax compliances in their own interest.

2.2.10.4 Loyal Compliance

According to Otieku (1988) loyal compliance occurs when people see tax as a moral obligation to pay and feel guilty about cheating on taxes. He elaborated further that such people see tax obligations are appropriate demands of government that yield a reasonable return by way of services and social protection and are ready to even overpay their taxes. Braithwaite (2002) described this group as committed taxpayers who see tax compliance as their civic and moral responsibilities and would always strive to comply with the tax.

2.2.10.5 Social Compliance

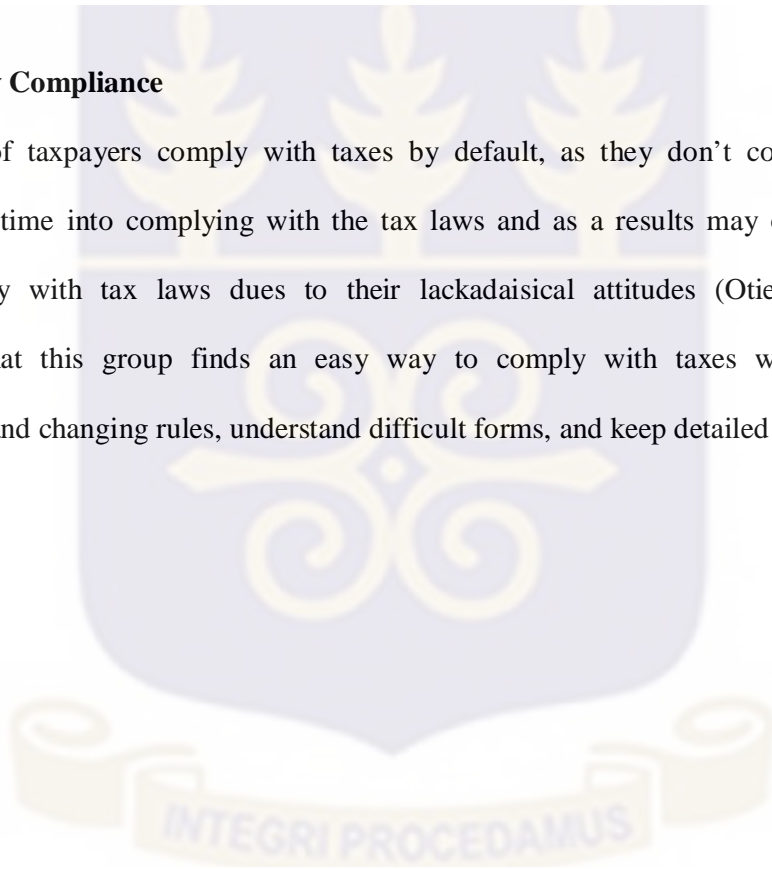
Even though taxpaying is a private activity, it can be dictated directly and indirectly by pressures and expectations of friends, family, and community due partly to the fear that what is private can become public (Otieku, 1988). Explaining more, he said individuals taxpaying behaviours are influenced by the social networks, family, business associations, churches they belong to.

2.2.10.6 Brokered Compliance

According to Otiaku (1988), constituents of this group seek advice and assistance from professionals and non-professionals to aid them meet all their tax requirements. This group of people keep accurate records, report all income, and take only permissible deductions under the tutelage of a tax professional. By implication, bound by ethical and legal standards, the professionals who this group of people relies on make sure that the taxpayer complies accurately with the tax laws and requirements.

2.2.10.7 Lazy Compliance

This group of taxpayers comply with taxes by default, as they don't consciously exert energies and time into complying with the tax laws and as a result may over comply or under comply with tax laws due to their lackadaisical attitudes (Otiaku, 1988). He mentioned that this group finds an easy way to comply with taxes without learning complicated and changing rules, understand difficult forms, and keep detailed records.



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives highlights of the research philosophy and paradigm, a brief profile of the study area, the research design and strategy, population, sample techniques and size, sources of data and data collection instrument, as well as analysis and management data.

3.1 Research philosophy and paradigm

A research paradigm has been defined by Kuhn (1962) as “the set of common beliefs and agreements shared between scientists about how problems should be understood and addressed”. A therefore paradigm dictates and give the direction of the research. Guba (1990) explained that there are three components of research paradigm namely: the ontology which talks about what reality is, epistemology which defines how we know something, and lastly the methodology which prescribe how do we go about finding out the reality.

3.1.1 Pragmatism Research Paradigm

There are multiples of research paradigm as there are many ways of interpreting the empirical world. According to Morgan (2013) pragmatism “can serve as a philosophical program for social research, regardless of whether that research uses qualitative, quantitative, or mixed methods”

Pragmatism as a school of thought recognizes that there are multiple ways of interpreting the world in research since there are multiples of reality that cannot be explained by a single view. This paradigm recommend the mixed research method so that the weaknesses of one methods can be overcome by the strengths of the other (Morgan, 2014). Since the researcher

is using the mixed method of research to study the tax compliance behaviour of SMEs in Ghana, the researcher has adopted the pragmatism research paradigm view

3.2 Research Design and Strategy

The general approach to this research was mixed in nature embodying the use of descriptive statistics and the explanation of possible reasons for respondents' perceived behaviour. The researcher adopted a cross-sectional survey design to explore the activities and tax-related behaviours of SMEs in the Greater Accra region of Ghana. Empirical data was gathered from owners of SMEs by using structured questionnaire that covered various aspects of operation and tax-related activities of SMEs. Overall, about 400 registered and unregistered SMEs in the telecommunication, restaurants, bear bar and drinking spot, as well as street vending sectors formed part of the respondents in this research

3.3 Population and Profile of Study Area

Greater Accra region, the region that enveloped the capital town of Ghana, is occupying 3,245 square kilometers and is the smallest area among the ten administrative regions. The region has a population density of 1,235.8 people per sq.km with an annual urban growth rate of 3.1% (Ghana Statistical Service, 2005). The region also has a total population of 4,010,054 in 2010 with a growth rate of 2.5% per annum (Ghana Statistical Service, 2010). Greater Accra Region lies on the south-eastern part of the country along the gulf of guinea and has coastal savannah, a little forest area inland towards the Eastern Region in the Ga district.

The region is segmented into five administrative units with each being headed by a chief executive officer. These units include Accra Metropolitan Area (AMA) Accra, Tema Municipal Area Tema, Ga East District, Ga West District, Dangme West District, Dodowa and Dangme East District, Ada-Foah.

The region accounts for the highest businesses among the ten regions contributing 177,153 (27.80%) towards the total registered businesses of 638,234 in Ghana according to Statistical Services' Integrated Business Establishment Survey (IBES) report of 2014. Also, out of 635,695 SMEs in Ghana, about 175,452 (27.67%) of them are found in the Accra region (Ghana Statistical Services, Integrated Business Establishment Survey, 2014). Again, Greater Accra region accounted for more than twice any region the percentage of formal sector establishment, amounting to 22% of the entire formal sector in Ghana (IBES report of 2014, p.15).

The Ghanaian population and housing census report of 2012 stated that “in Greater Accra, significant proportions of the economically active population are engaged in wholesale and retail trade (31.6%), manufacturing (14.8%) and accommodation and food service activities (9.1%), with only 5.2 percent engaged in agricultural activity”. This suggested that majority of the active population in Greater Accra region are predominantly engaged in whole and retail trade.

Also, a significant portion of these classified SME's are located in the Greater Accra Region amounting to 27.67% of the total SME's in Ghana. Greater Accra region therefore contained the highest portion of the formal sector of businesses in Ghana as well as the embodying the highest number SME's. And since the researcher cannot study all the SME's in Ghana, Greater Accra Region was chosen and studied.

3.4 Sampling Techniques and Sample Size

A total of 400 questionnaires were administered to SME's using a purposive sampling method. Participants were purposively selected to ensure they are “information rich” (Arksey

and Knight, 1999) and were able to provide us with required information. Supporting this assertion, Mason (1996) stated that the objective of purposive sampling is to select samples with in-depth information from participants. Participants were selected based on segments such as Manufacturing, Commerce, Pharmaceuticals, Financial Services, Telecommunications and Electronics, Restaurants and Hospitality, Alcoholic and Beverages, Building and Construction, and others. This ensured that all industries were covered in the research.

A total of 314 questionnaires representing seventy-nine percent (79%) were recovered from the field with the assistance of three field research assistants.

Since the researcher was conducting a survey on the tax compliance behaviour of SMEs in Ghana, the researcher adopted David De Vaus (2002) survey formula in determining the sample size. This formula has been applied as follows:

$$\begin{aligned}
 SS &= \frac{N}{1 + N (0.d^2)} \\
 &= \frac{175,920}{1 + 175,920 (0.5^2)} \\
 &= 400
 \end{aligned}$$

Where SS refers to Sample Size

N refers to Total Population of SMEs in Greater Accra Region

D squared refers to confidence level.

According the Ghana Statistical Services IBES report (2014), eighty-two (82%) percent of the total SMEs in Greater Accra region (175,920) are into Service Sector, 17.60% into Industry Sector, while 0.40% are into Agricultural Sector.

The report further explained that 55.1% of businesses in the Service Sector are into whole sale and retail trade while 10.70% are into accommodation, restaurants, and hospitality

businesses. The report further stated that while 13.80% of these businesses are into communication and phones, 20% are into other services not mentioned. Commenting industry sector, the report stated that 91.90% of all businesses in this sector are into manufacturing, while 6.1% are into building and construction subsector.

3.4.1 Determination of Strata

Total Sample =400.

Service Sector (400 X 82%) =328

Industry Sector (400 X 17.6%)=70

Others (400 X 0.04) = 2

Using the proportionate stratified method, the following strata was constructed:

Table 3.1: Strata of Sample Population

Subsector	Determination	Total Number
Commence	(328 X 55.1% X 50%)	90
Communication & Phones	(328 X 13.80%)	45
Accommodation & Food	(328 X 10.70%)	35
Other Service	(328 X 20%)	66
Manufacturing	(70 & 91.9%)	64
Building & Construction		7
Beverages & Alcohol	(328 X 55.1% X 50%)	90
Others		2

Total		400
		=====

Source: Researcher Construct, 2017

3.5. Sources of Data and Data Collection Instruments

The research was conducted using only primary data collecting responses of questionnaires administered.

3.5.1 Data Collection Methods and Tools

Primary data was gathered from respondents through semi-structured interview questionnaire that cover all major aspects of operation of SMEs including their tax behaviors. Survey method was selected for this research because both Richardson & Sawyer (2001) and Saunders, Lewis & Thornhill (2007) recommended survey method as the most appropriate and common strategy in business and management research. Survey strategy supports and promotes the collection of large standardized amount of data from the population which are not readily available and support the use of quantitative research design (Owens, 2002).

Questionnaires containing both open and closed questions in the form scales, were used for the data collection. Likert 5-point scale ranging from “strongly disagree” to “strongly agree” and the modified Ireland’s questionnaire on the survey of tax compliance behaviour and attitudes in Ireland, 2008/2009 were partly adapted. Tax information are always sensitive to every business person hence respondents identity remained confidential. The choice of questionnaire over other primary data collection instruments was influenced by the fact that questionnaires enabled the researcher to reach out to many respondents, and enabled the researcher collect standardized and uniform data on all respondents, a defect of the other methods.

Questionnaires were segmented into categories namely; demographic information, business information, level of tax compliance, tax compliance behaviour of SMEs in reporting and computation of tax liability, tax compliance behaviour of SMEs in filling and payment, the forms or types of tax compliance behaviours exhibited by SMEs in Ghana, taxpayers morality and ethics, taxpayers perception about tax administration in Ghana, the factors that promote tax compliance behaviour among SMEs, and taxpayers believes.

3.5.2 Demographic Information

This unit measured the bio information and personal characteristics of SMEs operator. Specific question measured the sex, age, and educational levels of SMEs operators. Respondents' identities were not sort for due to the sensitivity of tax information.

3.5.3 Business Information

In this section, data was collected on the nature of SMEs operations, the length of time of being in business, average annual turnover, number of employees of the business, as well as asking SMEs operators to indicate the type of records the keep. Under nature of business, list of industries were provided and respondents were asked to indicate where they fit. It also provided a column for respondents to state where none of the categorization fits their business description. Also, ranges of turnovers were provided for respondents to indicate where their turnover falls. Ranges of number of years and employees employed were also provided for respondents to choose respectively.

3.5.4 Level of Tax Compliance among SMEs

This section used “Yes” and “No” to assess if respondents had Taxpayer Identification Numbers (TIN), if they were registered with the Registrar General department of Ghana, Metropolitan, Municipal, and District Assemblies (MMDAs), and the Ghana Revenue Authority (GRA) for tax purposes. Lists of taxes were also provided and respondents asked to indicate if they paid them and how regular they were paid.

3.5.5 Tax Compliance Behaviours of SMEs during Reporting, Filing and Paying Tax Liabilities Due

Using the Likert four points and three points scales, thirteen statements were provided pertaining to how SMEs operators would behave during reporting, filing, and payments of their taxes. This unit sort to answer research objective one.

3.5.6 Forms or Types of Tax Compliance Behaviours of SMEs in Ghana

Also, using the partly adopted 2008/2009 Ireland's questionnaire, ten statements were made and respondents were asked to indicate using "strong", "weak", and "Not at all" how each statement appeals to their taxpaying behaviour. Each statement describe or in combination describes a particular type or forms of tax compliance behaviour in literature.

3.5.7 Perception of SMEs Taxpayers about Tax Administration and Practices in Ghana.

This unit assessed the perception of SMEs tax operators about tax administration and practices in Ghana. Ten statements, each referring to the Ghanaian tax system, were made and respondents were asked to disagree or agree with them.

3.5.8 Factors that Promote Tax Compliance Behaviours in Ghana.

Using, "1" for high, "2" for higher and "3" for highest, respondents were given eight statements to indicate how each of them would promote tax compliance in Ghana. Also, respondents were asked to state in their opinion the factors that would promote tax compliance.

3.5.9 Pre-Testing of Data

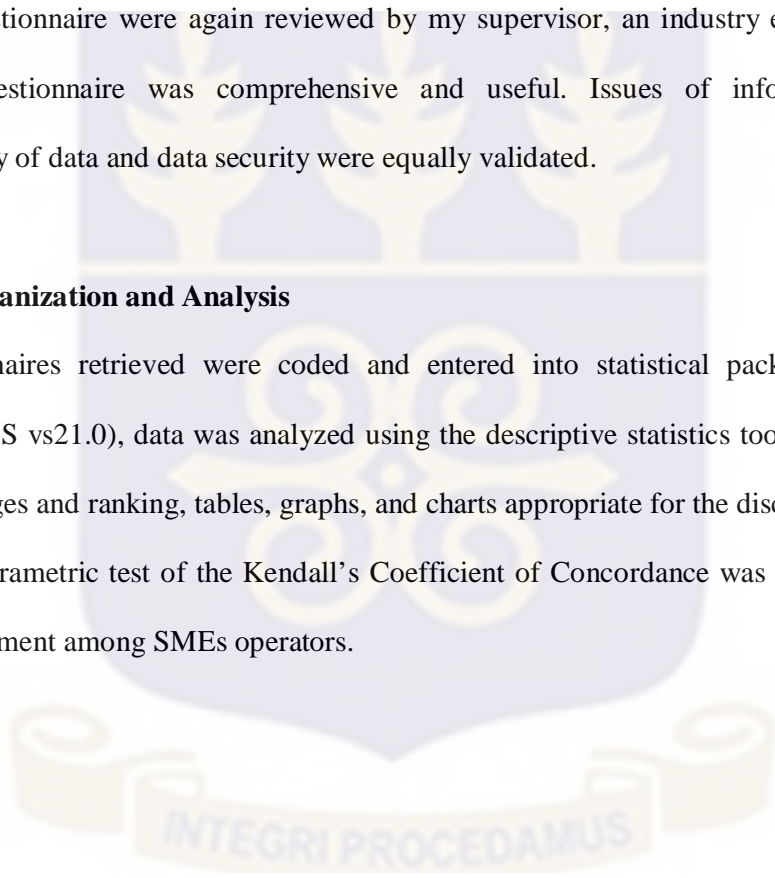
A questionnaire were pre-tested by administering them to selected SME's operators at Dansoman, a section of Greater Accra. In pre-testing to potential respondents, the researcher was present and observed how the questionnaires were completed. He subsequently inquired from them if the questions were clear, and whether there were problems in understanding the requirements of any question.

Updated questionnaire were again reviewed by my supervisor, an industry expert, to make sure the questionnaire was comprehensive and useful. Issues of informed consent, confidentiality of data and data security were equally validated.

3.6 Data Organization and Analysis

All questionnaires retrieved were coded and entered into statistical package for social scientist (SPSS vs21.0), data was analyzed using the descriptive statistics tool and presented into percentages and ranking, tables, graphs, and charts appropriate for the discussions.

Also, non-parametric test of the Kendall's Coefficient of Concordance was used to test the level of agreement among SMEs operators.



CHAPER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This section conveys a comprehensive analysis of data collected in the field. The first portion highlights the demographic characteristics of the respondents who responded to the study (such as age, sex, income or business types etc). The second sections presented the business information about the SMEs operators. The subsequent sections shed light on the following tax related issues; the tax compliance level of SMEs, the behaviours of SMEs during reporting, filing, and payment of taxes, the forms of tax compliance behaviours exhibited by SMEs businesses in Ghana, the perception of SMEs tax payers about tax administration in Ghana, and the factors that promote voluntary tax compliance behaviours in Ghana.

4.1 Demographic Data

4.1.0 Age, Gender, and Level of Education

Results of data collected indicated that there were 10% more females respondents than males. This could partly be attributed to the fact that in Ghana, females constitute majority of the total population (Ghana Population and Housing Census report, 2012) and more likely to be involved in SME trade. This corroborates Ghana Statistical Service conclusion that there are more females in SMEs trade than males in Accra (GSS IBES report, 2014). Also, the researcher's field experience also indicated that females were more accommodating and ready to take part in the survey than males.

In terms of age, the results shows that about 82% of total respondents were within the age bracket of between 36 and 55. The overall youthful age category (less than 35) however accounted for about (18%) of total respondents. In Ghana, the national youth policy

document defines a youth as someone within the age bracket of 15 and 35 (Youth policy document of Ghana, 2010). The dominance of middle age SMEs operators in the Greater Accra region stemmed from the inability of the youthful age group to raise the initial capital to start their businesses coupled with the fact that majority of these youth are still in schools. Also, a significant proportion of these youth in the region are migrants searching for jobs, and other greener pastures.

Similarly, the results further revealed that about 85% of total respondents had formal education ranging from basic education to tertiary level while 15% of total respondents had no formal education as shown on table 4. 1. Higher literacy rate among respondents would increase their level of appreciation of tax issues; influence the quality of record keeping, as well as impacting on the tax compliance behaviours of these respondents. There is however a mixed findings in tax compliance literature about the effect of tax payers' level of education on tax compliance behaviour (Richardson, 2006; Kasipillai, 2007; Ayoki, Obwama & Ogwapus, 2005; Singh, 2003). While Wallschutzky (1984) asserted that high education level of taxpayers as a variable increases tax compliance behaviours, Beron, Tauchen, and Witte (1992) found out that higher educational level of taxpayers correlated with higher income level, and higher income earners are less tax compliant than lower income earners (Christian, 1994).

Table 4.1: Sex, Age, and Educational Level of Respondents

Variable	Frequency	Percentage (%)
Gender		
Male	142	45
Female	172	55
Age		
Less than 35	57	18
36-45	121	39
46-55	132	42
55 above	4	1
Education		
No formal education	48	15
Basic education	99	32
SSS	141	45
Tertiary	25	8

Source: Field Survey, 2017

4.2 Business Information

4.2.0 Type of Industry

The results indicated that 11% of the total respondents' businesses were outside the researcher's initial categorization namely; Manufacturing, Commerce, Restaurants & Hospitality, Service, Building & Construction, and Communication & Phones. It however, suggested that the study covered almost every sector of the SMEs economy. From the results, 28% of SMEs surveyed were operating in communication & phones sector, 11% in commerce, 9% in Service sector, 8% in restaurant business, and 4% and 2% in manufacturing, building and construction sectors respectively. Various economic activities induce multiples taxpaying behaviours in an economy.

Table 4.2: Nature of Business

SMEs Sector	Frequency	Percentage (%)
Manufacturing	11	4.00
Commerce	34	11.00
Restaurant	26	8.00
Services	28	9.00
Building & construction	7	2.00
Communication & phones	87	28.00
Beverage/alcohol	85	27.00
Others	36	11.00
Total	314	100.0

Source: Field Survey, 2017

4.2.1 Number of Years in Business

In addition, it was discovered that a significant number (40%) of these SMEs have been in existence between 7-9 years. Also, while 37% of SMEs have been in existence between 4-6 years, 13% of total SMEs were only less than 3 years old as showcased in table 4. 3. It can be adduced therefore that a total of 77% of SMEs have been in existence between 4-9years, while 10% have been in existence above 10years. Results therefore implied that majority of these business were within the growth stages of their business cycles. These businesses are therefore expected to be increasing in sales turnover and in number of employees. This seems not to be the case as many of the respondents reported lower turnover as well as non-increasing in number of employees. Also, longer experience in business can also influence one’s taxpaying attitude and behaviour as these people might have developed a routine practices either negative or positive to paying taxes.

Table 4.3: Number of Years in Business by Respondents

Category	Frequency	Percentage
Length of stay in business		
Less 3 years	41	13
Between 4-6 years	116	37
Between 7-9 years	125	40
Above 10 years	31	10
Total	314	100

Source: Field Survey, 2017

4.2.2 Income Level of Respondents

Results of data collected on turnover as shown in table 4. 4 below indicated that more than half (52%) of total SMEs surveyed earned below GH¢100,000.00 per annum. Also, while 33% of SMEs earned between GH¢100,001.00 and GH¢500,000.00, 13% earned between GH¢500,001.00 and GH¢1m, 1% earned between GH¢1000, 001.00 and GH¢1,500,000.00, as well as above GH¢2m respectively. Many respondents reported lower income partly due to

the sensitivity of tax information. Even though the rationale for conducting the survey was explained and respondents were assured of the confidentiality of their responses prior to the commencement of work, many seem not believe in this assurance and therefore resorted to underreporting of lower earnings. It can therefore be concluded that majority of SMEs surveyed were low income earners.

Table 4.4: Turnover of Respondents

Category	Frequency	Percentage (%)
Average income of business		
Less than 100,000	162	52.0
100,001-500,000	102	33.0
500,001-1million	41	13.0
1000,001-1.5 million	4	1.0
15.million-2million	4	1.0
Above 2 million	1	0.0
Total	314	100

Source: Field Survey, 2017.

4.2.3 Number of Employee Employed

Furthermore, results of data as in table 4. 5 revealed that majority (59%) of the SMEs surveyed in Greater Accra region operating in the micro sector employed less than 5 persons. Additionally, while 32.40% of total SMEs employed between 6 and 30 employees, 8% employed between 31 and 100 employees. Cumulatively, 99.40% of all businesses surveyed employed between 1 and 100, and therefore met the criteria for classification as SMEs by the researcher. Micro and smaller businesses usually lack proper records keeping culture which goes a long way to shape their tax compliance behaviours. Employees of SMEs are usually not skilled and cannot influence the tax compliance behaviour of these businesses. Tax compliance behaviour of these businesses are therefore solely at the discretion of the owner or sole proprietor.

Also, the plurality of SMEs in Ghana does not commensurate the employment figures. There are many SMEs in Ghana yet unemployment keeps growing perhaps because of the low

turnover and capital status of SMEs. They can't employ more hands hence their impact on employment is quite negligible in most of the case, many of these SMEs are family owned and do not employ at all.

Policy makers should therefore focus on building the capacity of SMEs and capitalizing them with needed fund to expand, so they can employ more people.

Table 4.5: Number of Employees Employed

Number of Employees	Frequency	Percentage (%)
Less than 5 Employees	184	59.00
between 6 - 30 employees	102	32.40
between 31-100 employees	26	8.00
Above 100 employees	2	0.6
Total	314	100.0

Source: Field Survey, 2017

4.3 Level of Tax Compliance

4.3.0 Registration Status of Respondents

This unit measured the level of compliance of SMEs in Ghana by looking at their compliance regulatory and statutory processes including tax. In specific terms, it assessed whether SMEs have been registered with Registrar General Department of Ghana (RGD), how often they paid their taxes, whether they had Taxpayer Identification Numbers (TIN), and whether or not they paid certain taxes. It also tried to find out what kind of records these businesses maintained if any.

Results as indicated on table 4. 6 and table 4. 7 revealed that while 55% of total SMEs have been registered with RGD, 88.00% of SMEs were either registered with MMDAs or GRA for tax purpose. More than two-third of SMEs surveyed are either registered with MMDAs or GRA partly because these institutions usually undertake market surveillance to identify new businesses operating within their jurisdictions and also sanction and punish for non-compliance.

Table 4.6:Registration of Business (Assembly and Registrar General’s Departments)

Category	Departments			
	Assembly/GRA		Registrar general department	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Yes	273	88.0	173	55.0
No	38	12.0	141	45.0

Source: Field Survey, 2017

4.3.1 Taxpayer Identification (TIN) Status of Respondents

The results from data indicated that about 93.00% of these SMEs operators have been registered for TIN as shown on table 4.7. It can therefore be concluded that majority of SMEs in Greater Accra are prepared to comply with regulatory framework including taxes. The enforcement of section 8 of TIN ACT 632 (2002) of Ghana can be one of the many ways of broadening the tax net as well as closing tax linkages among SMEs in Ghana.

Table 4.7: TIN Registration Status of Respondents

Response	Frequency	Percentage (%)
YES	293	93.00
NO	21	7.00
Total	314	100.00

Source: Field Survey, 2017

4.3.2 Level of Tax Compliance

In this unit, respondents were asked to indicate using “YES” and “NO” whether or not they paid certain taxes in question. Results from respondents are exhibited in table 4.8. The results indicated that while 90% of total respondents paid various MMDAs levies, 67% who owned properties, paid property rates, and 25% paid corporate rates. Conversely, 79% of total SMEs surveyed disclosed they don’t withhold taxes for payments made to suppliers. This reinforced the fact that SMEs usually operate with cash transaction and therefore do not withhold taxes

on payments for supply of goods or services. This is inconsonance with earlier studies that most SMEs do not withhold taxes from payments largely because they operate in cash less environment (Beck, 2007; Maseko & Manyani, 2011). Also, 65% of respondents indicated they do not charge taxes on salaries paid to their employees (PAYE).

Most SMEs operate in the informal sector and employments are done without recourse to the existence of any formal contract of employment. This makes it difficult for enforcing the payment of Social Security and National Insurance Trust (SSNIT) and income taxes (PAYE) on wages and salaries paid in the SMEs sector.

Table 4.8: Payment of Taxes by Business Entities

Tax category	Yes		No	
	Frequency	Percentage	Frequency	Percentage
PAYE	109	35.0	205	65.0
Withholding tax	66	21.0	248	79.0
Stamp duties	104	33.0	210	67.0
Assembly levy	282	90.0	32	10.0
Property rate	210	67.0	104	33.0
Corporate tax	72	23.0	242	77.0

Source: Field Survey, 2017

4.3.3 Frequency of Tax Payments

Results from the field as exhibited in table 4. 9 indicated that almost all SMEs paid their taxes semi-annually. Results also suggested that 9 out of every 10 SMEs paid their taxes semi-annually. This contradicts the practices of quarterly tax payment in Ghana by businesses. Either business operators are not aware of the timelines for tax payments or the GRA does not enforce sanctions for delay in tax payments as deterrence.

Table 4. 9: Frequency of Tax Payment

Frequency of tax payments	Frequency	Percentage
Monthly	22	7.0
Quarterly	5	2.0
Semiannually	286	91.0
Total	313	100.00

Source: Field Survey, 2017

4.4 Tax Compliance Behaviour of SMEs during Reporting and Computation of Tax Liability

Respondents were asked to indicate using “Completely Unacceptable (CA),” “Unacceptable (UA)” and “Somehow Acceptable (SA)” how they would behave in reporting and computing their tax liability. Results have been exhibited in table 4. 10. Analysis from the data revealed that 98.40% of total respondents surveyed agreed that it is unacceptable to exaggerate expenses to reduce their tax payment when reporting and computing their tax liability. Many are the factors that can influence one’s perceived judgment about whether exaggerating business expenses in order to pay less tax liability was an acceptable practices. These include person’s ethics and morality, and level of business income. As it was concluded in earlier discussion that majority of the respondents in this study were lower income earners, they tend to behave differently from higher income earners as established in tax compliance literature. Christian (1994) found out that higher-income people evade less than those with lower incomes, relative to the size of their true income. This contradicts earlier findings by Klepper, Mazur, and Nagin (1991) that higher-income people evade less than those with lower incomes, relative to the size of their true income.

Also, 99.40% of total respondents believed that it is unacceptable using loopholes in legislation to minimize tax obligation. This contradicts earlier findings by Kirchler and Wahl’s (2010) assertion that using loopholes in legislation to minimize tax obligation is legal

and acceptable. The above response also suggested that most SMEs do not understand the difference between tax evasion which involves deliberately breaking tax laws by using illegal means to reduce their tax liability and tax avoidance on the other hand which involves the practice of taking advantage of loopholes in the tax system in order to pay less tax. It also suggests that most SMEs would not undertake tax planning activities by using loopholes in tax laws to minimize their tax exposures.

Furthermore, 97.00% of total respondents agreed that it is not a good practice to be tipping and bribing tax officials to allow them misreport their income and expenses when reporting and computing their tax liability. However, only 3% of total respondents agreed that it is acceptable to tip and bribe tax officials. This underscored the existence of tipping and bribery in the process of reporting and computing taxes and the GRA will therefore have to institute and enforce severe punishment and sanctions against corrupt tax officials. Businesses that are caught in the practice to serve as deterrence. Also, motivating businesses and the general public to serve as whistle blowers against the act. A higher proportion of respondents agreed that tipping and bribing tax officials is unacceptable partly because most of the respondents were low income earners. This confirms earlier findings by Torgler (2005) that bribing tax officials was higher among higher income earners than low income earners.

Moreover, not withholding taxes from payments made to suppliers, making payments to staff without deducting taxes, and not registering or charging VAT on your goods and services are other irregularities many respondents agreed are unacceptable practices to indulge in. While a total of 88% of the respondents agreed that not registering or charging VAT for goods and services were unacceptable, about 92% of total respondents agreed that it was unacceptable not to withhold taxes for payments of goods and services as well as not deducting PAYE.

These findings however, contradicted earlier responses of the same respondents' which indicated that 80% do not withhold taxes for payments of goods and services as well as 65% not deducting PAYE for payments made to their employees as in table 4. 8. Registration for VAT, withholding taxes for payments of goods and services supplied, and deducting PAYE from payments of salaries to a large extent depends on the size, and turnover status of business concern. Respondents could not withheld taxes and deduct PAYE for payments to employees' largely because they are low income earner. This however confirmed Keen's (2008) findings that not withholding taxes for payment of goods and services are more pronounced in self-employed businesses and low income earners.

Similarly, results from data revealed that 80.00% of total respondents agreed that it is unacceptable to pay tax experts and accountants to assist them compute or comply with tax laws. Businesses would not patronize the services of tax experts simple because it would be too expensive for them to afford or because these businesses are low income earners that do not worry about how much they pay as taxes. In this instance, the cost of using tax expert or accountants are too high for the respondents. This confirmed earlier research findings that using tax experts and professional accountants' services is too high for SME's (Pope, 2001; Lignier, 2006; Abrie & Doussy, 2006). Also, respondents' refusal to use the services of professional tax experts' stemmed from the fact that they are low income earners. This also, confirmed Long and Caudill (1987), and Klepper, Mazur, and Nagin (1991) positions that higher incomes are more likely to engage preparers or use their services than low earners.

In conclusion, results of data analyzed revealed that SMEs in Greater Accra Region who are mostly lower income earners, would not overstate their expenses in order to pay lower tax. Also, they would not patronize the services of tax experts and accountants to assist them in

computing their tax liability largely because they cannot afford the cost of these professionals. Furthermore, they would neither use loopholes in tax legislation to reduce their exposure to tax nor bribe tax officials in the process of computing and reporting their tax obligations. Even though these SMEs agreed that it was unacceptable for a business not to register for VAT, they fail to withhold taxes and PAYE for payments to suppliers and employees, most of them do not practice them largely as a product of the nature or characteristics of SMEs operations which include operating in cash and carry system with little or no documentations. Non records keeping was more pronounced as these businesses could not state the kind of records they keep.

Table 4.10: Responses of SMEs Behaviour in Reporting and Computation of Tax Liability

Statements	Completely Unacceptable		Unacceptable		Somehow Acceptable	
	Freq.	%	Freq.	%	Freq.	%
Exaggerating expenses to reduce taxes	229	73	80	25	5	2
Using loop holds in legislation to minimize tax obligation	202	64.4	110	35.0	2	0.6
Not withholding taxes from payments made to suppliers	101	32.0	188	60.0	25	8.0
Making payments to staff without deducting taxes	159	51.0	130	41.0	25	8.0
Not registering/ charging VAT on your goods and services	137	44.0	137	44.0	40	12.0
Tipping and bribing tax officials to pay less	234	75.0	69	22.0	10	3.0
Paying qualified tax accountants to compute your tax liability	105	33.0	146	47.0	58	20.0

Source: Field Survey, 2017

4.4 Tax Compliance Behaviour of SMEs during Filing and Payment of Taxes

Using Likert 4-point ranking scale, where “1”= “Strongly Disagree (SD)”, “2”=“Disagree (D)”, “3”=“Strongly Agree (SA)”, and “4”= “Agree (A)” respondents were asked to indicate how they would respond to statements concerning tax filing and payments. Results of respondents on table 4. 11: showed that most (72.%) respondents disagreed that tax returns can be filed any time, while a total of 28.% of respondents agreed that tax returns can be filed any time. In Ghana, tax legislations require tax to be filed either under the provisional

assessment or self-assessment system before 31st March after the end of the year of assessment. It is therefore advisable for GRA to embark upon public education as a way of raising the awareness of the significant number of respondents (28.0%) who believe that tax can be filed anytime, as a stimulus for accelerating and promoting self-assessment system.

Also, there was a mixed reaction to the statement that it was advisable to file your tax returns promptly in order to avoid penalties. Results of data indicated that nearly half (49%) of total respondents disagreed that it was advisable to file your tax returns promptly in order to avoid penalties while a total of 51% of respondents agreed with the statement. It is evidence therefore that either many of the SMEs are not aware of the penalties for filing tax late or the GRA does not apply penalties for late filing. It could also be partly attributed to the non severity of penalties for late filing in Ghana. A combination of tax penalty and other effective measures should be instituted to arrest this trend. This confirmed earlier findings that tax penalties cannot be an effective stand alone mechanism for promoting desired tax behaviours but have to be applied with other factors (Tyler, 2006; OECD, 2010).

In another development, respondents were asked to assessed the statement that monies paid as taxes could have been used to expand their businesses. Results of data revealed that 83.00% of total respondents agreed with the statement that monies paid as taxes could have been used to expand their businesses. On the other hand, only 17% of total respondents disagreed that those monies paid as taxes could have been used to expand their businesses. Business operators who believed that monies paid as taxes could have been used to expand their businesses are most likely to evade taxes than those who do not.

Similarly, while three-quarters (75%) of total respondents disagreed with the statement that it is illegal to pay tax liabilities any time you want, a total of 87% of respondents disagreed with the statement that tax evasion was not a serious crime. In other words, while three-quarters of total respondents agreed or believed that tax liabilities can be paid anytime at will, majority of them agreed that tax evasion was a serious crime. These responses suggest that many SMEs in the region are not aware that taxes are paid quarterly as per the practices of GRA in Ghana, and further suggest that majority of them do not know that failure to pay taxes on time amounts to tax evasion even though they are aware that tax evasion was a serious crime. This finding confirmed earlier discoveries that there are high awareness among SMEs that tax evasion (Song & Yarbrough, 1978; Burton, Karlinsky & Blanthorne, 2005; Oladipupo & Obazee, 2016). Tax authorities are therefore advised to turn this opportunity into tax compliance behaviour. In a similar development, there was a mixed response to the statement that the procedure for filling tax returns was complex and time consuming. Whereas 51% of total respondents agreed that the procedure for filling tax returns was complex and time consuming, 49% of total respondents disagreed with the statement. Respondents who believed that the procedure for filling tax returns was complex and time consuming are most likely to evade taxes than those that do not. This analysis conforms to Doran (2009) assertion that there is a positive relationship between tax complexity and compliance behaviour.

Also, 65% of total respondents agreed that they only file and paid their taxes to avoid closure of their businesses and 44% of total respondents agreed they would pay taxes if it were voluntary. Fear of closure of business as a tax compliance driver conforms to tax deterrence theory which states in part that tax compliance behavior is achieved by issuing severe sanctions and threats of sanctions (Cuccia, 1994) and this could explain in part why less than half (44%) of total respondents agreed that they would pay taxes if it were voluntary.

Flowing from data analysis, it can be concluded that while majority of SMEs surveyed agreed that tax returns can be filed at specific times of the year, they however do not believe that taxes should be filed early to avoid penalties. Also, whereas majority of them knew that tax evasion was a serious crime, they did not know that it is illegal not to pay your tax liabilities on time. Therefore, majority of them are not ready to file their tax promptly and are also not ready to pay their tax liability due in time. This conclusion has been supported by the fact that majority of them only file their tax returns for fear of closure of their businesses and as a results majority of them would not pay their taxes if it were voluntary. This has further been reinforced by the fact that many of them believed that monies used to pay taxes could have been used to expand their business operations.

Further research is recommended to establish whether or not the Ghanaian tax system was complex and time consuming to file your tax returns. It could also be ascertained how this current state affects Ghanaian tax compliance behaviour.

Table 4.11: Responses of SMEs Behaviour in Filing and Paying Taxes

Statements	Strongly Disagree		Disagree		Strongly Agree		Agree	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Tax returns can be filled any time	49	16.0	178	57.0	23	7.0	64	20.0
It is advisable to filed your tax return in promptly to avoid penalties	40	13.0	114	36.0	100	32.0	60	19.0
Monies you to pay taxes could have been used to expand business	13	4.0	41	13.0	196	63.0	63	20.0
It is illegal to pay tax liabilities any time you want	48	15.0	187	60.0	51	16.0	27	9.0
The procedure for filling tax returns is complex and time consuming	57	18.0	98	31.0	88	28.0	71	23.0
I only filed and pay tax to avoid the closure of my business	43	14.0	66	21.0	117	37.0	88	28.0
Tax evasion is not a serious crime	234	75.0	37	12.0	32	10.0	10	3.0
I would pay tax if it were voluntary	53	17.0	122	39.0	106	34.0	32	10.0

Source: Field Survey, 2017

4.5 Forms of Tax Compliance Behaviours

Respondents were asked to rank ten statements, each or a combination describing a particular type of compliance behaviour. A non-parametric test for Kendall's Coefficient of Concordance was computed to test the level of agreement among raters. Results have been exhibited on table 4.12. From the results, majority of respondents affirmed that tax obligations are appropriate demand from the government and was ranked highest with a mean score of 7.86. Also, the statement that payment of taxes is our moral and civic obligation was ranked second with total mean score of 7.16. These two attributes in combination describe in full loyal tax compliance (Otiaku, 1988, Slemrod, 2007).

Also, many respondents agreed that their tax payment was as a result of fear of being punished for non-compliance with a total mean score of 7.16. This statement explains defensive tax compliance behaviour, which states that tax compliance behaviours are occasioned by the deterrence mechanism, fueled by the capacity and effectiveness of the tax system in imposing penalties for non-compliance, tax audits, and surveillance to identify tax non-compliant (Otiaku, 1988; Slemrod, 2007; Cardozo, 2011).

Similarly, the statements that "as a member of a group we comply with taxes to protect our image" and "society values and respect people who pay taxes" were also ranked high above average with total mean scores of 6.93 and 6.31 respectively. These two statements jointly explained social tax compliance behaviours which espoused that tax compliance behaviours are conditioned by the social image created for the payment or non-payment of taxes, social norms of the group they belongs, as well as the behaviours of other tax payers (Otiaku, 1988; Cardozo, 2011; as cited in Mitu, 2016). Social compliance can best be explained by the social learning theory of Albert Bandura which states that human beings acquire knowledge

principally through observation and direct involvement of participation. Other statements were however rated lower than average mean and therefore reflect the tax compliance behaviours of respondents.

Results of Kendall's coefficient of concordance testing the null hypothesis that there are no agreements among SMEs operators with respect to forms of compliance behaviours exhibited in Ghana was rejected at 5% significance level. The degree of agreement as measured by the W-statistics was low (36.50 %). Lower level of concordance suggests that more future researches could be conducted to confirm or establish a different level of agreement.

Loyal compliance suggests that SMEs taxpayers have recognized the legitimacy of government in taxing them as these monies would be used to provide social amenities. As taxpayers are prepared to even overpay their taxes, their behaviours are punctuated by the perception of fairness of the tax system, level of governmental developments at their disposal, and level of accountability for the usage of taxes.

Defensive tax compliance which is predicated and explained by the economic deterrence theory of tax compliance which states that tax compliance behaviours are conditioned by the issuance of severe sanctions and threats of sanctions coupled with increase in the penalty rate and a greater probability of detection. The GRA therefore has to increase their surveillance and audit roles as well as instituting severe punishments for non-compliance.

Severe sanctions and higher probability of detection through surveillance and audit will create conducive atmosphere for social tax compliance behaviours. As people see others been punished, fined, and humiliated for tax non-compliance, it would compel taxpayers to comply

as a measure of solving the risk of fine, humiliation, and denting once image for being exposed. GRA should also encourage the formation of industry wide or trade unions as a measure ensuring that every SME belongs to a vibrant union or an association which would in the long term influence the tax compliance behaviours of members.

It can therefore be concluded that three dominant tax compliance behaviours have been exhibited by SMEs in Greater Accra Region, namely loyal compliance, defensive tax compliance and social compliance.

Table 4.12: Responses of SMEs Relating to Forms of Tax Compliance Behaviour

Statements	Mean Ranking
Ranks	
Tax obligation are appropriate demands from the government	7.86
I pay tax because of fear of being punished for noncompliance	7.16
Payment of tax is my moral and civic obligation	7.16
As a member of a group we comply with taxes to protect our image	6.93
Society values and respect people who pay taxes	6.31
I comply with taxes in order to claim statutory reliefs	4.92
I feel guilty about cheating on tax	4.82
Complying with taxes is my habit	4.70
My accountant insist that I should comply with taxes law	4.55
I hire a tax lawyer and accountant to help keep proper records in order to pay lower taxes	4.47
N	264
Kendall's W	.365
Chi-Square	863.955
Df	9
Asymp. Sig. (P-Value)	.000

Source: Field Survey, 2017

4.6 Perception of SMEs about Tax Administration and Practices

Results of respondents have been exhibited on table 4.13. From the results, 91% of the respondents perceived our Ghanaian tax rates to be high; this confirmed earlier research findings in Ghana by Amanamah (2016) who discovered a perceived high tax rates in Kumasi metropolis by SMEs. High tax rates promote tax non-compliance behaviour in tax

compliance literature (Clotfelter, 1983; Fischer et al 1992, Lavinia & Alexandrina, 2006). High tax rates usual serves as the engine for accelerating tax corruption since taxpayers would find it economically viable to bribe tax officials and pay less taxes than paying higher taxes due to higher tax rates (Tedd , 2000) It is therefore advisable for the government to consider reducing the current tax rates as a measure of facilitating voluntary tax compliance. The focus should not be to over tax the few, but to expand the tax net to cover the larger majority.

Again, 70% of respondents disagreed that Ghanaian tax laws are simple and easy to understand, and this claim was further reinforced when 66% of respondents disagreed with the assertion that our Ghanaian tax system was transparent. This confirmed Atuguba's (2006) findings that the tax system in Ghana is not transparent. Tax non transparency and complexity have been agreed in tax literature to promotes tax non-compliance behaviours (Isa, 2012; Sapiei & Kasipillai, 2012; Massarrat-Mashhadi & Sielaff, 2012, Atawodi & Ojeka, 2012)

Furthermore, while 66% of respondents indicated there was little tax education in Ghana by GRA, 63% agreed that there was no equity and fairness in the tax systems. Perception of unfairness and lack of equity in tax administration by taxpayers induce non-compliance behaviour (Murphy, 2004; Mukasa, 2011). Also, whereas 72% of respondents agreed that Governments don't account to us the use of the taxes, 58% agreed that it was very expensive to hire someone to compute your taxes returns. This confirmed earlier research findings that cost of using tax experts and professional is too high for SMEs (Pope, 2001; Lignier, 2006; Abrie & Doussy, 2006) .The state or GRA in order to facilitate this can as a policy establish the tax computation division equipped with tax experts in every district across the country to

provide support and technical services to SMEs on tax calculations and compilations. This in the long run will improve the compliance rate among SMEs.

In summary, SMEs taxpayers in Greater Accra region have perceived our Ghanaian tax rates to be high, complex and non-transparent, and lack equity and fairness. Even though majority of them agreed that there is little tax education by GRA, the average businessman can understand the tax laws with a little education due to the fact that majority of respondents were literate having at least basic education.

Negative perception about tax administration and practices in Ghana such as higher tax rates, lack of equity and fairness in tax system, complex and time consuming procedure, and non disclosure or accountability of tax proceeds can crystallised into tax non-compliance behaviour through the theory of Planned Behaviour.

If a taxpayer assessed that he or she has not been fairly treated by the tax system and that there are available opportunities for non-compliance, he or she would not comply. Therefore they would planned and evade their taxes. In supporting this assertion, the Economic Deterrence Theory of tax compliance asserted that taxpayers are utility maximisers and would evade their taxes if they assessed that benefit for non-compliance exceed the cost of complying and the probability of been found out, and level of sanctions for non-compliance.

Table 4.13: Response about Perception of SMEs Taxpayers about Tax Administration and Practices

Statements	Agree		Disagree	
	Freq.	%	Freq.	%
Our tax laws are simple and easy to understand	85	30.0	195	70.0
I compute my own taxes given little education	137	51.0	134	49.0
Our tax rates are high	277	91.0	26	9.0
Tax officials are corrupt	178	64.0	101	36.0
There is little education about tax laws	172	66.0	97	34.0
There is no equity and fairness in the tax systems	170	63.0	100	37.0
Our tax system is transparent	98	34.0	188	66.0
It is very expensive to hire someone to compute your taxes returns	151	58.0	108	42.0
Governments don't account to us the use of the taxes	208	72.0	79	28.0

Source: Field Survey, 2017

4.7 Factors that Promote Voluntary Tax Compliance

This section contained an identification of the factors that promote voluntary tax compliance. Respondents were asked to indicate how the statements provided by the researcher can promote voluntary tax compliance. Respondents were also asked to state in their opinion what other factors can promote voluntary tax compliance. Results of data have been displaced on table 4.17.

Most respondents believed that there is 94 percent chance that lower tax rates for SMEs business would promote voluntary tax compliance. This also corresponds with earlier findings that higher tax rates promotes tax compliance (Nurtegin, 2008; Atawodi & Ojeka, 2012). This result also corroborated with Amanamah (2016) earlier assertion that the current Ghanaian tax rates are high.

Similarly, while 89% of total respondents agreed that frequent tax education for SMEs would have high impact on voluntary tax compliance, 87% of respondents equally agreed that

electronic filling and payment of taxes would highly promote voluntary tax compliance. This finding confirmed Hyun (2003), and Machogu and Amayi (2013) findings that tax education is an effective tool for promoting and influencing voluntary tax compliance behaviours.

Additionally, most (92%) respondents acknowledged that the strict enforcement of the TIN Act, of Ghana, ACT 632 (2002) would also highly influence voluntary tax compliance more especially as majority of these SMEs had TIN.

In another development, most respondents also conceded that strong monitoring, audit and surveillance by tax officials has 96 percent chance of promoting tax compliance behaviours. This finding supports Butler (1993) assertion that tax audit and surveillance can change tax compliance behaviour from negative to positive.

Also, 70% of total respondents agreed that rewarding SMEs that comply with taxes as well as government assistance in providing tax experts and accountants for free to assist SMEs in tax filing and record keepings would highly promote compliance. Rewarding SMEs for tax compliance would fuel social tax compliance behaviour as many businesses would also strive to comply with taxes in order to be recognized. Provision of tax experts by government to assist SMEs in filing and keeping basic records would also go along was to solve the problem of high cost of using the services of tax experts and accountants.

Table 4.14: Factors that Promote Voluntary Tax Compliance

Statements	Low		High		Highest	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Low tax rate for SME promote compliance	18	6.0	56	19.0	217	75.0
Rewarding SMEs that comply with taxes promote compliances	80	30.0	104	39.0	83	31.0
Frequent tax education for SMEs promote compliance	31	11.0	97	34.0	155	55.0
Electronic filling and pay systems promote compliance	35	13.0	95	35.0	139	52.0
Government provide tax experts and accountants for free to SMEs in tax filing and record	77	30.0	102	40.0	79	30.0
Ensure that TIN is used in all financial transactions	25	8.0	90	34.0	162	58.0
Strong monitoring, audit and surveillance by tax officials	11	4.0	37	13.0	247	83.0

Source: Field Survey, 2017

In an open ended question, respondents were asked to state what factors in their opinion would promote voluntary tax compliance. The following four factors were identified by respondents.

- i. The judicious use of tax revenues
- ii. Frequent tax education
- iii. Electronic filing and payment system
- iv. Low tax rates and transparent system

Based on the above analysis, it is conclusive to state that lower tax rates for SMEs, frequency tax education, effective surveillance and tax audit of SMEs, strict application of TIN Act of Ghana, instituting electronic filing, assisting SMEs to benefits from the services of tax experts and accountants for free, and the judicious usage of tax proceeds by government are the factors that can promote voluntary tax compliance.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATION

5.0 Introduction

This chapter presents the summary, conclusions, contributions, and recommendations of the study. This chapter is categorized into six main units. The first unit embodied the summary of the major findings of the study. The second unit presents the conclusions made based on the major findings of the study. The third and fourth units present the contributions and recommendations from the study respectively. The fifth and sixth units present the limitation of the study and future research directions respectively.

5.1 Summary of Major Findings

SMEs contribute significantly towards the development of every economy. Their contribution to GDP and their roles in offering employment are overwhelming (Villars, 2004; Okafor, 2006; Tanui, 2016).

Due to their significant contribution to employment, SMEs are potentially government main source of finance by way of taxation (Atawodi & Ojeka, 2012). Sadly, researches have however established that there is low tax compliance rate among SMEs especially in developing countries (Bird, 1984; Korir, 2012; Nkwe, 2013; Gbadago & Awunyo-Vitor, 2015).

Tax compliance behaviour has therefore received a great attention in the agendas of many tax administrations in developing countries (Nkwe, 2013), since taxation is the most important sources of governments revenue (Abdul-Razak & Adafula, 2013; Bruce-twum, 2014, as cited in Gbadago & Awunyo-Vitor, 2015). Tax compliance behaviour is of great concern to many

tax administrations in developing countries (Nkwe, 2013); this research therefore comprehensively assessed the tax compliance behaviour of SMEs in Ghana. The study specifically explored the tax compliance behaviour of SMEs when reporting, filing, and payment of their tax liability. Also, the study assessed the forms of tax compliance behaviour exhibited by SMEs in Ghana, measured the perceptions of SMEs taxpayers about tax administration and practices in Ghana, and assessed the factors that promote voluntary tax compliance behaviour among SMEs in Ghana.

With respect to achieving the first research objective which is exploring the tax compliance behaviour of SMEs during reporting, filing, and payment of their tax liability, the results found out that:

Most SMEs agreed that it was not an acceptable practice to overstate their expenses during computing your tax returns with the sole aim of reporting lower tax liability. Majority also agreed that it was unacceptable using loopholes in tax system in order to file low tax returns as well as tipping and bribing tax officials to aid them file and pay lower tax returns. Many of them however disagreed engaging tax experts and accountants to assist them in computing and filing their tax dues. Most SMEs also agreed that tax cannot be filed anytime at will but base on the GRA's directives, they however disagreed that it was advisable for them to file taxes in time in order to avoid penalties. Also, even though majority of SMEs agreed that tax evasion was a serious crime, they however file their tax returns for fear of closure of their businesses for non-compliance. More so, most of these SMEs believe that the procedure for filing tax returns is complex and time consuming and monies they used to pay taxes could have been used to expand business. Consequently, most SMEs agreed they would not pay taxes if it were voluntary.

Also, results of data in answering research objective two revealed three dominant forms of tax compliance behaviours exhibited by SMEs in Greater Accra region namely loyal, defensive, and social compliance.

Moreover, results of data on research objective three can be summarized as:

Most SME operators perceived our Ghanaian tax rates to be high, the Ghanaian tax system was not simple and transparent as well as lacked fairness and equity. Most SMEs operators further believed there is little education about tax laws in Ghana and that Government does not account to taxpayers how tax revenues are used. They also believed it is expensive to hire tax experts and accountants to compute their taxes returns.

The last but not the least, results of data on research objective four indicated that frequent tax education would promote voluntary tax compliance. Also, majority of SMEs agreed that electronic filing and payment system as well as ensuring that TIN is used in all financial transactions would promote voluntary tax compliance. The study further revealed that low tax rate and strong monitoring; audit and surveillance by tax officials would promote voluntary tax compliance. Again, majority of SMEs agreed that rewarding SMEs that comply with taxes and government providing tax experts and accountants for free to SMEs in tax filing and record would accelerate voluntary tax compliance. Some SMEs further suggested that government judicious use of tax revenue will conditioned voluntary tax compliance.

5.2 Conclusion from the Study

This section conveys the various conclusions reached by the findings and analysis of the results.

The study showed that there was a high level of tax compliance among SMEs in the Greater Accra region. This was supported by the fact that majority of SMEs have TIN, and have been registered with RGD, GRA, and MMDA's. Many of them have also paid various forms of taxes to these institutions.

In answering research objective one; results clearly showed that SMEs in the Greater Accra region would not evade taxes by understating expenses, exploiting loopholes in tax legislation, and tipping and bribing tax officials when computing and reporting their tax returns. They would however not engage the services of tax experts and accountants partly due to the high cost of their services. The results further showed that most SMEs do not understand tax planning since tax planning is essentially about exploiting tax legislation to reduce exposures to tax liability. Results further showed that SMEs are aware they are timelines for filing of tax returns, however, they would not file their tax returns in time unless for fear of closure of their businesses. It can also be concluded that though SMEs knew that tax evasion is a serious crime, they did not know that non-payment of taxes in time amount to tax evasion, hence they would not pay their taxes in time. Many SMEs in region would not pay taxes if it were voluntary. This non-voluntary behaviour was influenced by their believe that monies used to pay taxes by SMEs could have been used to expand their businesses coupled with the complex and time consuming procedure of filing taxes.

Also, results of data analysis on research objective two concluded that three dominant forms of compliance behaviours of SMEs in Ghana. These forms are loyal compliance, defensive

compliance, and social compliance. Each of this behaviour has its own implication for tax administration as contained in the data analysis and discussion section of this study.

With respect to research objective three, results can be concluded as follows:

That SMEs perceived the Ghanaian tax rates to be high, complex and non-transparent, and lack equity and fairness. The study further concluded that there is little tax education in Ghana hence many SMEs cannot compute their own taxes even though many of these SMEs operators are literates.

Lastly results of data on research objective four concluded that lower tax rates for SMEs, frequency tax education, effective surveillance and tax audit of SMEs, strict application of TIN Act of Ghana, instituting electronic filing, assisting SMEs to benefits from the services of tax experts and accountants for free, and the judicious usage of tax proceeds by government are the factors that can promote voluntary tax compliance.

5.3 Contributions of the Study

This section of the chapter pointed out the contribution of the study to literature and theory. The study assessed the tax compliance behaviour of SMEs in Ghana by using the theory triangulation approach.

The study contributes immensely to the Ghanaian tax compliance literature by using the theory triangulation approach to explain the tax compliance behaviour in Ghana especially by assessing the forms of tax compliance exhibited by SMEs in Ghana. This is one of the few areas in tax compliance literature that has not received attention by way of research, hence not much is available by way of literature.

5.4 Recommendations from the Study

This unit contained recommendations from the study to policy makers' base on the major findings and conclusions reached on the study. This recommendation will be of tremendous benefit to Ghanaian government, Parliament of the republic of Ghana, and GRA who oversee tax administration in the country.

Government should expand the venture capital system by providing many youth with access to funds to start up their businesses rather than concentrating on established SMEs.

Again, it recommended that policy makers should enforce the formalization of employment contracts by making it mandatory for all employment in the SMEs sector to be formally supported by a letter of appointment. They should also ensure each employer contributes to the social security (SSNIT) of their employee as well as tax on salaries. SMEs should also be trained regularly on record keepings and ensuring that all SMEs that meet the requirement for VAT registration to do so.

Furthermore, it is recommended that in ensuring SMEs correctly compute, file, and pay, their tax liability, policy makers should assist SMEs to access the services of tax experts and accountants for free, regularly organizing tax education for SMEs, instituting strong and robust electronic filing and payment system as well as simplifying existing filing procedures, frequent surveillance and auditing of SMEs, and applying sanctions and penalties for non-compliance. Also, SMEs should be rewarded for strict tax compliance which include accurate reporting, filing, and prompt payment of tax liability due.

Similarly, it is highly recommended that policy makers should promote the formation of industry or sector unions or association all over the country. These associations would

enforce tax compliance behaviours among members as a way of promoting social tax compliance behaviours. Also, government accountability to the public by providing the sources of funding public projects as well as strictly prosecuting corrupt public officials without fear or favour are measures that would promote loyal compliance behaviours.

In promoting voluntary tax compliance behaviours, it is further recommended that policy makers should reduce the current Ghanaian tax rates, simplify our tax laws and ensuring there are transparent, fair and equitable. The GRA is also recommended to insure the strict enforcement of the TIN Act of Ghana, ACT 632 (2002).

5.5 Limitations of the Study

In this section, the researcher identified the factors or shortcomings beyond his control that affected the research methodology or the data analysis, discussions, and the various conclusions reached.

As tax information is always sensitive to every businessman, this have affected their willingness to disclose their true turnover level as most of the respondents have chosen the lowest turnover scale as their turnover. This created the scene as if all the respondents were lower income earners which might not be the case. This has subsequently affected the conclusion that all respondents were lower income earners.

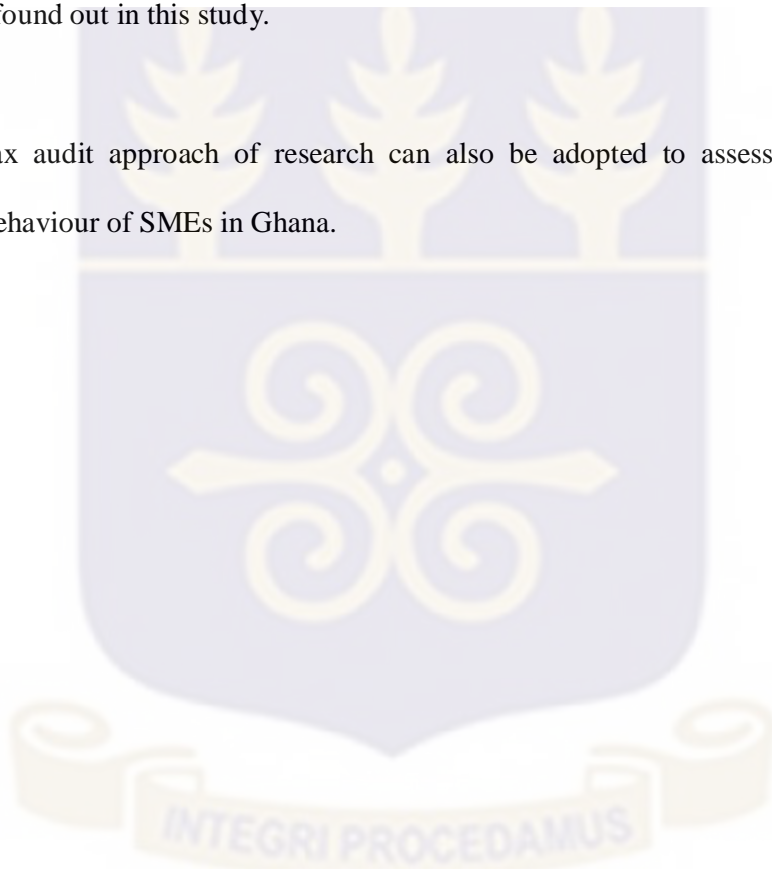
Also, since the researcher adopted the survey approach, he could not have assessed the actual tax compliance behaviour of SMEs. Findings are therefore perceptual reality reflecting actual tax compliance behaviour and not actual behaviour itself.

5.6 Future Research Recommendation

This unit point out recommended future research direction based on the current study. Based on above limitations, the researcher recommends a comparative study to critically examine the tax compliance behaviour of low income earners and higher income earners in Ghana.

In a similar situation, future researchers should also consider examining the forms of tax compliance behaviours exhibited by SMEs in Ghana especially given the low level of concordance found out in this study.

Lastly, the tax audit approach of research can also be adopted to assess the actual tax compliance behaviour of SMEs in Ghana.



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APPENDIX



QUESTIONNAIRE

Dear respondent, this survey is purely an academic work in which the researcher seeks to understand or study the tax compliance behaviour of Small and Medium Enterprise (SME's) operators in Ghana. This would enable me write my thesis in partial fulfillment of the requirement for the award of Master of Philosophy in Accounting. No part of your responses would be disclosed anywhere especially to the tax authorities. The confidentiality of your responses is assured.

1. Sex (i) Male (ii) Female

2. Age (i) Less than 35 (ii) 35 – 45 (iii) 46 – 55 (iv) Above 65

3. Level of education (i) No Formal Education (ii) Basic Education
 (iii) SSCE (iii) Tertiary

4. Nature of business: (i) Manufacturing (ii) Commerce (iii) Restaurants & Hospitality
 (iv) Service (v) Building & Construction (vi) Communication & Phones
 (vii) Others (kindly specify)

5. How long have you been in this business?
 Less than 3 years 4 – 6 years 7 – 9 years e 10 years

6. Average annual income for the past two years
 Less than GH¢100,000 (ii) GH¢100,001- GH¢500,000

GH¢500,001-GH¢1m v) GH¢1,00,001-GH¢1.5m

(iii)GH¢1,500,001-GH¢2m (vi) Above GH¢2m

7. Is your business registered with Registrar General’s Department Yes No

8. Number of employees (i) Less than 5 (iii) between 31 and 100

(i) Between 6 and 30 (iv) Above 100

9. What records does your business keep? (If any).....

10. Is your business registered with the Assembly or GRA for tax purposes?

(i) Yes (ii) No

11. Using “Yes”/”No”, indicate which of the following taxes you pay.

	YES	NO
PAYE		
Withholding tax		
Stamp duties		
Municipal/Assembly levy		
Property Rates		
Corporate Taxes		

12. How often do you pay your tax(es)

Monthly Quarterly Semi-annually

Do you have tax identification number (TIN) Yes No

13. Using “completely unacceptable (CA),” “unacceptable (UA)” “somehow acceptable (SA)” to complete these options.

	CA	UA	SA
Exaggerating business expenses to reduce the amount of taxes you pay			
Using loopholes in legislation to minimise or eliminate the amount of tax you pay			
Not withholding taxes from payments made to suppliers			
Making payments to staff without deducting appropriate PAYE			
Not registering and charging VAT on your goods or services			
Tipping or bribing tax officials to pay less tax			
Paying qualified accountants to compute your tax liability			

14. Using: “Strongly Disagree, (SD),” “Disagree (D)”, “Strongly Agree (SA)”, “Agree (A)” to answer the following question.

	SD	D	SA	A
Tax returns can be filed anytime you want				
It is advisable to file and pay your tax returns promptly to avoid penalties				
Monies used to pay taxes could have been used to expand your business				
It is legal to pay tax liabilities anytime you want				
The procedure for filing tax returns is complex and time consuming.				
I only fill and pay taxes to avoid the closure of my business				
Tax evasion is not a serious crime				
I would pay tax if it were voluntary				

15. This section measures what motivates SME operator to pay taxes using “Strong” “Weak” and “Not At All”. Indicate how each of the following factors influences your tax paying behaviour.

	Strong	Weak	Not At All
Fear and threat of being punished for non-compliance			
I hire a tax lawyer or accountant to help keep proper records in order to pay lower tax liability			
I comply with tax in order to claim statutory reliefs			
Tax is my moral and civic obligation			
I feel guilty about cheating on taxes			
Complying with tax is my habit			
Tax obligations are appropriate demands of government			
Our taxes are used properly for development			
My accountant insists that I should comply with tax laws			
As a member of a group (friends, church, family, community etc), we comply with tax in order to protect our image.			
Society values and respect people who comply with taxes			

16.

17. Using “Completely Unacceptable (CU)” “Somehow Unacceptable (SU)” and “Acceptable (AC),” complete the following statements.

	CU	SU	AC
To drop litter on the street			
To knowingly buy stolen goods			
To deliberately not pay the taxes you are supposed to pay			
To claim credits on reliefs you are not entitled to			
To drive while using a mobile phone using a hands-free kit			
To use public transport without a valid ticket			
To knowingly sell or buy counterfeit goods			
To declare some but not all your income for tax purposes			
To drive a car without possessing a valid driving license			
To pay money to people begging on the street			

18. Using “Agree” and “Disagree” to complete the following statements.

	Agree	Disagree
Our tax laws are simple to understand.		
I can compute my own tax liability given a little explanation of the tax laws.		
Our tax rates are high.		
Tax officials are corrupt.		
There is little education about tax laws, reforms, and tax administration in Ghana.		
There is no equity and fairness in our tax system.		
Our tax system is transparent		
It is very expensive to hire someone to prepare your tax returns		
Governments over the years don't account to us how our taxes are utilised.		

19.



20. Using “1” for low, “2” for high, and “3” for highest, indicate which of the following factors would promote voluntary tax compliance among SME’s.

	1	2	3
Low tax rates for SMEs			
Rewarding SMEs that comply with taxes			
Frequent tax education for SMEs			
Electronic filling and payment of taxes			
Tax experts and accountants to be paid by government to render free services to SMEs in tax filling and records keeping.			
Ensuring that Tax Identification Number (TIN) is used in all financial transaction			
Our tax laws should be simplified and practical			
Strong monitoring and enforcement of tax laws by tax officials			

21. In your opinion, write down three factors that would promote voluntary tax compliance

- i.
- ii.
- iii.

22. In your opinion, what is the general behaviour of SMEs towards taxation?

.....

Thank you for your time and honest responses.

