

UNIVERSITY OF GHANA

COLLEGE OF HUMANITIES

**THE EFFECTS OF TAX AWARENESS AND TAX KNOWLEDGE ON TAX
COMPLIANCE IN GHANA**

MOSES TETTEH



DEPARTMENT OF ACCOUNTING

AUGUST 2019

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**THE EFFECTS OF TAX AWARENESS AND TAX KNOWLEDGE ON TAX
COMPLIANCE IN GHANA**

BY

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**A LONG ESSAY SUBMITTED TO THE UNIVERSITY OF GHANA, LEGON IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE
OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE**

DEPARTMENT OF ACCOUNTING

AUGUST 2019

DECLARATION

I hereby declare that this dissertation is the outcome of my own original research towards the award of a degree in MSc. Accounting and Finance and that, to the best of my knowledge, the research contains neither materials formerly published by another person nor materials which have been submitted for another degree in this university or somewhere else apart from where due acknowledgement has been made in the text.

.....

MOSES TETTEH

(10700663)

.....

DATE

CERTIFICATION

I hereby affirm that the preparation and presentation of the dissertation were supervised in accordance with the rules on supervision of dissertation laid down by the University of Ghana.

.....

DR. J. M. ONUMAH

(SUPERVISOR)

.....

DATE

DEDICATION

I dedicate this project to the glory of God Almighty, the source of my strength, for His infinite mercies, blessings and kindness bestowed upon me.

Also, I dedicate to my wife, Mrs. Ita Tetteh, Esq. and son, Caleb G. Tetteh, for their support, encouragement and understanding.

ACKNOWLEDGEMENT

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LIST OF ABBREVIATIONS

OECD – Organisation for Economic Cooperation and Development

ICT – Information and Communication Technology

GRA – Ghana Revenue Authority

SME – Small and Medium Enterprises

PLS – Partial Least Square

SEM – Structural equation model

ABSTRACT

The purpose of this study was to investigate the effects of tax awareness and knowledge on tax compliance among SMEs., The researcher employed simple random sampling to arrive at the actual participants considered in the study.

Structured questionnaire with close-ended questions were used to solicit data from 150 respondents. Structural Equation Modelling was employed in the analysis of the data. The results showed that majority of the participants had no knowledge or attended any educational and sensitization programmes' aimed at creating tax knowledge and awareness. The findings of the study revealed that electronic means, print media programmes and stakeholder sensitization programmes were statistically significant and positively influenced tax compliance among SMEs.

The study recommends that government and tax administrators should adopt innovative and technological systems of dealing with tax payers. The systems should be capable of reducing bureaucracies and corruption-related issues in tax processes including payment taxes as well as employing more electronic means of creating awareness and tax knowledge to enhance tax compliance.

Again, the study recommends that Ghana Revenue Authority should institute reward package system that will see SMEs who regularly honor their tax obligations over certain period being given some rewards to serve as an encouragement for other tax payers to emulate.

CHAPTER ONE

INTRODUCTORY CHAPTER

1.0 Introduction

This chapter handles the background of the study detailing the research objectives and the significance of the study.

1.1 Background of the Study

Tax refers to an obligatory tariff levied by a government institution or tax enforcing body on individual earnings, spending, or other assets whereby the person paying the tax does not receive any specific returns (Gitaru, 2017). In a different perspective, tax is considered as a monetary burden to the contributor, either as a person or an organization. There is a tax dispute with taxpayers to reduce associated monetary burdens and increase profits, while the state wants to ensure the collection of more revenue through an improved tax compliance. For the tax payer and tax collector to reach a consensus, the tax officers have to device ways and means of simplifying the processes and the necessary conditions associated with tax. According to Lymer and Oat (2009), one of these strategies is to improve taxpayer education. Tax revenues are government's major source of revenue in both developed and emerging countries. OECD (2009) contends that for countries to have good financial standing from external donors, taxes could be an important route. Taxes strengthen the ability of countries to meet set goals and make up one of the dominant areas to build nation-society ties and strike the stable point between growth and redeployment that gives states their social appeal (Brautigam 2008). As a result, taxes create the ability to provide security, meet basic infrastructure or promote economic growth, while creating legitimacy and consent for

the creation of a solid, responsible and all-inclusive government. According to Naiyeju (2010), the way tax is administered is a key element of any tax system. Ross (2007) reports that there is nothing like better tax than their management. Thus, the management of tax is therefore very important and one of the essential objectives of the tax system as a way to guarantee the respect for individuals who honor all their tax obligations. However, in many emerging economies, the tax governance is generally weak and described as weak with corruption as a regular feature. In many situations, the overall tax coverage is low due to the fact that majority of the informal economy are totally excluded in the tax system (Brautigam, Fjelftand and Moore, 2008). It is almost impossible for various nations to function properly without tax revenue. Prior to the time tax system was presented in Ghana, the Gold Coast chiefs had put in place their own tax system to generate funds for their development projects. The Fantes call it – “eto” while the Ashantes – “asaaseto”. Tax was introduced in 1799 by William Pitt during his time as a Prime minister to support the war with Napoleon Bonaparte. Again, in 1850 taxes began as customs duties. It was charged on imported goods as ad valorem of $\frac{1}{2}$ % and was managed by the main collector at the Castle in Cape Coast. Later, the tax had to face particular challenges that made it ineffective. In 1852, Poll Tax was then introduced in Gold Coast at the price of one shilling per head for every man, woman or child who lives in the British ensured range. These initial experiences of introducing direct taxes failed due to the frail ways embraced in the collection mechanism, again the receipts that came first was utilized to pay remuneration adjustment of British officers and not to provide social services as planned. Sir Alan Ranford Slates made an effort to introduce an income tax, but did not happen. Due to the opposition from the masses in 1954, the system was abandoned. The importance of taxes in governance, although despite the fact that solid government system cannot be overestimated, its understanding has long antecedent in economics. Sowell

(1974), contended that an economic value may possibly be beneficial only when directed by government towards the correct fiscal actions. He also pointed out the importance of taxes that Richardo and Mill placed revenues first in the public finance division at three, namely "income, expenses and public debt." So, it is clear that effective taxes aid the government implements development and growth policies that have significant effect on the lives of its citizens. Income generation is taken into account as the main and most significant role of taxes. Nevertheless, taxes are not solely how to get revenue for the government, but can even be utilised to kindle other roots of government revenue and grow other sectors of the economy from which the government can generate revenue. Therefore, the overarching goal of the researcher lies on analyzing how tax familiarity and awareness can bring about tax obedience in Ghana.

1.2 Research Problem

Tax compliance is a key issue for both developed and emerging economies around the world, particularly Ghana. Prior studies have revealed that there has always been unwillingness on the part of both individuals and business to pay taxes. It is difficult to influence these SMEs and individuals to conform to all required tax obligations, although the laws governing taxes have not been specific in some situations (James & Alley, 2004). The subject of tax non-compliance has become a key issue for governments. Today, governments are actively working to reduce the risk of misrepresentation of income by citizens. The magnitude of this problem has an influence on income generation in Ghana. As a result, when the revenues needed for good operations cannot be generated, the government will possibly resort to tax increment by introducing new taxes or new borrowing that could not only push out the private sector but results to debt traps (Fagbemi, Uadiale & Noah, 2010). Conversely, tax evasion also has the consequence of misrepresenting the values of faultless market resource distribution and income redeployment. This results in the

stagnation of economic growth and socio-economic impacts of the country. Among the major challenges confronting the governments of developing countries such as Ghana in their quest to achieve self-reliance, economic growth is how to manage the phenomenon of the fledging economy and maximization revenue collection within the economy. Economically constrained governments undertake liberalize economic posture to reform the tax system through introduction of new taxes to supplement revenues for the state. A critical aspect and a major component of government revenue mobilization is through taxes, levied on goods and service. However, the illiteracy of the tax systems, the perceived mismanagement of the economy and waste of the tax resources does not encourage the citizenry to pay their taxes. Countries with effective tax collection systems such as Malaysia have incorporated the teaching of tax into all their educational curricula, as a way of awakening the tax responsibility of the people. The absence of understanding of the tax obligation and responsibility and the absence of enforcement of the tax regulations in Ghana, leads to the low level of revenue being raised through taxes and the ever-increasing evasion of tax by the people. Due to lack of tax education in Ghana, there is a misconception by taxpayers that does not allow them to avail themselves for payment. Citizen view taxes as a burden the government is imposing on them. The unwillingness of majority of the citizen to pay taxes because tax agencies does not explain the use of tax collected and there no tangible evidence of want has being collected, almost all project in our cities and town are financed by loan from foreign donors. Tax plays a very critical and key function every country. Tax revenues are used in the provision of infrastructure and services as well as meeting other development needs. Despite the crucial role of taxes, Ghana has received little from tax revenues than it could have benefited. The state can generate more revenue from SMEs but this has not been the case. This presents a major challenge for the government and therefore impedes the execution of development projects. Therefore, the

researcher here sought to assess the how the knowledge and awareness of tax affect tax obedience in Ghana. The study seeks to analyze how knowledge and awareness creation through the use of print media, electronic means, and the involvement of stakeholders translate to tax compliance.

1.3 Study Objective

The main purpose of the study is to evaluate effect of tax knowledge and tax awareness towards people honoring their tax obligation in Ghana. However, the study specifically sought to achieve the following;

1. To ascertain the effect of electronic taxpayer education on tax compliance between SMEs in the Greater Accra of Ghana.
2. To assess the influence of print media on tax obedience in the group of Small and Medium Enterprises in the Greater Accra of Ghana.
3. To find out the effect of stakeholder sensitization programs on tax compliance between SMEs in the Greater Accra of Ghana.

1.4 Research Questions

1. Does electronic taxpayer education influence tax compliance between SMEs in the Greater Accra of Ghana?
2. Does the print media affect tax compliance in the group of Small and Medium Enterprises in the Greater Accra of Ghana?
3. What is the effect of stakeholder sensitization programs on tax compliance between SMEs in the Greater Accra of Ghana?

1.5 Scope of the Study

The researcher focuses on Small and Medium Enterprises in Greater Accra Region. The study population under consideration are managers of Small and medium businesses within the Greater Accra Region. Limiting the target population to managers of SMEs aided the researcher in carrying out the research within a stipulated period, as compared to involving larger population which demands substantial resources and time in order to complete.

1.6 Significance of the Study

The outcome of this research will aid as the basis upon which a framework can be developed aimed at achieving tax obedience attitudes among SMEs. The findings of study will guide government and tax administrators such as the Ghana Revenue Authority to design and implement innovative and more comprehensive tax policies directed towards achieving tax obedience in the SMEs sector. The research findings further serve as useful information for business men and women as well as organization's management teams to help in identifying the factors which affect the ability of individuals honoring their tax obligations and what can be done improve the system. Finally, the research will provide the bases for scholars and researchers interested in the field of tax management to conduct more studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section details the significant information on the review of critical theoretical underpinning empirical evidences leading to conceptual framework on the influence of tax knowledge and awareness on tax obedience in Ghana.

2.1 Relevant Theories and Concepts

2.1.1 Institutional Theory

The theory gives details as to why firms in a geographical area tend to have the same features and forms, considering the forms created by organizations. Companies that are rewarded via an increasing legitimacy, resources, and survival abilities for what corporations want may be able to cope with changing organizational values (Scott, 1995).

2.1.2 Economic Deterrence Theory

The Deterrence theory advocates tax penalties for violations should be increased to maximize tax compliance. Our focus is on the opportunities that can lead to people keeping the law. There are two ways by which one can achieve deterrence. This can be done through disciplinary and persuasive approaches. Fischer et al. (1992), deterrence may therefore lead to a path of a rise in the likelihood of detection, a reduction in rate of tax or the introduction of tougher penalties. Milliron and Toy (1988) advanced the economic interpretation of tax compliance as “perfect moral, risk-neutral or risk-averse individuals who seek to maximize their utility, and chose to evade tax

whenever the expected gain exceeded the cost". Alm et al. (1992) evidence indicated that the application of penalties affects tax obedience, even though the proposals do not exist. However, there are other researchers who advanced the argument that increased fines may result in taxpayers dogging which has the potential of defeating the purpose of such taxes.

2.1.3 Planned Behaviour Theory

This is an emotional process that combines views and behavior, attempting to predict human conduct. The idea was suggested by Icek Ajzen to enhance the analytical influence of the theory of reasoned action as well as behavioral control. This theory, shows that actions of individuals in a society is beneath the influence of certain features that arise from certain factors and occur in a deliberate way. The capability to exhibit an activity depends on the truth that a person is responsible for that action (Behavior intention). Behavioral intention sequentially hinges on three factors that are attitude towards a behavior, subjective norms and perceived behavioral control. These three factors are also under the influence of behavioral beliefs, normative beliefs and control beliefs. The focus of this concept is therefore on the behavior and ethics of the taxpayer. This notion suggests that the taxpayer can obey even when the chances of discovery drops with a low level. As done by the economic theories which pay attention to increased audits and fines as means of achieving compliance, emotional concepts place much premium on ever-changing individual behaviours towards tax related issues.

2.2 Review of Factors Influencing Tax Compliance and Hypotheses Formulation

2.2.1 Tax compliance

From James and Alley's (2004) perspective, the simplest form of tax compliance definition is frequently stated in relation to the degree to which individuals who pay tax comply with the tax code. Compliance deals with honoring of all tax obligations under the tax laws. Theoretically, this may be characterized by considering three distinctive types of compliance include compliance with payment policies, compliance with submission guidelines, and compliance with reporting guidelines (Brown & Mazur, 2003). Tax compliance relates to individual and organizations paying their taxes willingly (Kirchler, 2007). In the Ghanaian perspective, tax compliance is a situation whereby individual and organizations who are supposed to pay tax willingly do so in accordance with the tax regulations, provide yearly true earnings, and pay the actual tax amount within the stipulated time frame (Internal Revenue Service, 2000). This includes registering the company for tax purposes or making available the required information to the tax authorities thereby declaring their tax paying status, accordingly filing tax returns (if necessary), and subsequently paying their taxes within the stipulated time limit (Ming, Normala & Meera, 2005). In simple terms, tax compliance means that all statutory tax obligations are fulfilled freely and completely. In order to adhere to tax laws, it is important to hold high the principle of honesty, have adequate knowledge and expertise necessary to utilize that knowledge, meet deadlines, making available authentic and satisfactory records needed for tax earnings and further necessary documentations (Singh & Bhupalan, 2001). Many tax administrators grapple with the issue of achieving tax compliance since it is difficult to convince taxpayers to become tax obedience (James & Alley, 2004). SMEs in Ghana are mainly in the non-formal sector of the economy, which makes it difficult to raise taxes. Therefore, most of these SMEs manage to avoid honoring their tax obligations. The few SMEs

that comply with the tax regulations are also over burden with huge taxes, which adversely affects the company's growth. Terkper (2007) believes a nation's major concern is to expand the tax network, as the situation gives cause for concern when few citizens are taxed. On their part, Atawodi and Ojeba (2012), opined that most Nigerian SMEs prefer operating within non-formal segment due to the price of compliance which is considered high and many tax payers simply pay because they are under pressure from the tax administrators. According to Abrie and Doussy (2006), compliance with tax rules is also an obstacle and puts a high financial drain on SMEs.

2.2.2 Electronic Taxpayer Knowledge and Awareness and Tax Compliance

Gitaru (2017), analyzed economic and behavioral factors that influence taxpayer tax compliance. The purpose of the research was to identify the economic and behavioral features that influence taxpayer compliance with a tax forgiveness program. Using questionnaires issued to participants in this waiver, respondents identified factors that prevented them from paying their taxes because they did not present a proper tax return within the legal timeframe. Complex of tax laws, solvency, absence of knowledge of tax regulations and observation of huge tax burdens and inefficiency of the tax administration. According to Ross (2007), a tax compliance can be boosted through the use of dynamic means such as electronic to create tax knowledge and awareness. The training supports that this approach allows the authority to achieve a taxpayer's profit, increase ratings, improve the policy analysis and project management capabilities. Gitaru (2017), explored the Information Communication Technology (ICT) skills required by new graduates when they the first take up a job with a tax firm to ascertain the use of electronic tax instruments; to evaluate the impact of high-income taxpayers on new Information Communication Technology science and electronic tax tools; and advising tax professionals by integrating Information Communication Technology skills and tax software into a single company. The evidence showed that student ICT and electronic payment

systems accordingly translated into tax compliance. The transmission or storage media of such media using electronic technology includes TV, radio, Compact Disk-ROM, including other media that require lighting or coding. Ross (2007) stressed that dealing with taxpayers through the use of electronic systems will improve compliance through more efficient methods. The training supports that this approach allows the organization to achieve a taxpayer's profit, increase ratings, improve the policy analysis and project management capabilities. In addition, Lubua (2014), argue that the tax services training system is one of the strategies to improve the provision of services to individuals who pay their taxes. Offering quality services is important to enable compliance with tax regulations. The lack of compliance with tax regulations forces tax authorities to apply costly and coercive tax enforcement methods.

Hypothesis 1: The use of electronic means of creating tax payer knowledge has a positive and significant relationship with tax compliance.

2.2.3 Awareness and knowledge creation through print media and tax compliance

In the perspective of Ross (2007), a complete approach to improving taxpayer's knowledge via the print media will expedite compliance by using alternative, holistic methods. Although not much is done in terms of researching in this field, the magnitude of the issue could be underestimated, or overlooked. Engaging in effective media crusades on television, display of tax information on magazines, commercial/prospective clients and on newspapers will improve consciousness, submission of tax returns and, subsequently, taxpayers' confidence. Empirical findings from Hyman (2005), show that 80% of the respondents rated very highly that print media education programs impact taxpayer obedience in Tanzania through changing the ethical attitudes on the taxpayer compliance. It is from this light the study examined the influence of print media

taxpayer education programs on tax compliance in Ghana. On their part, Nurlis (2015), argue that the application effective media crusade on TV, the display of tax information on magazines, among others will improve consciousness, submission of tax returns, and eventually tax drive among the tax payers. On the effects of electronic and print media on tax payment, the study revealed that it created payment awareness, reduction in tax evasion, loyalty and understanding. Other effects were organic obligation to pay, increase in revenue collection and smooth business operations among others.

Hypothesis 2: The use of print media in creating tax knowledge positively and significantly affects tax compliance

2.2.4 Stakeholder sensitization program and honoring of tax obligation

Taxes are the main source of state revenue used to finance the government development expenditures and programs. Tax contribution is very important for organizing a country with other income, such as natural resources, state-owned earnings businesses, rates and other sources of revenue. You can say that tax revenues are worth the highest internal income (Ross, 2007). The Ghana Revenue Authority (GRA) organizes workshops to educate taxpayers about tax compliance. This is generally done as part of a participant engagement strategy with the aim of helping taxpayers understand the importance for gathering and examining the views and ideas of such meetings to enlighten the Authority about the current efforts to convert and ease risks at all stages of tax governance to enhance the understanding of the taxpayers of the administrative method of the Administration by informing taxpayers of their responsibilities and how to fulfill them and clearly communicate the results or advantages of the intercessions and advancements of the Ghana Revenue Authority, which allow to cut down cost of transaction. The following activities are also

carried out by the Authority-stakeholder analysis, including the classification of all possible stakeholders based on their effect of compliance with tax obligations, identification, organization and facilitation of suitable planned meetings such as conferences, forums and workshops, the drafting of memos between Ghana Revenue Authority and the stakeholders identified to regularize partnership agreements and collaborative efforts and finally respond to requests and requests for information from all interested parties and all partners (Ghana Revenue Authority, 2010). Ghanaian SMEs are key participants in tax issues and may affect or be affected by the activities, objectives and guidelines of the tax organization. For example, training taxpayers through seminars and other methods used by interested parties helps them better comply with tax obligations (Ghana Revenue Authority, 2019). Stakeholder workshops have been used by many organizations in disseminating information about their role and obligations. According to Nurlis (2015), stakeholder workshops provide room for discussion of tax matters and have greatly influenced taxpayers' decision to pay tax. It follows therefore, that stakeholder workshops play a key role in improved tax compliance since they provide one-on-one interactions and clarification of tax issues and obligations.

Hypothesis 3: Stakeholder sensitization programmes positively and significantly linked with tax compliance.

2.3 Summary

The need for taxpayer knowledge and awareness through establishment of print media tax knowledge and awareness program on taxpayer compliance in Ghana, tax stakeholder workshops will have a significant effect on the level of tax compliance. Further, print and electronic media taxpayer knowledge and awareness programs greatly improved tax obedience. The study holds the

view that stakeholder's workshops are very influential in tax payment and compliance as through the workshops they felt recognized and part of the tax system.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section comprises of the data collection procedures that enabled the researcher to make meaningful and realistic conclusion based on the data drawn from the field.

3.1 Study Design

A cross sectional research approach was adopted to analyze the effect of tax awareness and knowledge on tax obedience in Ghana. A questionnaire will be developed based tax knowledge, awareness and tax obedience. The survey research strategy deals with quantitative and numeric explanation of movements, traits, and opinions of a population through studying a sample of that population (Creswell & Clark, 2011).

3.2 Method of Research

Maxwell (1996) suggests that there are two categories of research, which are used to collect and analyze empirical data. They are quantitative and qualitative research techniques. Researchers mostly select an approach based on the research problem/question so as to find response to the research question (Maxwell, 1996). Qualitative method is essentially dedicated to particular situations or individuals and it's based on difference of opinion instead of figures (Maxwell, 1996). Here, there are two focal areas to collect data, these are focus group discussion and structured interviews. In qualitative study data is collected from limited amount of people or insignificant samples instead of gathering information from too many participants. Qualitative study was

identified and adopted by survey and tentative scholars who are concerned with pinpointing unexpected occurrences and effects (Maxwell, 1996). Quantitative method on the other hand is completely dependent on figures. The overarching goal of this method is to categorize structures, compute them and elucidate the stuffs which are witnessed through the study in arithmetical representations (Gorard, 2001). The research is premeditated before the information gathering. This category of research consists of certain apparatuses for information gathering (Gorard, 2001). Quantitative study strives for dimensions and investigation of target thoughts by making use of information gathering tools. This kind of methodology is also convenient in determining consumers' traits, fulfilment, and obligation and for certain additional market information (Gorard, 2001). Grounded on the existing concept, this study adopted quantitative method and used questionnaire to assess print media, electronic, tax knowledge and awareness program on taxpayer compliance in Ghana, tax stakeholder workshops will have an important effect on the level of tax compliance. Further, print and electronic media taxpayer knowledge and awareness programs greatly improved tax compliance.

3.3 Types of Research

There are three forms of research; they consist of explanatory, exploratory and descriptive. According to McNabb (2002) exploratory and descriptive methods of study focus on figures while explanatory study centers on the explaining power of respondents. In order to paint a picture of a specific condition, descriptive method of study is adopted (McNabb, 2002). It consists of large number of participants used to provide account of an incident or outline characters, thoughts or actions determined or perceived in a certain background (McNabb, 2002). The primary aim of descriptive methodology is to define specific situations, thus responding to question such as what is the relationship between brand building and brand equity. In the case of exploratory method, the

scholars focus on the areas that they can gather information in a detail form (Emory & Cooper, 1991). According to Emory and Cooper (1991), exploratory study is a novel research area which requires detailed examination to provide deep insight into the phenomena. It is adopted to collect initial examination which requires a stage for further study. It is preferred to other modes of research due its ability to save time and money.

The drive for explanatory type of study is extensive in terms of scope than descriptive research technique (Mcnabb, 2002). Explanatory study is carried out to construct concepts that clarify and forecast normal and collective actions (Mcnabb, 2002). The primary focus of this type of study is to give a detailed insight as to why some events do occurred, deducing the causes and effects among many constructs, and clarifying the variances in more than a cluster of answers (Mcnabb, 2002). This type of research is more organized and less malleable as it comprises of closed questions which make it a descriptive. This study adopted explanatory type of research.

3.4 Population

According to De Vos (2005) and Malhotra and Dash (2011) population referred to any comprehensive collection of units such as individuals, organizations, institutions, or the like that share some similar set of features in connection with the aim of the research under examination and about which scholars want to be able to draw assumptions and design to generalize. Again, a research population refers to that cluster of individuals or units that the investigator intends to conclude in his or her study (Babbie, 2005). In a similar fashion, Polit and Hungler (1999) posit that population denotes the collective or entirety of all the entities, subjects or participants that fit in to a set of conditions. It is therefore not prudent or probably impossible to include all members of the population that the researcher draws the conclusions. In every single case, researcher decides

on a certain number of the population to be considered (Babbie, 2005). In this research the population was managers of selected SMEs in the Greater Accra Region. The justification for choosing managers is because they are able to read and understand the concept before answering the questionnaire.

3.5 Data Sources, Collection and Method

Data was gathered from primary source. The primary information was obtained from questionnaire. The questionnaires were self-administered and categorized into two sections. Section A constitute the questions on awareness and knowledge of tax compliance in Ghana and Section B was used to solicit the demographic information of respondents. The questions were measured by adopting a five-point Likert scale technique where Strongly Disagree (1) point, Disagree (2) points, Neutral (3) points, Agree (4) points and Strongly Agree (5) points for the variable under consideration (Kim & Kim, 2005). In all, 100 questionnaires were administered to managers of selected SMEs.

3.6 Sample

A convenience sampling technique will be used to guarantee that each population component- male and female will have equal representation (Gunnar, 2000). The questionnaire was administered to 150 managers of SMEs in the Greater Accra Region. The justification for targeting 150 managers stem from the fact that larger samples according to LoBiondo-Wood and Haber (1998) is more representative of the population and gives accurate results. According to Blankson and Kalafatis (2004) the respondents' educational background and capability to read and complete the needed assignment offers a defense in selecting managers of SMEs which is regular with the existing works. Peterson (2001) says that mostly answers from educated elites are often consistent from non-educated elites.

3.7 Data Analysis

In this study, Partial Least Square (PLS) technique of structural equation model (SEM) will be used to analyze the collected data. PLS techniques has become more popular in information system and management information systems researches (Henseler, Ringle, & Sinkovics, 2009; Sarstedt, Ringle, Henseler, & Hair, 2014). Moreover, this technique can also be applied into social science research. PLS is a structural equation modelling (SEM) that allows testing and estimating causal relationships among several dependent and independent hypotheses concurrently. This study will use two statistical software programs (SPSS 22.0 and AMOS 3.0) to obtain descriptive and structural model analyses.

CHAPTER 4

DATA ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter deals with the analysis of data collected from the respondents. The chapter explores on how tax information and tax awareness influence tax obedience among SMEs in Greater Accra Region. The chapter focuses on analyzing, presenting and interpreting the data.

4.1 Analysis

The study sought to study the effect of tax awareness and tax knowledge on tax obedience among SMEs. The study used SPSS and AMOS software in the analysis of the data. The results showed that 60.7 percent of the participants are males whilst 39.3 percent are females. The results discovered that mass of the study participants aged between 40 to 49 years. Figure 1.1 and 1.2 presented the results of the descriptive figures of gender and age respectively.

Figure 4.1 Gender of Respondents

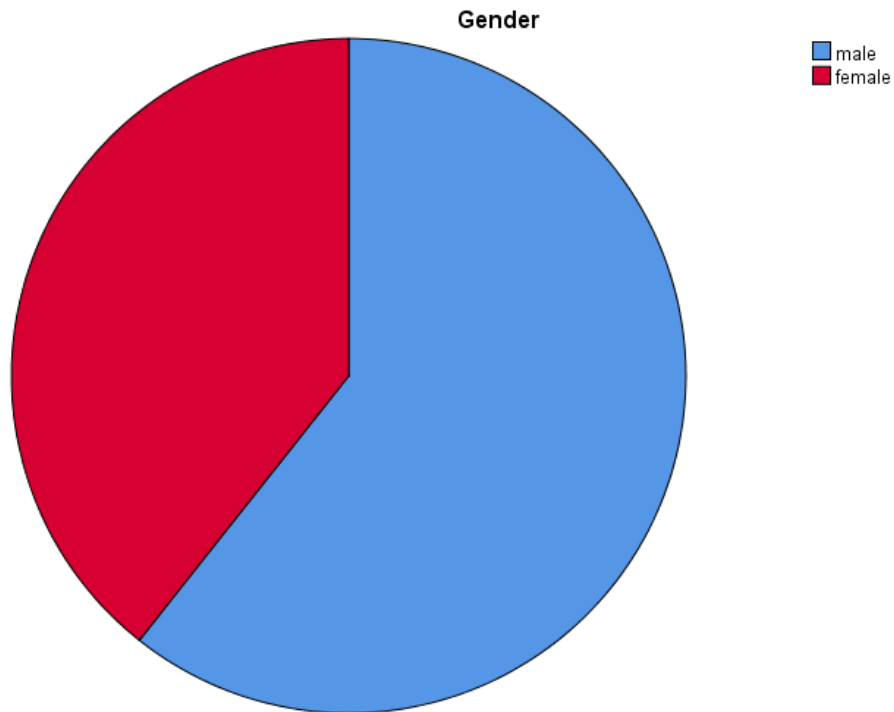
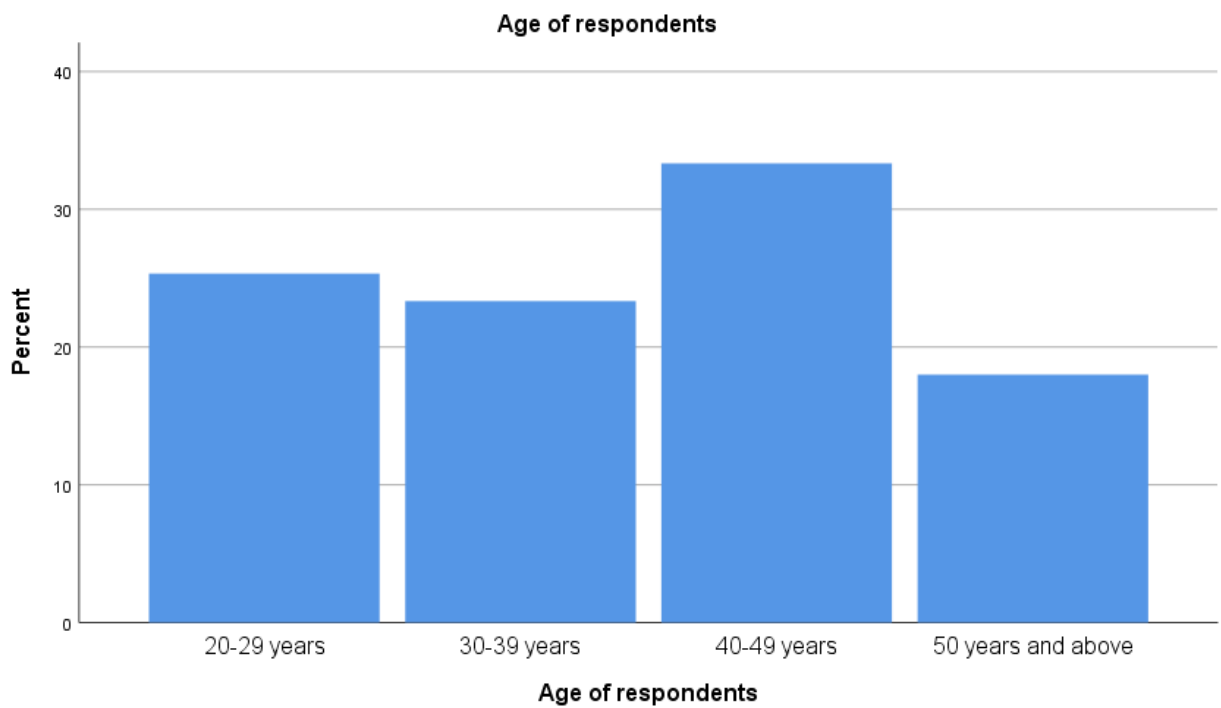


Figure 4.2 Age of Respondents



The results revealed that in terms of tax identification registration, majority of the participants have tax identification numbers (TIN). Table 1.1 represents TIN registration status among the participants. The results showed that 52 percent of the respondents had filed their tax before whilst 48 percent had never filed their tax returns and can be seen in figure 3. The data analysis demonstrated that in terms of awareness of tax payer education programmes, 48.7 percent had knowledge about education programmes organize by Ghana Revenue Authority (GRA) whilst 51.3 percent had no knowledge of any education programmes organized by GRA as indicated in table 1.2.

Table 4.1 TIN Registration Status

Do you have TIN number?					
		Number of participants	Percent	Percent	Cumulative Percent
Responses	yes	87	58.0	58.0	58.0
	no	63	42.0	42.0	100.0
	Total	150	100.0	100.0	

Figure 4.3 Filing of Tax Returns Status

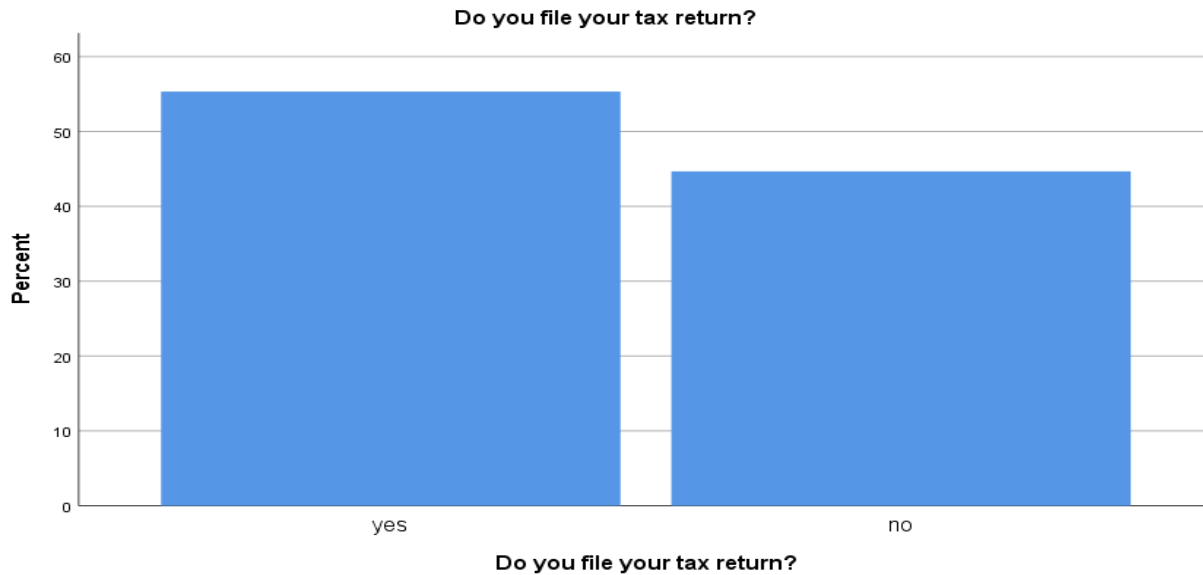


Table 4.2 Tax Payer Education Awareness

		Number of responses	Percent	Cumulative Percent
Responses	yes	73	48.7	48.7
	no	77	51.3	100.0
	Total	150	100.0	

Source: Author’s own compilation

Table 4.3 Descriptive Statistics of The Constructs

	Number of responses	Mean	Std. Deviation
Tax Compliance	150	22.1533	2.62854
Electronic Tax Knowledge	150	16.3400	5.40548
Print Media Knowledge	150	11.0467	2.63517
Stakeholder Sensitization	150	21.3333	3.67773
Valid N (listwise)	150		

Source: Survey results

Reliability and validity concerns are critical in research. The researcher therefore, conducted both validity and reliability test. The results indicated that all the constructs under consideration had Cronbach Alpha values of more than the 0.7 which is considered by many researchers as the accepted value. The factor loadings for all the constructs exceeded 0.60 which is usually considered good factor loadings for newly established constructs. The Average Extracted Variance (AVE) for the data were determined as part of assessing the reliability and validity concerns of the study. The AVE for all the constructs were above 0.5. Table 1.3 represents the Cronbach Alpha and AVE of both the independent and dependent constructs. From the values in table 1.3, it is clear that both achieved construct reliability and convergent validity were attained. Convergent validity was achieved as the values of Cronbach Alpha far exceeded the values of AVE. Composite reliability was met since all the CR values obtained were higher than 0.60 as indicated in table 1.3. Discriminant validity was assessed and the results indicated that there were no redundant items therefore confirming that discriminant validity was attained. Table 1.4 represent the discriminant validity of the constructs. The analysis revealed that data were fit since the fitness indices achieved the acceptable threshold as can be understood in table 1.5

Table 4.4 Internal Reliability and Convergent Validity

Constructs	No. of items	Cronbach alpha	CR	AVE
Tax Compliance	5	0.765	0.855	0.512
Electronic Taxpayer knowledge	5	0.805	0.907	0.729
Print media knowledge	3	0.923	0.790	0.601
Stakeholder sensitization	5	0.890	0.930	0.674

Authors compilation

Table 4.5 Discriminant Validity

Constructs	Tax compliance	Electronic tax payer knowledge	Print media knowledge	Stakeholder sensitization
Tax compliance	0.743			
Electronic tax payer knowledge	0.041	0.907		
Print media knowledge	0.060	0.410	0.883	
Stakeholder sensitization	0.081	0.382	0.635	0.779

Authors compilation

Table 4.6 Fitness Index

Name of Index	NFI	GFI	AGFI	TLI	CFI	RMSEA
Index value	.900	.952	.941	.908	.947	0.053

Source: Author's compilation

The study aimed at establishing the effect of tax awareness and knowledge on tax obedience among SMEs. The researcher performed structural equation in order to establish the relationship between the independent and dependent variables. The data was then analyzed using AMOS 23.0 software to study the influence of tax awareness and knowledge on honoring tax obligations among SMEs. Structural Equation Model deals with a confirmatory approach to analyze data by stating definite relationships among variables, secondly when compared with other multi-variate techniques which are descriptive by nature (e.g. exploratory factor analysis) making hypothesis testing is rather difficult to do (Teo & Zhou, 2014). Confirmatory factor analysis was assessed to ensure no

construct with low loadings are considered. According to Bryman and Cramer (2006) factor analysis allows the researcher to evaluate the ‘factorial validity’ of the questions which make up the scales by showing the extent to which it is likely to measure matching notions or variables. All the factors were well loaded on the model as can be seen on figure 4. All the indicators of the constructs exceeded 0.6. SEM results revealed that all the hypotheses were confirmed as shown in table 1.6. The P- values for all the three constructs are statistically significant at P- values of less than 0.05 and 0.001 at two detail.

Figure 4.4 Path Analysis

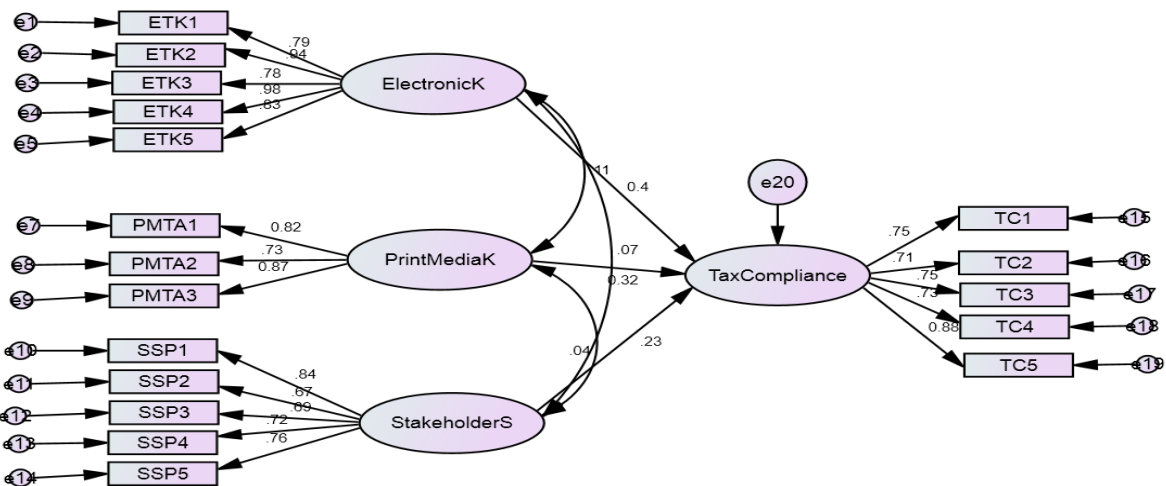


Table 4.7 Regression Weights

		Estimate	S.E.	C.R.	P-Value
TaxCompliance	<--- ElectronicK	.421	.054	.609	.042
TaxCompliance	<--- PrintMediaK	.317	.036	.485	.037
TaxCompliance	<--- StakeholderS	.149	.063	2.340	***
ETK1	<--- ElectronicK	1.000	constrained		
ETK2	<--- ElectronicK	.937	.082	13.890	***
ETK3	<--- ElectronicK	.737	.095	10.633	***
ETK4	<--- ElectronicK	.784	.079	14.506	***
ETK5	<--- ElectronicK	.981	.093	11.516	***
PMTA1	<--- PrintMediaK	1.000	constrained		
PMTA2	<--- PrintMediaK	.707	.175	4.029	***
PMTA3	<--- PrintMediaK	.874	.082	2.469	***
SSP1	<--- StakeholderS	1.000	constrained		
SSP2	<--- StakeholderS	.696	.082	8.473	***
SSP3	<--- StakeholderS	.770	.087	8.808	***
SSP4	<--- StakeholderS	.651	.071	9.156	***
SSP5	<--- StakeholderS	.772	.079	9.775	***
TC1	<--- TaxCompliance	1.000	constrained		
TC2	<--- TaxCompliance	.713	.133	7.841	***
TC3	<--- TaxCompliance	.751	.134	8.202	***
TC4	<--- TaxCompliance	.974	.121	8.025	***
TC5	<--- TaxCompliance	.882	.118	6.959	***

Source: Author's compilation

The results revealed that electronic tax payer knowledge, print media tax payer knowledge and stakeholder sensitization programmes were all statistically significant. Electronic tax payer knowledge had coefficient of $\beta = 0.421$ which was significant at P-value of 0.042. The results further revealed that print media knowledge regressed on tax compliance with coefficient value of $\beta = 0.317$ at a p-value of 0.037. Stakeholder sensitization programmes was found to have a direct and positive coefficient value of $\beta = 0.149$ with a p-value of 0.000.

CHAPTER 5

DISCUSSION OF THE FINDINGS

5.0 Introduction

This chapter deals with the discussion of research findings. The chapter ends the study with attempts to summarize the effects of tax information and tax awareness on tax obedience among SMEs in Greater Accra Region. It also gives recommendations based on the findings.

5.1 Summary of the findings

The study sought to explore how tax knowledge and awareness influence tax obedience among SMEs. The researcher intended to prove or otherwise that electronic knowledge, print media, stakeholder sensitization programmes which were deduced from previous studies actually have significant effect on tax compliance. The demographics of the respondents indicated that majority were males in terms of their gender whilst respondents within the ages of 40 to 49 years were the dominant age group. The results highlighted that majority of the participants (58 percent) had registered for tax identification numbers (TIN number) while 52 percent had filed tax returns before. With regards to tax awareness and education, 48.7 percent of the respondents had knowledge of such programmes organized by GRA while majority (51.3 percent) do not know of any awareness and education programmes. The findings revealed that tax knowledge and awareness have significant influence on tax compliance among tax payers in the SMEs sector.

As governments and tax administrators endeavors to ensure tax compliance is maximised among tax payers in order to meet government expenditure, the study evidence showed that tax knowledge and awareness in different forms positively associated with tax compliance. The

findings of the study indicated that knowledge awareness creation through print media positively and significantly associated with tax compliance among SMEs. Any effort to increase the knowledge and awareness of tax payers on their tax obligations through the print media will positively influence tax compliance. The effect of print media ($\beta = 0.317$) means that unit change in print media will result into 0.317 (31.7 percent) change in tax compliance. The finding is in line with previous study evidence that 80% of the respondents rated very highly that print media education programs influence taxpayer compliance in Tanzania through changing the ethical attitudes on the taxpayer compliance (Gotora et al. ,2018). The finding further buttressed Young et al. (2016) point that effectiveness of media campaigns will boost cognizance, tax filing, and eventually tax morale between the tax payers.

The model of operandi in tax administrations has the ability of increasing tax compliance or otherwise. The study findings revealed that the use of electronic means in dealing with tax processes and collection positively and significantly affected tax compliance among SMEs. The coefficient value ($\beta = 0.421$) of electronic knowledge implies that a unit change in electronic knowledge will translate to 0.421 (42.1 percent) change in tax compliance. The finding is in tandem with Lai Ming et al (2010) evidence that electronic payment systems have a positive impact on tax compliance. The finding backed the conclusion drawn by Sass (2007) that dealing with taxpayers through the use of electronic means will enable compliance through the use of active methods.

Sensitizing people on what their obligations are can increase their preparedness to honor their obligations. Stakeholders sensitization programmes are necessary in yielding desired results. The findings of the study revealed that stakeholder sensitization programmes had a positive and significant effect on tax compliance. The effect of stakeholder sensitization programmes ($\beta =0.149$)

on tax compliance implied that any effort that brings a unit change in stakeholder sensitization programmes will lead to resultant change of 0.149 (14.9 percent) in tax compliance among SMEs. The findings of the study supported Gotora et al (2018) conclusion that stakeholder workshops provide room for discussion of tax matters and have greatly influenced taxpayers' decision to pay tax. The findings further strengthen the observation that training taxpayers through seminars and other methods used by interested parties helps them better comply with tax obligations (Ghana Revenue Authority, 2019).

5.2 Implications and Conclusion of the Study

The findings of this research have several implications for all stakeholders in tax administration as well as educationist. The findings will guide government and tax administrators in formulating innovative tax policies which incorporate electronic means of dealing with tax payers. The findings will help government and other stakeholders to seek ways of boosting the tax payers abilities to honor their tax obligations especially through intensifying educational and sensitization programmes aimed at creating tax knowledge and awareness. The findings will help educational institutions to incorporate tax responsibilities in their curriculum as a basic course to all students to prepare them towards honoring their tax obligation.

Premised on the study evidence, the researcher advances the following conclusions. Stakeholder sensitization programmes had a positive and significant effect on tax compliance among SMEs. The study therefore, concludes organizing stakeholder sensitization programmes positively linked with achieving tax compliance among tax payers.

Creating knowledge and awareness through electronic means was found to positively and significantly influenced tax compliance among SMEs. The researcher concludes that there is a positive and significant relationship between the use of electronic means and tax compliance.

Lastly, the researcher concludes that using print media as a tool in creating awareness among tax payers on tax obligation positively and significantly associated with tax compliance.

5.3 Recommendations

Following the findings and conclusions drawn, the study makes these recommendations which can go a long to help government and tax administrators to increase the rate of tax compliance among tax payers.

Firstly, the study recommends that government and tax administrators should adopt innovative and technological systems of dealing with tax payers. The systems should be capable of reducing bureaucracies and corruption related issues in tax processes including payment taxes as well as employing more electronic means of creating awareness and tax knowledge to enhance tax compliance.

Secondly, the researcher recommends that, Ghana Revenue Authority should organize more and regular workshops, seminars and conferences aimed at enhancing tax knowledge and awareness creation.

Last but not least, Ghana Revenue Authority should institute reward package system that will see SMEs who regularly honor their tax obligation over certain period being awarded to serve as an encouragement for other tax payers to emulate.

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APPENDIX

Questionnaire for the Taxpayers

Dear respondent,

I am a final year accounting student of University of Ghana – Graduate Studies as part of the requirements for the award of the MSc degree, I am carrying out a research on the topic “Effect of Tax Knowledge and Tax Awareness on Tax Compliance in Ghana”. I would be very grateful if you could make time out of your busy schedules to answer these questions. Please fill the space provided or tick (✓) appropriately where options are given to the questions. You are assured that whatever information you give would be treated as confidential.

Respondent’s characteristics

1. Gender: Female () Male ()

2. Age of Respondents: 18years – 24years () 25years – 34 years ()

35 years – 44years () 45 years – 54years () above 55 years ()

3. Highest level of education of the respondents:

 Basic education () Secondary Education () Diploma /HND () First Degree ()

 Masters ()

4. Category of respondent Employee () Owner of enterprise ()

5. For how long has this business been in existence/been working? 1-5 years () 6-10
 years () 11-15 years () Above 15 years ()

6. What kind of business are you in? Trade [], Financial Service, [] Hospitality, []
Real Estate Agency, [] Education []

LEVEL OF TAX COMPLIANCE AND MOTIVES

7. Is your business entity registered with any tax authority? Yes () No ()
8. How long have you been in business? Below 5 years () 5 years and above ()
9. Do you keep financial records of your activities? Yes () No ()

TAX EDUCATION

10. Have you received a Tax-Related Course before? Yes [] No []
11. If yes to the question (7) above, at how did you receive the tax related course?
Through; Formal Education () Workshop () On the job training ()
12. Have you attended any tax seminars by Ghana Revenue Authority?
Yes () No ()
13. If yes, how many times? 1 – 3 times () 4 – 6 times () 6 – 10 times ()
14. What benefit did you derive from these seminars?
.....
.....
15. The following statements relate to perception of **Taxpayer Awareness**. Indicate your level of agreement on how these issues pertain to the Ghana Revenue Authority. Use the scales of 1= strongly disagree; 2 =disagree; 3 = uncertain; 4 = agree; and 5= strongly agree.

Tax Compliance	1	2	3	4	5
Ease of acquiring knowledge of taxation					
Knowledge and understanding of the essence of tax					
Knowledge and understanding the functions and benefits of tax					
Knowledge and understanding in filling tax return, preparing financial reports, and how to pay taxes					
Knowledge and understanding about the calculation of tax underpayment					
Knowledge of administrative and criminal sanctions					
Knowledge and understanding of the implementation of sanctions for tax violations					

16. The following statements relate to **Reasons Why People Do Not Pay Their Taxes**. Indicate your level of agreement on how these issues pertain to the Ghana Revenue Authority. Use the scales of 1= strongly disagree; 2 =disagree; 3 = uncertain; 4 = agree; and 5= strongly agree.

Electronic Media Tax compliance awareness	1	2	3	4	5
People feel the taxes that are collected are not used efficiently.					
The likely consequences (fines, prosecution, penalties, etc) of getting caught for not paying tax are not serious enough.					
The risk of getting caught is low.					
People feel that the tax rates on their earnings are too high.					
People do not understand how to submit tax returns.					
There is a general culture of tax evasion/avoidance in Ghana.					

People feel they are underpaid therefore do not want to lose money in the form of tax.					
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Stakeholder Tax compliance awareness	1	2	3	4	5
Taxpayer awareness has enlightened the public on the need to pay taxes					
Several tax items are levied at the same time					
The system used for filing and submitting tax returns is unfriendly to tax payers usage					
Taxpayers are generally not willing to pay taxes					
Taxpayers who perceive the tax authorities' enforcement actions to be ineffective are less compliant					
Print Media Taxpayer Awareness					
The non-compliance of other taxpayers has a negative impact on the behavior of compliant tax payers					
Tax payers including you may commit non-compliance as long as your non-compliance is consistent with in-group expectations and norms					
There are dishonest tax collectors					