

*INCOME TAX EVATION AND ITS EFFECTS ON THE ECONOMY*  
*(A CASE STUDY OF TRADERS IN ADUM A SUBURB OF KUMASI)*

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A Project Work Presented To The Department Of Business Administration In Partial Fulfillment  
Of The Requirements For The Award Of A Bachelor Of Business Administration (Bachelor Of  
Business Accounting Option)

**JUNE, 2012**

## STATEMENT OF AUTHENTICITY

We Have Read The University Regulations Relating To Plagiarism And Certify That This Report Is All Our Own Work And Does Not Contain Any Unacknowledged Work From Any Other Source. We Also Declare That We Have Been Under Supervision For This Report Herein Submitted.

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### **Supervisor's Declaration**

I hereby declare that the Preparation and Presentation of the Dissertation Were Supervised In Accordance With the Guidelines on Supervision Laid down by Christian Service University College.

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## **ABSTRACT**

The modern view of taxation stems from the common premises that no one can be an island for him or herself.

In 1996, Moses, Williams and Salter defined tax as a compulsory levy collected by the government to fund public expenditure.

The researcher's purpose to this study is to delve into income tax and why income earners like traders evade income tax.

The main objectives of the study are to examine why people evade income tax payment.

Also the researcher intend to examine the effect income tax evasion has on the economy and the problems that tax administration faces in an attempt to mobilize tax revenue from traders in Adum-Kumasi and offer solutions with suitable suggestions and recommendations.

For the purpose of convenience, Kumasi Metropolis was chosen as the study area. Respondents for this study shall be traders within Adum market area and GRA (Domestic Tax). Forty Traders and Ten GRA Official were targeted. Ten personals were also interviewed using a random sampling technique. Questionnaires were the major instrument used for data collection.

The study was to find out the problem connected with income tax evasion on the economy. The research revealed many problems on individuals' attitude towards income tax. It was found out that their educational background were low. This was especially in the case of traders. Most of them were basic and secondary school leavers who had no in-depth education in taxes. Also, it was observed that the traders did not keep proper records, which makes it difficult to ascertain their correct and actual assessable incomes.

## **ACKNOWLEDGEMENT**

We are grateful to the Almighty God for seeing us through our research work. It was His guidance and grace that sustain us during our various challenging meetings and when tempers have to rise on issue base on diverse opinions. He was with us to calm things down.

This effort cannot be complete without expressing our profound gratitude to our families for their support and prayers during our first degree. We appreciate your effort.

The immerse support from our understandable supervisor Mr. David Abbam towards our dissertation cannot be eliminated but to be applaud.

To all the Traders and GRA (Domestic Tax) Officials who gave us audience during our research, we say “thank you”.

Finally we acknowledge the typist for spending her time for typing our work Sis. Fausty.

## **DEDICATION**

This piece of academic work is dedicated to our beloveds.

They are our parents, spouses and children. To them we honour with this work.

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## **CHAPTER ONE**

### **1.0 BACKGROUND TO THE STUDY**

The modern view of taxation stems from the common premises that no one can be an island for him or herself. This means that in the modern society, societal members are dependent on one another. This interdependence leads to communal way of living and as such certain goods and services enjoyed by the society are usually referred to as the infrastructure of the society. The provision of the infrastructure of any society calls for a colossal amount of money which, of course the individual will find difficult to provide. There is therefore the need for a common source of fund on which to draw for the provision of the needed infrastructure.

One of the means of this common source of fund is taxation. In 1996, Moses, Williams and Salter defined tax as a compulsory levy collected by the government to fund public expenditure. All over the world, taxes are being raised to provide services that private enterprise or individual citizens cannot provide or services that are better provided by the state.

In view of the above, a tax is a compulsory levy on the wealth of a person or body of person for the provision of the infrastructure of the state. Taxes are now seen as compulsory extractions that involve personal obligations for common public purposes. Every government has its own development programme to pursue and one way of financing such programmes is revenue derived from taxation. But in a democratic society, this power is vested in the

legislature. This however, is not the case in an authoritarian regime where the imposition of tax rests on the ruling body.

Two broad classes of taxes can be identified. These are direct and indirect taxes. This differentiation is based on the extent to which a particular tax burden could be passed onto a third party by the initial tax payer. From the above, all taxes which cannot be passed onto third parties or the final consumer by the initial taxpayer are considered as direct taxes. An example includes personal and corporate tax. Indirect taxes are those taxes of which the burden can be transferred with relative ease by the initial taxpayer to third parties. An example is the sales tax or the VALUE ADDED TAX (VAT)

Income tax was first introduced in the then Gold Coast on November 1<sup>st</sup>, 1943 by the income tax ordinance 1934 (ordinance No. 27 of 1943. This ordinance was amended several times. In particular, a very lengthy ordinance, the income tax (Amendment) ordinance 1952 was passed to rectify most of the deficiencies that had been experienced in the previous enactments.

In 1961, drastic amendments were made to the consolidated edition by Act 68, followed by Act 178 and 197, in 1963, and sealed off by Act 312 in 1965. A second consolidated edition (the income tax decree, 1966-No. 78) was published in September, 1966 and a third consolidated edition (the income tax decree 1975-SMCD5) was also published in December 1975. A series of amendments to the 1975 decree made it cumbersome in its usage. One has to grope very patiently through a labyrinth of new provisions in separate enactments to

ascertain the current provision. This situation was unavoidable since every annual budget invariably introduced changes in tax provisions to amend the existing law.

The introduction of the internal revenue Act 2000 (Act 592) finally repealed the SMCD 5 decree on 1<sup>st</sup> January 2001. The characteristic feature of Act 592 is that, it contains other taxes that were not included in the previous SMCD5. This is because these taxes are not taxes on income. The taxes concerned are capital gains tax and gift tax.

It is an undeniable fact that revenue from taxation forms the main source of financing the ever increasing capital and recurrent government expenditure. Tax is considered to have three functions according to the 1994 World Book Encyclopedia

They are;

- For fiscal or budgetary (that is to cover government expenditure)
- Economic (that is to promote stable economic growth) and the last but not the Least,
- Social (that is to lessen inequalities in the distribution of income and wealth).

The overall objective of taxation is to promote general welfare of the people. Taxes contribute to providing the income needed for essential function of government. At the same time taxes serve as a socio-economic tool which can be used to reduce excessive inequalities of wealth. Additionally, taxes can be manipulated to check inflation and promote economic stability.

Systems are put in place by governments worldwide to make every individual pay tax. In Ghana, the Ghana revenue authority (GRA) is responsible for assessment of direct taxes, collection of direct taxes and payment of amounts collected into the consolidated fund. From

his, the fund disbursement of the money needed by the various sectors of the economy for developmental purpose is made.

As it is, there is a constant flow of revenue into the consolidated fund but government and its agencies always complain of in adequacy of revenue. This paradox can simply be explained thus, the revenue targeted has not been able to meet the expenditure targeted. This deficiency in revenue generation from taxation can be ascribed to many factors. Some of these factors are income tax evasion; avoidance and default are on the ascendancy thus thwarting the government's efforts of meeting its social responsibilities.

### **1.1 STATEMENT OF PROBLEM**

Following the adoption of various tax policies in Ghana, operations of traders in Kumasi, have seen a stressful transformation. It is an open truth that the traders in the informal sector have not been paying taxes and are not eager to do so.

It is upon this observation made by the researchers and government officials that the researchers embarked on this research as a way of investigating the reasons for evasion of the payment of income taxes by the traders and its effects on the economy.

### **1.2 RESEARCH QUESTIONS**

Questions to be addressed include:

1. Are traders aware of their tax obligations to Ghana Revenue Authority?
2. What are the procedures used by tax administrators in collecting tax?
3. How are the traders assessed for tax payment?
4. Are traders satisfied with the tax collection system?

5. What could be the challenges traders face when paying taxes.

### **1.3 THE OBJECTIVE OF THE STUDY**

The main objectives of the study include;

- To examine why people evade income tax payment
- To examine the effect income tax evasion has on the economy.
- To examine the problems that tax administration faces in an attempt to mobilize tax revenue from traders in Adum-Kumasi and offer solutions with suitable suggestions and recommendations.

### **1.4 SIGNIFICANCE OF THE STUDY**

The study will help get traders, tax administrators and other stakeholders informed about the impact taxes have on developing a nation by government as well as its programs and infrastructures.

Policy makers would have the advantage of improving on strategies and laws for administering tax on traders in Ghana from the findings and conclusions drawn out from the research. Other researchers interested in the same study area can refer to for further projects.

### **1.5 LIMITATIONS/SCOPE OF THE STUDY**

Traders in Ghana are mostly the self-employed in the informal sector; this as a result made it difficult to access some vital information even though their confidentiality was assured.

Apart from the aforementioned limitation, the researchers also encountered other problems in the course of carrying out the research work, such as inadequate time as other academic works were combined with data collection.

It also took a lengthy time to obtain information from GRA, because those responsible were unwilling to spend their working hours in responding to some interviews and questionnaires.

The researchers were constrained by inadequate resources to enable them have a wider study coverage.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

In this chapter, the research team presents a comprehensive account of theories on income tax evasion and its effect on the economy.

Taxation policy and practice” by Dora Hancock, defined “Tax as a compulsory levy, imposed by government, on income, expenditure or capital assets, for which the tax payer receives nothing in return”

Organization of Economic Co-operation and Development (OECD) on a debate concluded that the term tax could be “confined to compulsory unrequited payment to government”.

From the above definition, one can draw the following conclusion or implications:

- Tax is an imposition
- It is a compulsory levy
- Tax is a no quid pro qua payment to the tax payer
- It involves capital or funds outlay

Taxation is a compulsory levy and an imposition by the government or the authority that be. Hence the team has no other choice than to state that “tax is a payment forced down the throat of the tax payer by the powers that be. The conclusion drawn from this exposition is that, taxes have been and still continue to be a vexatious issue because one can cite several instances of peoples’ resentment to taxes.



## **2.1 BRIEF HISTORICAL BACKGROUND**

Taxes are considered a problem by everyone. Not surprisingly, taxation problems date back to earliest recorded history.

During the various reigns of the Egyptians pharaohs tax collectors were known as 'scribes'. During a period the scribes imposed a tax on cooking oil. To insure that citizens were not avoiding the cooking oil tax scribes would audit households to insure that appropriate amounts of cooking oil were consumed and that citizens were not using leavings generated by other cooking processes as a substitute for the tax oil.

In times of war the Athenians imposed a tax referred to as 'eisphora'. No one was exempt from the tax which was used to pay for general wartime expenditures. The Greeks are one of the few societies that were able to rescind the tax once the emergency was over. Athenians also imposed a monthly poll tax on foreigners, people who did not have both Athenian mother and father. The tax was referred to as 'metoikion'

The earliest taxes in Rome were customs duties on imports and exports called 'portoria'. Caesar Augustus was considered by many to be the most brilliant tax strategist of the Roman Empire. During his reign cities were given the responsibility for collecting taxes instead of the publican and also instituted an inheritance tax to provide retirement funds for the military. Saint Matthew was a tax collector from Capernaum during Caesar Augustus reign.

Income tax was announced in Britain by William Pitt who is often referred to as the father of income tax in his budget of December 1798 and introduced in 1799, to pay for weapons and equipment in preparation for the Napoleonic wars. The tax was repealed in 1816 and

opponents of the tax who thought it should only be used to finance wars wanted all records of the destroyed along with its repeal.

Taxation can be explained from the administrative perspective. It is easier to tax import goods than domestic output. Import duties were among the earliest taxes. Similarly, the simple turnover tax (levied on gross sales) long held precedence over the conceptually preferable value added tax.

Taxes played relatively minor role in the ancient world and taxes on consumption were levied in Greece and Rome. Tariffs on imported goods were often of more considerable importance than internal excise duty so far as the production of revenue went. Later taxes on property were imposed temporarily and were confined to real property and later extended to cover other assets.

During the latter parts of the middle ages, some German and Italian cities introduced several direct taxes such as head taxes for the poor. Indeed, taxes have been a major subject of political controversy throughout history, even before they formed a sizeable part of the national income. A notable instance is the rebellion of the American colonies against Great Britain when the colonies refused to pay taxes imposed by parliament in which they have no voice, hence the slogan “No taxation no representation” raised by James Otis in 1764 according to Stanley L.Klos book (Economic Home Run, 1999). Payment of tax especially income tax is not a pleasant exercise to the taxpayer.

## **2.2 PURPOSE OF TAXATION**

The prevalent idea during the nineteenth century (C19th) was that, taxes should mainly serve to finance the government expenditure. Governments since time immemorial have utilized taxation for other than merely fiscal purposes. One useful way to view the purpose of taxation is to look at taxation from the perspectives of American Economic Stability. The stabilization objectives which tax policy share with government expenditure policy (under the rubric of fiscal policy) and monetary policies is the maintenance of high employment and price stability.

The rationales for imposing taxes in a market economy such as the stems for the government responsibility are listed below;

### **2.2.1 Redistribution of income and wealth**

Through the institution of a progressive system, the rich are made to contribute more to the “taxation” fund than the poor. The mechanism for the distribution of wealth by the use to transfer payments and benefits are helpful to those members of society who are employed.

### **2.2.2 Promotion of social and economic welfare**

Government often takes on paternalistic role by providing ‘MERIT’ goods e.g. health and education. Merit goods, unlike public goods can be provided privately, but if left completely to market forces, merit goods and services would be under consumed. So are some merits goods and services that should be provided by the state alone to encourage patronage. These merits goods and include, health equipment, school gadgets, roads and markets, so that people can benefit and also to ensure a healthy and educated society i.e. there are external

benefits in provision of merit goods. All these goods and services are provided through the help of taxation. Taxation is the sources of all development projects in a country.

### **2.2.3 Economic stability**

Taxation can be used as a tool to control the level of inflation or deflation. A spiral inflationary situation may be curbed by increasing the incidence of taxation and by decreasing the volume of money in circulation.

Government uses taxation as a monetary tool to control inflation and ensure economic stability. When inflation is high the government increases the level of taxation and vice versa. These measures are as a result of taxation in order to avoid high level of inflation and unemployment in the economic stability and sustainable growth.

### **2.2.4 To foster growth in key sectors of the economy**

Under the current tax laws for example, manufacturing companies cited in the regional capitals other than Tema/Accra enjoy a tax rebate of 25%, while those located in non-regional capitals enjoy a tax rebate of 50%. Farming enjoys a tax holiday of 10 years depending on the nature of farming. Real estate developers enjoy tax holidays of 5 years while hotels industries enjoy 25%, the result increased employment and improve the standard of living.

### **2.2.5 Regulation**

According to Sandford, Godwin and Hardwick (1989) given the general responsibilities, taxation can be a powerful tool in the hands of any government as a means of ensuring that

the social political and economic policies of the government in power are brought to fulfillment. From this we can deduce that there are four main of modern tax system.

- Revenue rising; historically taxes were raised in order to fund the monarchy and to pay for defense in time of stripe. Revenue rising is still a primary objective of modern tax system to help finance public sector expenditure
- Redistribution of income and wealth; the tax system is a means of ensuring the redistribution of income and wealth in order to reduce poverty and promote social welfare.
- Economic regulator; the tax system is a means of promoting economic welfare and creates a sound infrastructure for business.
- Harmonization; the philosophy of the single market in Europe is to provide for the free movement of the goods, services, capital and people between number states harmonization to be a modern objective of European tax systems.

## **2.3 NATURE OF TAXES**

The rate of tax charged determines the nature of that tax

- Progressive tax: A tax is said to be progressive if the rate rises as income rises.
- Proportional tax: A tax is proportional if the same percentage of income is paid in taxes regardless of income. The tax rate for a proportional tax remains constant for all levels of income.
- Regressive Tax: A tax is regressive when tax rate declines as income rises. In other words, a tax is said to be regressive and not progressive if the lower the income, the higher the proportion of income paid in tax.

## **2.4 CLASSES OF TAX**

Taxes are most commonly classified as either direct or indirect. Example of the former is the income tax and the latter is the sales tax. There is much disagreement among economists as to the criterion for distinguishing between direct and indirect, and it is unclear into which category certain taxes, such as corporate tax and property taxes should be classified. Direct tax is one of the incident of which cannot be shifted by the tax payer to someone else with relative ease.

### **2.4.1 Direct Taxes**

Direct taxes are primarily taxed on persons; they are aimed at the individuals' ability to pay as measured by his income or his wealth. It is based on the principles of pay as you Earn (PAYE) and it is directly levied on the income earned or to be received. Direct tax is therefore money paid out directly to the government based on what the individual earns.

Direct taxes are borne wholly by the individual paying it and it is not transferable but progressive. This tax includes income tax, property rate, gift tax and capital gains tax

### **2.4.2 Indirect Taxes**

Indirect tax is indirectly paid by the final consumer of goods and services. The incidence of the tax can be shifted or transferred to another person who is receiving the goods and services or transaction.

It includes general and selection taxes on sales of consumable goods, value added tax (VAT) on goods in the process of production, taxes on legal transactions, customs duties and excise duties on locally manufactured goods.

## **2.5 PRINCIPLES OF TAXATION**

The 18<sup>th</sup> century philosopher, Adam Smith attempted to systematize the rules that should govern a rational system of taxation. Adam Smith put up these three (3) canons which affect the individuals' ability to pay: These are certainty, convenience and economical which are known as the principle of taxation.

### **2.5.1 Clarity and Certainty**

The application of a tax should be clear and certain. This principle considered very important by smith, has often been underestimated in modern tax system (in which open and impartial administration usually can be taken for granted) where the application of taxes is uncertain and arbitrary, however, public can have no confidence in the system. The old British tax on numbers of house windows was disliked and widely resisted partly because its rationale was unclear likewise, windfall taxes introduced by a government can appear uncertain.

### **2.5.2 Convenience**

Taxes should be easy to calculate and collect. Compliance with income tax laws increased dramatically where a system of deducting tax from earning before they are paid has been introduced.

### **2.5.3 Economical and Efficiency**

A good tax system should be structured so that it can be administered efficiently and economically. Taxes that are costly or difficult to administer divert resources to non-productive uses and diminish confidence in both the levy and the government worse still, waste can also be created by excessive tax rates; economic efforts are then shunted from

high-into low-yielding activities, from productive enterprises into tax shelters, and from open, above-transactions into hidden, of-the-record participation in the underground economy.

#### **2.5.4 Fairness**

The fundamental importance is that, the tax must be fair – (that is citizens should be taxed in proportion to their abilities to pay (a concept that smith defined so me what ambiguously as “in proportion to the benefit they derive from the government”). As tax is considered fair if those who have the means to pay are assess either in proportion to their capacity to pay, or depending on the situation, in proportion to what they receive from the government. Both “ability to pay” “ability to pay” “benefits received,” therefore, are criteria of fairness. When government services confer identifiable personal benefits on some individuals and not on others, and when it is feasible to expect the users to be bear a reasonable part of cost, financing the benefits is considered fair, as in the repayment of loans to students by subsequent taxation. (Obviously, this method does not apply to such services as public welfare payments). Taxation in accordance with appropriately applied standards of ability to pay or benefit received is said to meet the requirement of vertical equity (because such taxation exact different amount from people in different situations). Just as importance is horizontal equity-the principle that people who are equally able to pay and who benefit equally should be taxed equally.

#### **2.6 THE SUBJECT MATTER OF INCOME**

Many monetary and other valuable receipts are not income but capital in nature. A metaphor used to illustrate the distinction is that of a tree and the fruit. The tree is capital, the fruit is income. Thus if a private individual sells his residence, any profit on the sale is capital, but if



he lets it, the rent is income. If the house is not sold out by a private individual but by a speculative builder whose business is the building and selling of houses, then it is obvious that the profit on sales part of his ordinary business income.

The UK courts, in deciding similar points under UK laws, have adopted the distinction drawn by classical economist between fixed and circulating capital. An owner turns to profit fixed capital by keeping, it, circulating capital by parting with it. Receipts from the sale of fixed capital are not taxable. This distinction is equally applicable under the Ghana Decree.

Sectional of the Decreed only taxes income if it is “accruing in, derived from, brought into or received in Ghana”. Section 3 (4) exempt from tax income which is not accruing in or derived from Ghana but is brought into or received in Ghana by person who is not a resident of Ghana. However, there are exemptions and this is by the authority of the legislature, so to say the government of Ghana, has this power under section 3.

The determination of the amount of income which a person receives from a source for a period of time involves taking the income receipts that relates to the source and period and deducting there from the expenses incurred in the production of that income. Expenses may not be deducted which are not incurred in the actual production of the income. It will be noted that as a profit on the sale of fixed assets is not assessable so expenditure on the purchase of fixed assets is not deductible since it is not incurred in the production of income but in acquiring the right or ability to produce the income. Some of the paragraphs of section 4 contain examples of allowable deductions in specific cases as follows:

Paragraph (a) makes deduction for interest on borrowed money depending on the employment of the capital in acquiring the income.

Paragraphs (b) and (c) provide for the rent and repair of building and the repair and renewals of implements etc.

Now this emanates the problem of assessing a person for a year of assessment and the question to be asked is:

“What is the period of the income of which a tax payer or self-employed is to be taxed for this year of assessment?”

The answer given by section II is that a tax payer is assessed on the income of the preceding year, subject to certain exceptions. The exceptions which apply only to the opening and closing year of trade, business, profession or vocation provides for the following basis of assessment:

- For the first year, the income of the current years.
- For the second year, the income of a period of 12 months from the date of commencement.
- For both the second and third year, the income of each year, at the option of the tax payer.
- For the last year, the income of the current year etc.

It is necessary to aggregate the various amounts of assessable income from different sources.

The total so arrived at is known as the tax payers’ total income for the year of assessment.

### **2.6.1 Income Tax Reliefs**

A relief is an approved deductible allowance intended to reduce one's taxable income and thereby lessen the tax burden. One basic consideration in taxation is the ability to pay. It is therefore the duty of government to ensure that the tax payer has the ability to pay the tax.

Accordingly, the personal circumstances of the tax payer are taken into consideration before determining the magnitude of relief.

The following are some of the relief granted in Ghana:

- Marriage
- Children Education
- Disability
- Life assurance and social security contribution
- Personal (education etc. ....)
- Aged Dependent parents or relatives

In the government is able to deduct tax at source from the income of its employees. Since it is not able to deduct that from self-employed people, it allows that self-employed and companies to make their deductions. For an expense to be allowed it must be wholly, exclusively and necessarily incurred in the production of the income.

### **2.7 CONCEPTS OF INCOME TAX EVASION, AVOIDANCE AND DEFAULT**

The concept of tax evasion is extremely complex. The varied interpretation of the tax evasion is established in the controversy over the operational definition and meaning attached to the avoidance to manipulation of the legal organs of the state to reduce or eliminate the liabilities

of the taxpayer, whilst others stress the time dimension as a denominator of assessing tax avoidance. From another angle, tax evasion constitutes failure of the taxpayer, whilst others stress the time dimension as a denominator of assessing tax avoidance. From another angle, tax evasion constitutes failure of the taxpayer to comply with the provisions of the tax laws.

Tax evasion occurs when one willfully, whilst others stress the time dimension as a denominator of assessing tax avoidance. From another angle, tax evasion constitutes failure of the taxpayer to comply with the provisions of the tax laws.

Tax evasion occurs when one willfully and consciously fails to notify the taxing authorities of the taxable assets or income activities. Thus it's a deliberate failure to pay tax legally owed or the use of fraud to conceal the existence of taxable income and/or obtain allowances or the repayment of taxes.

Tax avoidance on the other hand occurs when one arranges his affairs in such a way as to take advantage of weakness or ambiguities in the tax law to reduce his or her tax liabilities, without really breaking the law. Although tax avoidance may be regarded as immoral, the techniques are legal and the conduct involved is not fraudulent. From the tax avoidance point of view, tax payers especially self- employed persons can reduce their tax incidence by taking advantage of the tax relieves, for example paying part of their taxable gains as insurance over or as contribution to the Social Security and National Insurance Trust (SSNIT) pension scheme as security for old age. Tax avoidance is therefore the legal exploitation of the tax regime to one's own advantage to reduce the amount of tax that is payable by means that are within the law whilst making a full disclosure of the material information to the tax authorities. By contrast tax evasion is a crime in almost all countries and subjects the guilty

party to fines or even imprisonment depending on the extent of seriousness and the particular country in question.

Various schools of thought have also defined the term tax evasion. Some include; Kath Nightingale, in her book, *Theory and Practice of Taxation*, defined tax evasion as the illegal arrangement of taxpayers' affairs in order to minimize the tax liability. Tax evasion involves the intentional disregard of the legislation in order to escape the liability to tax. It may be achieved by understating income, overstating expenses, the liability to tax. It may be achieved by understating income, overstating expenses, making false claims for allowances or failing to disclose chargeability to tax. Undeclared income probably counts for the bulk of evaded taxes and is referred to as the "black economy" where this sort of tax evasion or moon lighting may be carried out by individuals who are lower paid or unemployed to escape the poverty trap or unemployment trap. It has been suggested that as many as 1.6million workers receive unrecorded income. Johnson C. (1982) *Light on the Black Economy* Lloyds Bank Economy Bulletin, February states however that, "there is a view that, provided evasion is not widespread, its existence could have the effect of reducing distinctive effects of taxation". Kay J.A and Kings M.A (1990) *the British tax system* (5<sup>th</sup> Edition), Oxford University Press states that "because of its illegal nature, there is little hard evidence as to the true extent of tax evasion in UK with estimates varying between 2-4% of national income".

Dora Hancock in her book *Taxation Policy and Practice* (Sixth Edition 1998/99) said, "Tax evasion, unlike tax avoidance is illegal". For example if a trader conceals some of his/her revenues from the authorities in order to reduce his/her burden of taxation, he/she is evading

tax, but if he/she legally arranges his/her affairs so as to reduce the amount of tax payable, this is tax avoidance and is permissible.

For example a man may transfer investment to his non-working wife in order for the income from them to escape tax.

Tax Default on the other hand is where traders refuse to pay tax at a time limit given. If it happens, then, that person is asked to pay penalty on the tax. Example, on February 9, 1999, the Daily Graphic stated the Customs, Excise and Preventive Service (CEPS) has in a nationwide exercise impounded 301 vehicles whose owners failed to pay the necessary customs duties and about 40 owners of such vehicles have paid ₵220million in penalties.

### **2.7.1 Factors that bring about tax evasion, tax avoidance and tax default**

Tax evasion, Tax avoidance and Tax default cannot be completely ruled out in any human institution. There are evidence and non-compliance with the tax laws. An informed research shows that advance countries such as Britain and USA lose revenue through tax evasion, avoidance and default the cause of which does not bother on illiteracy. However, in the developing world such as Ghana, the incidence of tax evasion is mainly a deliberate act to cheat the state. Nevertheless there are some isolated cases of tax evasion resulting from illiteracy.

Secondly, the complication in the procedures that a tax payer must follow in order to pay taxes makes him or her evade tax. Also the ineffective techniques put in place causes tax

avoidance. This may happen where tax administrators are burdened with many inadequacies especially with logistics.

Improper record keeping also attracts evasion since proper accounts are not kept by most traders, they cannot declare the correct profits at the end of the day. Also people understate their income in order to pay less to IRS. Tax payers ignorance of the benefit derived from public revenue also demoralizes them to settle their tax obligations.

Again the level of confidence built in the tax administrators calls for this problem. When the individuals have the believe that tax collectors do not make proper accounts for whatever they collect to the higher authorities, it demoralizes the tax payers to settle their tax obligations.

Finally, Lack of faith in government's ability to utilize tax collection for social welfare purposes and absence of any visible benefits to the taxpayers also leads to tax evasion. People are also ignorant about their tax obligations leading to tax evasion.

### **2.7.2 Existence of income tax evasion**

With reference to the Ghanaian Times issued on Monday, February 2, 1998, the Ketu District Chief Executive expressed concern about income tax evasion and how the people in the district engage in this anti-social act and pointed out the mishaps that it entails.

The Ghanaian times, January 15, 1998 carried a story on revenue collection in the Kwaebibrem District. Since tax collection fell below expectation, development projects in the area were crippled.

The November 2, 1998 edition of the Daily Graphic with its headline “pay all debt now ¢8 billion”. The paper stated the outstanding tax owed by Stephen Asare, Managing Director of Asare Enterprise, which was originally pegged at ¢3.2 billion has now short up to ¢8.02 billion. Initially, on October 23, 1998 the Graphic carried a story on this issue. In the issue, the Graphic wrote; Do all to pay ¢3.2 billion tax within 48hours or have your properties seized-referring to Asare.

According to section 54 (2) of the income tax decree, 1975 (SMCD) the commissioner is empowered to seize and sell the properties of any defaulting taxpayer to defray the value of the tax.

In the research carried out by Henry Stewards (1978) he noted that about Seven (7) and half percent (7.5%) of Britain’s Gross National Product per annum is evaded as tax. In the USA the loss of revenue through tax evasion estimated to be in the region is between thirteen and seventeen billion dollars (\$13b-\$17b) per annum.

According to the Graphic Sports, March 29, 1999 issue, Schumacher a coach and former captain of the German National football team was alleged to have evaded 271,000 marks (\$151,000) in tax between 1992 and 1994.

On 16<sup>th</sup> March, 1999, from a radio broadcast, Chain has about 27 million companies in operation but only 8 million of these pay tax to the Government. From the above income tax evasion, avoidance and default are a menace and hence a major factor responsible for the poor revenue mobilization for socio-economic development.



### **2.7.3 Reasons for income Tax Evasion**

Income tax evasion has probably existed as long as those in a position of power have imposed a tax which is ever since the first civilization. From research conducted by Wikipedia, tax evaders are typically motivated by;

- Disagreement with the policies of the government or institution that is collecting the income tax.
- Tax evader hopes to accomplish may be personal or political or some combination of both.
- Some resisters want to “wash their hands” of complicity in immoral government policies by not contributing to funding them.
- Some resist taxes as a form of protest that communicates the strength of their opposition through an act of civil disobedience.
- Some see income tax evasion as a form of non-violent political force cutting of funds from the government as part of a campaign to force concessions from that government or to cause it relinquish control.

There are many methods of tax resistance. Some are redirection, refusing to pay; paying under protest that is by including protest letter along with their tax forms etc. there are a variety of arguments made for tax resistance. Some of the arguments are as follows:

- The government has no legitimate claims to the fruit of ones labour and so taxation is tantamount to exacting from the taxpayer what belongs to him or her
- The government engages in immoral unethical and distractive activities.

- The government is non-legitimate that is the rulers did not come to power in a legitimate that is the rulers did not come to power in a legitimate or democratic manner (salt Satyagraha).
- The government regime in power is corrupt thus serving mainly its own needs.
- The government is controlled by individuals with business interest which unjustly benefits from income tax revenue (conflict of interest).
- The size and scope of government have reached levels far beyond that required of the state.
- The wealthy or those in power do not pay their “fair share”.
- The wealthy or those in power do not pay their “fair share”.
- The government is inefficient and wasteful, providing inadequate return of the tax collected.

Many arguments can be made against the above. Most basic, of course, is from those who support the entity collecting the income feel that other people should as well. But even those who are sympathetic with the tax resister's complaint may question the method.

#### **2.7.4 Effects of Income Tax Evasion**

Countries whose citizens evade tax do not have better developmental infrastructure such as hospitals schools, roads, transportation, housing, water, electricity, payment of wages and salaries to public workers etc. which would have otherwise improve the living standard of these citizens. If the right amount of taxes were paid for example, the availability of hospitals will help improve the quality of health care delivery in the country.

In the area of education, apart from the physical structures, government still subsidizes the fees paid by individual students of public schools. The bulk of the country's agricultural produce comes mostly from the hinterlands or remote areas. The availability of good assessable roads helps to transport these produce with ease to the urban areas. In most developed countries, the government put up apartment from the revenue generated from taxes to accommodate individual citizens at a lower cost compared with privately owned apartments.

Revenue generated by the government through tax is being used to extend electricity, water and other utilities to other parts of the country. Part is also used to subsidize both electricity and water cost to the individual. And efficient tax administration may result into increase in tax revenue. This may have the effect of narrowing the fiscal gap or budget deficit resulting in reduced government borrowing.

Income tax may be used to foster growth of the key sectors of the economy. In Ghana today, the agriculture sector enjoys a tax holiday of either five or ten years depending on their nature. Under the current tax laws, manufacturing companies cited in the regions other than Accra and Tema are to pay tax at the rate of 25% less the existing rate of 25% less the existing rate of such companies. All manufacturing companies located or sited elsewhere are to pay tax at the rate of 50% less than the existing rate of such companies. Also under the investment code, L.I. 1519 of 1991, manufacturing companies engaged in the manufacturing or assembling of electrical or electronic devices, appliances, goods etc. are exempted from corporate income tax for the first five (5) years of operation. Such companies cited in the

Northern, Upper East and Upper West regions are exempted from corporate income tax for the first ten years of operation.

Furthermore, under section 19(2) of the Internal Revenue Act, Act 592, 2000 any expense incurred by a manufacturing company on research and development for the purpose of improving its products is an allowable deduction on its profits if the company can prove the expense.

From the above, it can be concluded that income tax evasion impedes the development of infrastructure of a country. One positive side to tax evasion is that it ameliorates undesirable or unfair tax rules.

#### **2.7.5 Measurement of income tax evasion**

A major difficulty in analyzing evasion is in its measurement. After all individuals have incentives to conceal their cheating. Several methods have been developed to measure evasion, all subjects to imprecision and controversy.

One method relies on information generated by the authority as part of its audit process. The internal Revenue conducts line-by-line audit of individual tax return for its Taxpayer compliance Measurement Program (TCMP). This audit yield an estimate of the tax payers “true income”, allowing measures of individual and aggregate tax evasion calculated. However, the audits do not detect all under reported income, non-filers are not often captured and final audit adjustments are not included. Another direct method involves surveys. These surveys are typically designed to illicit tax payers’ attitudes about their reporting but such surveys can also be used to estimate non-compliance. However, the accuracy of surveys if

ascertained, individuals may not remember their reporting decisions, they may not report truthfully or at all the respondents may not be representative. In Germany, it has been deemed likely that three hundred thousand workers in the construction industry alone or not reported to tax officials (Keindal 1977).

Michael O Higgers (1980) has revealed methods of meeting tax evasion. One of the most obvious ways to be identified was to trace the relevant tax enforcement statistics. However, he continued that the department's investigative techniques might change considerably from year to year. Another approach outlined involved micro measures including close examination of the income and expenditure data for a small proportion of the work forces, for example, traders and businessmen that have long been suspected as harboring many tax evaders (Bean 1975).

From the above there is much that we do not know about tax evasion. We are constantly struggling to measure its extent to discover its impact, to estimate individual responses and to implement appropriate policies. As long as there are taxes, this struggle will continue.

## **CHAPTER THREE**

### **3.0 INTRODUCTION**

The methodology explains the way the researcher carried out his research. It is the method employed in collecting information with regard to the stated problem, questions and analysis making.

The researcher used case study technique because; it gives opportunity for one aspect of a problem to be studied in some depth within a limited time scale. The researcher identified a problem with the evasion of income tax by traders in Kumasi Metropolis.

### **3.1 STUDY POPULATION AND SAMPLE**

The study was designed to delve into the causes of income tax evasion and the consequent effects that such evasion has on the economy. For the purpose of convenience Kumasi Metropolis was chosen as the study area. Respondents for this study shall be traders within Adum market area and GRA (Domestic Tax). Also the study depends heavily on respondents who are Self Employed since they are the main target.

Two groups were selected for the case study. They are the traders and GRA (Domestic Tax) Officials. Forty questionnaires were distributed to traders and ten questionnaires to the GRA Officials.

### **3.2 SAMPLING TECHNIQUE**

The group employed three methods of sampling. These are random sampling, stratified and judgment sampling. Purposive sampling was used because of the peculiar nature of the work. It was also considered appropriate to use stratified sampling because most of the targeted groups were homogenous. In certain instances, judgments sampling was resorted to in order to get to the bottom of the causes of tax evasion. In such cases the focus was on who should be included and who should not.

### **3.3 DATA COLLECTION INSTRUMENT**

Having carefully analyzed the problem under study, the research group used various methods in collecting the needed data. The main sources of data collection were primary and secondary sources. With these, questionnaires were the major instruments used in the data collection for the study. The questionnaires afforded the researcher the opportunity to obtain frank answers to sensitive and relevant questions as the respondents felt at ease when providing answers to them. Interviews were also employed to an appreciable extent.

#### **3.3.1 Questionnaires**

The questionnaires were designed in such a way that names of respondents were not required; the only thing needed from them was the expression of their candid opinion on the issues raised to make our informed judgments. In the quest of this, two well structured sets of questionnaires were designed; one for traders who form the core group of the study.

Another set of questionnaires was addressed to GRA (Domestic Tax). Two types of questionnaires were used. These were the closed end type and the open end type. For the closed-end type, answers as applicable in each case. The open-ended type has to do with the respondents supplying their own answers as appropriate in each case.

This has to be done because we were aiming at the general and reliable view of the respondents. Fifty sets of questionnaire were constructed for the fifty employees. There were fifteen questions in all. The section 'A' covered four questions and these were background information on respondents. The section 'B' covered the remaining eleven questions and these were information relating to the objective of the study required by the researcher to solve the statement of the problem.

### **3.3.2 Interviews**

The research group made personal contacts with some of the respondents in the various groups since some could not read and they were not in the position to answer the questionnaires by themselves. About five people were selected from each of the two groups; hence the total number interviewed was ten.

### **3.3.3 Validity, Reliability and Analyses**

The anonymity of the study makes it possible for generating reliable responses which have been considered accurate enough to make the study dependable.



### **3.3.4 Data Presentation**

The data collected have been analyzed by the use of frequency tables, percentages and bar charts.

### **3.3.5 Problems of the Study**

In the course of the study the following limitations were encountered;

- Interviewees were not willing to divulge important information though their confidentiality was highly assured.
- Some respondents were suspicious of the motive of the study. Erroneously this particular group of respondents thought that they would be asked to pay arrears, which they could not settle earlier on.
- Some respondents failed to provide responses to the questionnaires issued out to them out of ignorance
- Illiteracy on the part of some respondents also impinged on the study.
- Financing was another major limiting factor. Little or non-availability of materials on the subject imposed a serious limitation on the scope of the study.
- People intentionally understate their incomes.
- Some people are not aware of their income tax obligations.
- Proper education on income tax is not given to the self employed.
- Sizeable numbers of income tax payers are illiterates.
- Self employed persons do not keep proper and accurate records.
- People do not file their returns for assessment.

Despite these various limitations and problems encountered during the process of gathering data, members of the group are sure of producing a dependable and qualitative piece. We believe this to be so because our sources of data are reliable and relevant.

## CHAPTER FOUR

### PRESENTATION OF FINDINGS AND DISCUSSIONS

#### 4.0 INTRODUCTION

This chapter dealt with the presentation of responses or results, findings analysis and discussing of relevant data collected from the Ghana Revenue Authority (Domestic tax division) and some traders in Kumasi metropolis. To obtain an unbiased sample, a broad approach was employed. In all forty-three (43) questionnaires were retrieved out of the total of fifty (50) questionnaires raised out to the respondents.

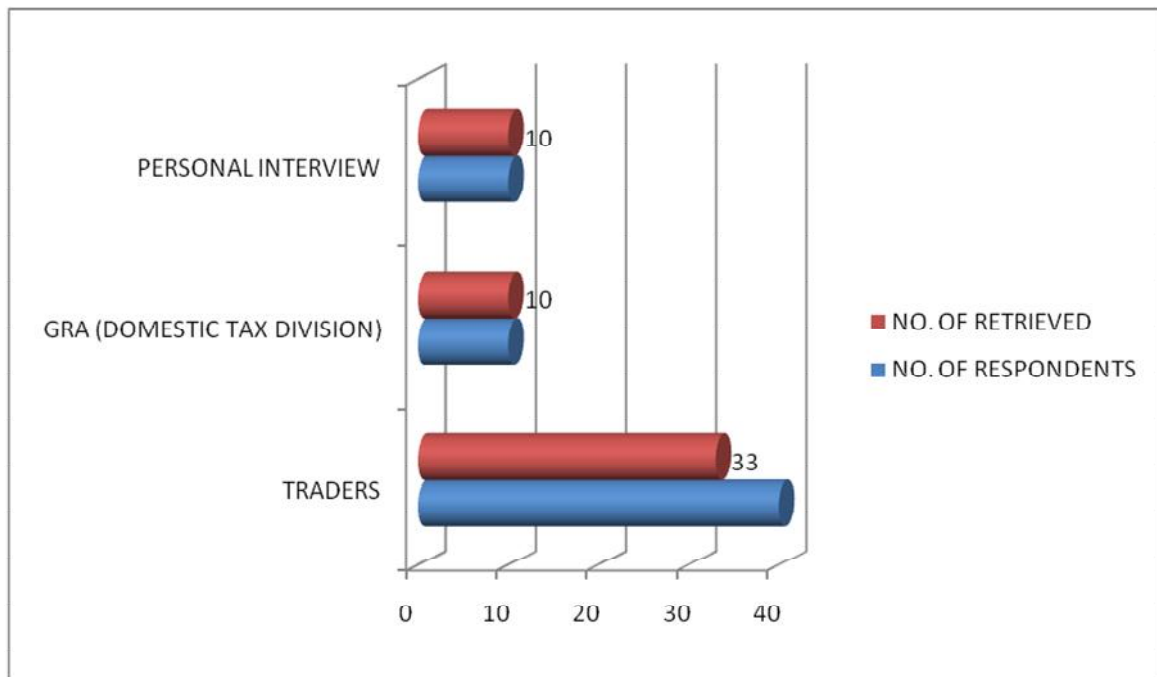
The purpose of the questionnaires and the personal interviews was to identify reasons why people invade tax and the effect it has on the economy. Tables, graphs and charts were used to simplify the analytical work and in addition to the questionnaires ten (10) individuals were interviewed by the researchers. This chapter is based on an examination and analysis of the responses generated from the study.

#### 4.1 ANALYSIS OF RETRIEVED AND UNRESERVED RESPONSES FROM RESPONDENTS

Table 4.1.1 Sample Size Distribution

Respondents	No. of Respondents	No. of Retrieved	Percentage%
Traders	40	33	82.50
GRA (Domestic Tax Unit)	10	10	100
Personal Interview	10	10	100
Total	60	53	88.33

Figure 4.1



In line with the research topic and objectives forty (40) questionnaires were administered to for traders. From the illustration of table 4.1, thirty-three (33) was retrieved representing eighty-two point five (82.5%) of the total questionnaires for the traders but in case of Ghana Revenue Authority (Domestic Tax Division) officials, all the ten (10) questionnaires were retrieved which represents 100% of the sample size GRA officials.

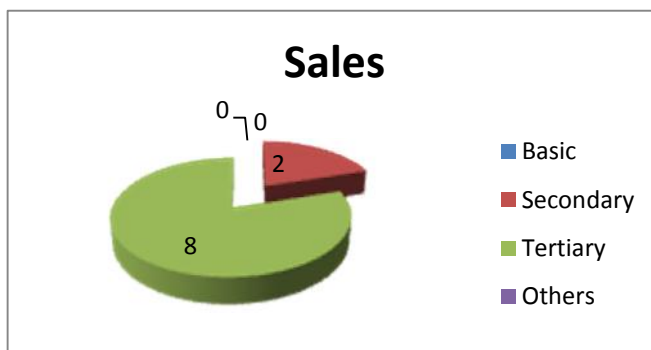
As indicated earlier in the preview chapter, the researchers conducted interviews to some GRA officials and they all responded. The interview for both groups summed up to ten (10).

## 4.2 ANALYSIS AND INTERPRETATION OF DATA FROM GRA

**Table 4.2.1 Distribution Showing Educational Background of respondents**

	No. of Respondents	Percentage
Basic	-	-
Secondary	2	20
Tertiary	8	80
Others	-	-
TOTAL	10	100

Figure 4.2.1



### ***Interpretation***

The above analysis understudies the questionnaires of the tax administrators of GRA (Domestic Tax Division) and the distribution showed that most of the m were graduates, represented by 80% of the total respondents. As few as 20% constitutes officials with secondary level education and for Basic and other qualifications the researchers found none. This finding was acquired from the ten (10) GRA officials who were selected randomly by the researchers.

**Table 4.2.3 Distribution Showing the Awareness of income tax Obligations**

Response	No. of Respondents	Percentage (%)
YES	10	100
NO	-	-
TOTAL	10	100

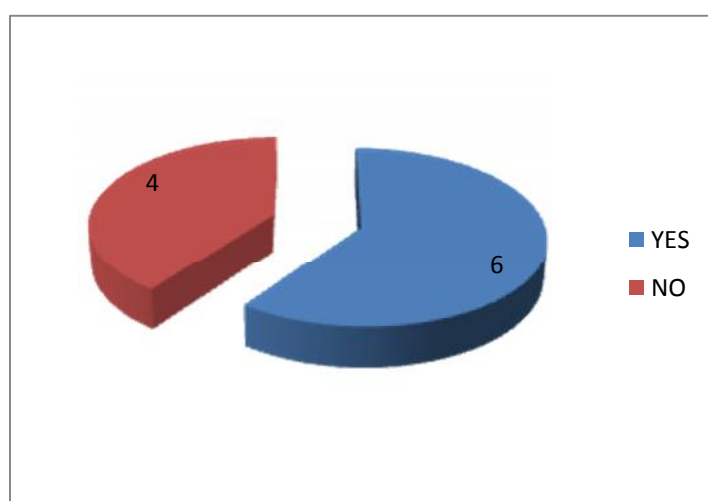
***Interpretation***

The above distribution showed that most GRA (Domestic tax division) officials are of the view that traders in their catchment precisely Kumasi metropolis are aware of the income tax obligations. This is well depicted in the table above when all the ten (10) respondents selected YES.

**Table 4.2.4 Does GRA Organizes Tax Education For Traders?**

Response	No. of Respondents	Percentage (%)
YES	6	60
NO	4	40
TOTAL	10	100

**Figure 4.2.2**



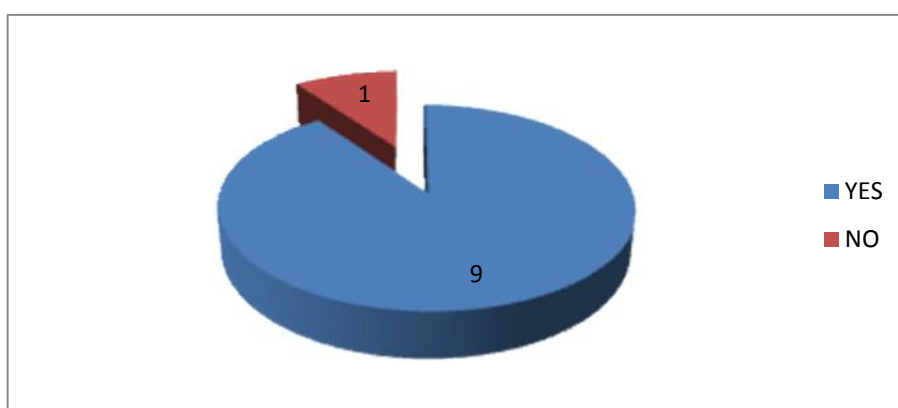
### ***Interpretation***

The table above shows the percentages of respondents who are of the agreement that periodic tax education are organized for traders and those who disagree. Considering this distribution, GRA respondents who ticked YES for the statement in question were six (6) out of ten (10) and in percentage terms is 60%. This meant that about 3/5 of the GRA officials admit that the GRA periodically educates traders in terms of taxes.

**Table 4.2.5 Distribution showing intentional refusal of fulfilling tax obligations**

Response	No. of respondents	Percentage %
YES	9	90
NO	1	10
TOTAL	10	100

Figure 4.2.3.



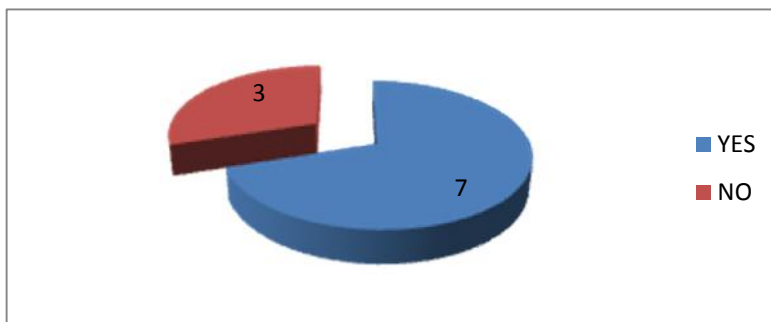
### ***Interpretation***

The illustration in table 4.2.7 shows the responses of respondents from GRA on the problem on existence of tax evasion in the Kumasi metropolis. It analyses the intentional refusal of traders to tax obligation. According to the data above, nine (9) of the respondents of tax officials representing 90% perceives that traders intentionally decline the pay of tax and 10% responded NO to this conclusion.

**Table 4.2.6 Distribution showing Whether Tax Officials are Assaulted In the course of Mobilizing Tax for the Government.**

Response	No. of respondents	Percentage%
YES	7	70
NO	3	30
TOTAL	10	100

Figure 4.2.4



### ***Interpretation***

The above distribution showed that income tax operations officers are mostly assaulted when they engages traders to collect taxes due to the government. As indicated above 70% represented those in favour of the fact that tax officials are assaulted by traders and 30% object to that fact.

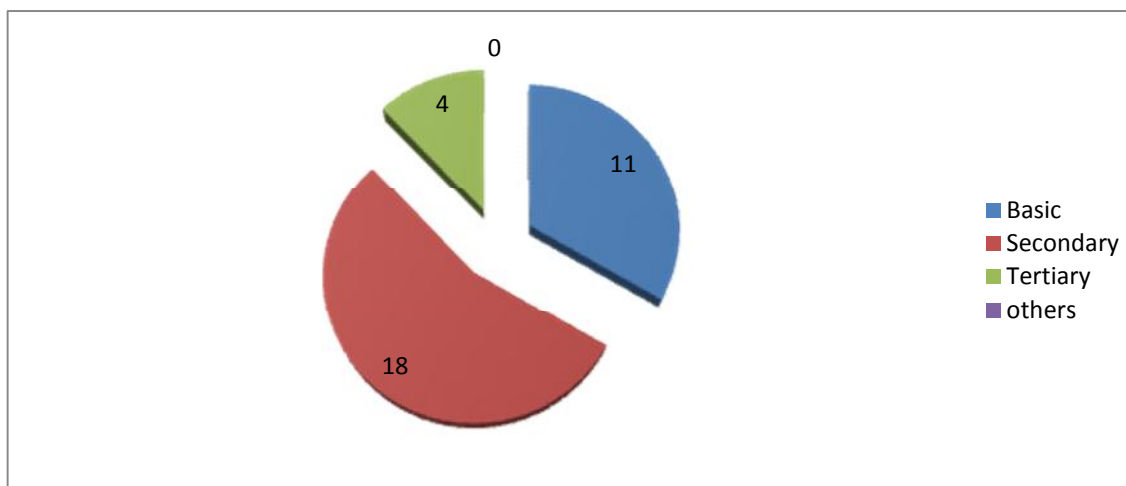


### 4.3 ANALYSIS AND INTERPRETATION OF DATA FROM TRADERS

**Table 4.3.1 educational Background of respondents**

	Number of Respondents	Percentage (%)
Basic	11	33.33
Secondary	18	54.55
Tertiary	4	12.12
Others	-	-
Total	33	100

Figure 4.3.1



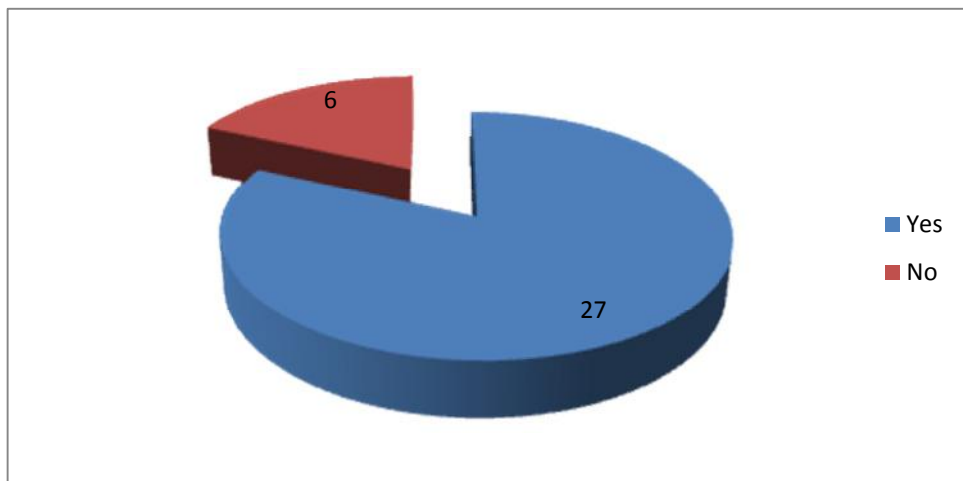
#### ***Interpretation***

Table 4.3.1 gives a clear distribution of the educational level of most traders in Kumasi metropolis. The secondary category having the highest number of respondents represent 54.55% of the total respondents of 33 while basic and tertiary education constitutes 33.33% and 12.12% respectively. None of the traders responded to any other qualification apart from these three.

**Table 4.3.2 Distribution of Traders Awareness of tax obligations**

Response	Number of respondents	Percentage (%)
Yes	27	81.82
No	6	18.18
Total	33	100

Figure 4.3.2



***Interpretation***

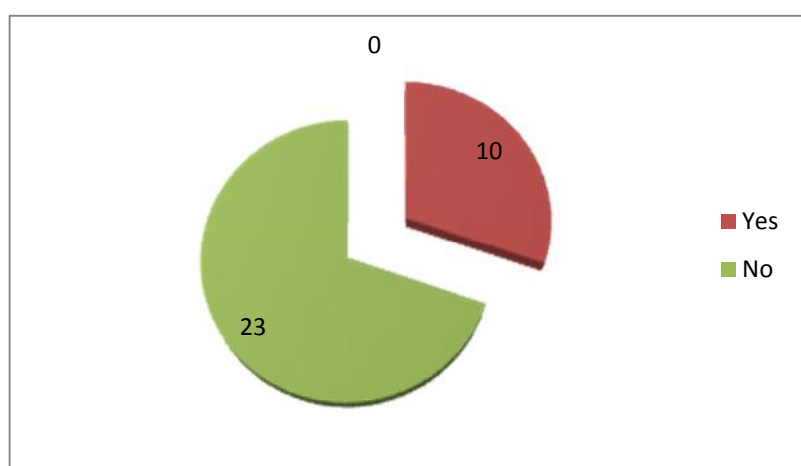
From the illustration above, majority of 27 respondents out of 33 representing 81.82% are aware of their tax obligations, indicating that a few of 18.18% of the same 33 respondents were naïve of their tax obligations.

Note; the analysis made from this distribution is based on the sample size selected by the researchers and it is assumed that it represents views of all traders in Kumasi Metropolis.

**Table 4.3.3 Distribution showing that traders are educated on taxes by GRA**

Response	Number of Respondents	Percentage (%)
Yes	10	30.30
No	23	39.70
Total	33	100

Figure 4.3.3



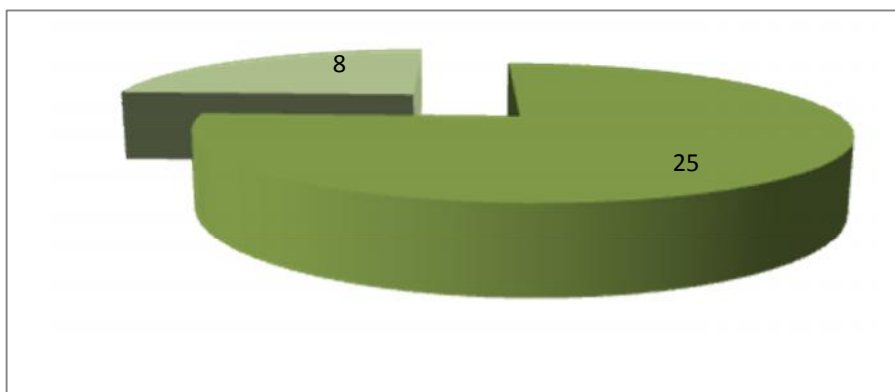
***Interpretation***

The tabulated illustration and the chart above indicates that 69.70% of the traders are unprivileged to have some sort of education on the taxes they pay precisely income tax only 30.30% responded 'YES' but could not indicate when and how it is organized for them. Extracts from some exclusive interviews with some traders reveals that they are sometimes enlightened on the need to pay income tax when they visit GRA (domestic tax division) office to object to the amount been asked to pay as tax

**Table 4.3.4 Records keeping of Daily income**

Response	Number of Respondents	Percentage (%)
Yes	25	75.76
No	8	24.24
Total	33	100

Figure 4.3.4



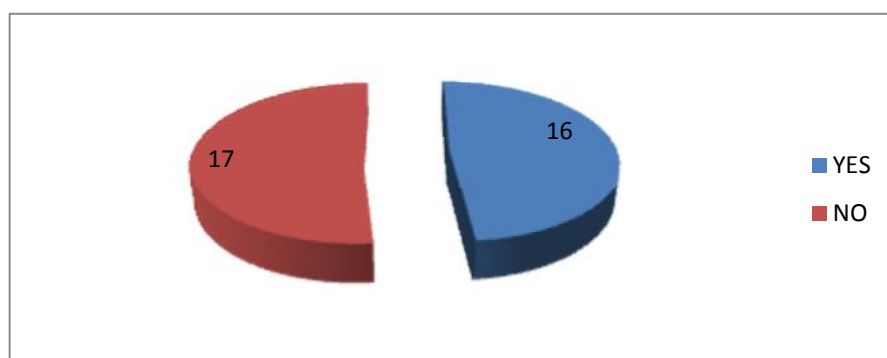
***Interpretation***

Considering the data distribution above, the researchers noticed that most of the traders in Kumasi metropolis especially those with structures kept daily records of their income as depicted in the table by constituting 75.76% of the total 100% of the selected respondents. The impression created was that either traders keeps these records away from tax officials or under estimate their daily, monthly or quarterly income which makes it impossible for these tax officials to ascertain the accurate assessable income for the traders.

**Table 4.3.5 Do traders refuse to pay tax intentionally?**

Response	Number of Respondents	Percentage (%)
Yes	16	48.48
No	17	51.52
Total	33	100

Figure 4.3.5



### ***Interpretation***

In this instance the percentage of 'YES' and 'NO' response from traders slightly balanced. Thus, 48.44% claimed that they intentionally do not fulfill their tax obligations simply because, they are of the perception that taxes collected are used for government officials and administrators personal interest instead of the country's economic development. While 51.52%, which forms the majority of the respondents do not intentionally refuse to pay income tax? These categories of traders have what is known as 'Tax files' with GRA (domestic tax division) which clearly defines the total amount of income tax to be paid each quarter as well as the whole year. Traders are allowed to pay it in their own convenience but sometimes default due to sudden increase in operation cost of business.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 INTRODUCTION**

After receiving literature on income tax evasion and its effect on the economy in addition to personal interview conducted in connection with the objectives and having analyzed data collected through the questionnaire administered, the researchers present this chapter as providing summary of research findings, conclusions and recommendations for the study.

#### **5.1 SUMMARY OF FINDINGS OF THE STUDY**

The purpose of the study is to know the effect that income tax evasion has on the economy.

Chapter one traced the background of the tax system and how it was introduced in Ghana.

The study also shed light on the efficiency of the system so far as education, record keeping, tax awareness, understatement of trade income etc. The study however, was restricted to income tax system on self-employed in Kumasi metropolis in Ashanti region.

Chapter two which has the caption of literature review discussed the definitions and nature of income tax, the principles of tax, income tax evasion, tax avoidance and tax default. The problems associated with income tax payment and collection in the metropolis was also given some attention.

The findings from the research conducted on traders and GRA (domestic tax division) officials indicated that taxes are paid and collected, however, tax payers complain of not seeing the impact or the purpose for which these taxes are being paid that is garbage are not

disposed of on time this in turn poses threat on health, some classrooms are without enough furniture, some roads are in a very poor condition for which some landlords have to contribute money in order for roads leading to their houses to be constructed and also poor drainage system was found to be predominant in the Kumasi metropolis. Income tax evasion, avoidance and default are commonplace in the metropolis. This situation persists in the metropolis because the majority of the traders claimed they did not see the need to pay tax since they did not see the benefits accruing thereof. Chapter three and four discussed the methodology and analysis of the data collected. These included among other things, choices of the population and sample for the study, research instruments and research designs were used. Lapses in the tax systems were identified during the process of the analysis.

## **5.2 CONCLUSION**

The study was to find out the problem connected with income tax evasion on the economy. The research revealed many problems on individuals' attitude towards income tax. It was found out that their educational background were low. This was especially in the case of traders. Most of them were basic and secondary school leavers who had no in-depth education in taxes. Also, it was observed that the traders did not keep proper records, which makes it difficult to ascertain their correct and actual assessable incomes.

Again the traders' taxes were used on public officials instead of using it for national development to the benefit of the tax payers and the nation at large, the traders claim.

Other conclusions drawn from the study are as follows;

- Income taxes are very high in that it takes almost half of their income
- There is a poor customer relation on the part of the GRA officials.

- Tax collectors connive with income tax payer to cheat. Thus figures are understated for tax payers to pay low and the rest of the money which is supposed to be credited to the consolidated fund rather went into individual income tax collector's pocket.
- Most people did not know the importance of tax and therefore feel reluctant to come forward boldly to declare their incomes for tax purposes.

### 5.3 RECOMMENDATIONS

Based on the primary data obtained from our study through questionnaires and interviews, the researcher recommended that;

- The government should ensure organizing regular and frequent tax education for the public to encourage self-employed people about the role their contributions play in the country's development. This would allow more tax payers to rope into the tax system.
- The government of Ghana through the GRA (Domestic tax division) should impose moderate taxes on traders. This is to enable their business to grow and mostly because the operations of traders had been a major source of employment for the youth in Kumasi metropolis who did not have the privilege to pursue higher education, as the study revealed that about 87.88% of traders had their academic qualification to be SSCE and below.
- Tax officers should pay visit to self-employed place of business in order to make real assessment.
- Provision of infrastructure should be seen to be equitably distributed (that is hospital, roads, schools, good drinking water and electricity supply). That is to say, the government should at least distribute its resources fairly for the public to feel impact of the income tax paid.



- With regards to the traders, it is being recommended that there should be non-formal classes organized for them in the evening at least three times a week to prepare them overcome their illiteracy deficiency.
- Finally, the GRA official should be increased in terms of number and should be well-equipped with the requisite logistics so that they can reach tax payers all the time, to at least guide them on how to prepare up to date tax returns.

#### **5.4 SUGGESTIONS FOR FURTHER RESEARCH**

It is suggested that since a small population was used in the research, further research into income tax evasion and its effect on the economy as far as Kumasi metropolis is concern should be conducted. This time including a larger population preferably with samples covering both the metropolis and it sub-metros in Ashanti region.

Further research could also be conducted into the activities of GRA officials with regard to the taxes collected since it was not easy for the researchers to delve deep into that area.

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**APPENDIX 1**  
**CHRISTIAN SERVICE UNIVERSITY COLLEGE**  
**QUESTIONNAIRE**

**TAX EVASION AND IT EFFECT IN KUMASI METROPLOIS BY TRADERS**

**PURPOSE**

This questionnaire was designed to obtain information on Traders in Kumasi Metropolis.

This will help the researcher write his project.

Please your responses to the questions are solely for academic purposes and as such all information provided would be treated confidential.

**INSTRUCTION**

Please Tick ☒ where appropriate and write responses where necessary.

**QUESTIONS ON RESPONDENT**

**SECTION A**

1. Age Distributions

20 and below [ ]    21- 25 [ ]    26 – 30 [ ]    31-35 [ ]    36 and above [ ]

2. Gender Distributions

Male [ ]    Female [ ]

3. Educational background

(a) Basic [ ]    (b) Secondary [ ]    (c) Tertiary [ ]    (d) Others [ ]

4. Position held .....

SECTION B:

5. Type of business .....

6. Are you aware of your tax obligation? Yes ( ) No ( )

7. Have you ever paid money to the Government in the form of tax? Yes ( ) No ( )

8. What type of tax do you pay? .....

9. Do you keep records of daily tax paid? Yes ( ) No ( )

10. Do you keep records of your daily income? Yes ( ) No ( )

11. Are you forced before paying tax? Yes ( ) No ( )

12. Do you refuse to pay tax intentionally? Yes ( ) No ( )

If yes please give reasons

.....  
.....  
.....  
.....

13. Does GRA (Domestic tax) organize tax education for you? Yes ( ) No ( )

14. Are you willing to pay tax? Yes ( ) No ( )

15. Have you ever refused to pay tax? Yes ( ) No ( )

If yes, please state why?

.....  
.....  
.....

**APPENDIX II**  
**CHRISTIAN SERVICE UNIVERSITY COLLEGE**  
**QUESTIONNAIRE**  
**TAX EVASION AND IT EFFECT IN KUMASI METROPLOIS BY GRA OFFICIALS**  
**(DOMESTIC TAX DIVISION)**

**PURPOSE**

This questionnaire was designed to obtain information on Traders in Kumasi Metropolis.

This will help the researcher write his project.

Please your responses to the questions are solely for academic purposes and as such all information provided would be treated confidential.

**INSTRUCTION**

Please Tick ☒ where appropriate and write responses where necessary.

**QUESTIONS ON RESPONDENT**

**SECTION A**

1. Age Distributions

20 and below [ ]    21- 25 [ ]    26 – 30 [ ]    31-35 [ ]    36 and above [ ]

2. Gender Distributions

Male [ ]    Female [ ]

3. Educational background

(a) Basic [ ]    (b) Secondary [ ]    (c) Tertiary [ ]    (d) Others [ ]

4. Position held .....

#### SECTION B

5. Are traders aware of their tax obligation? Yes ( ) No ( )

6. Do the Self Employed persons respond healthily to tax? Yes ( ) No ( )

7. Do they pay income tax on their own will? Yes ( ) No ( )

Kindly explain your

answer.....  
.....  
.....

8. What is mostly the educational background of income tax payers in your catchment area in terms of the self-employed persons?

.....

9. Does the problem of income tax evasion exist in the Kumasi metropolis?

Yes ( ) No ( )

10. Do you organize periodical education on income tax for self-employed in the metropolis?

Yes ( ) No ( )

If YES, what form does it

take?.....  
.....

If NO,

why?.....  
.....

11. Do the traders keep records of their incomes? Yes ( ) No ( )

12. If question (11) above is YES, does it reflect the true state of their business? Yes ( ) No ( )

But if NO in question (11)

why?.....  
.....  
.....

13. From the examination of their records, do they intentionally understate their incomes?  
Yes ( ) No ( )

14. Do they intentionally refuse to pay tax? Yes ( ) No ( )

If YES, what do u think are some of the

reasons.....  
.....  
.....  
.....

15. Are you attacked by tax payers when performing your duties? Yes ( ) No ( )

