

**AN EXPLORATORY STUDY ON THE CHALLENGES OF VAT FLAT
RATE SCHEME: EVIDENCE FROM KUMASI.**

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STATEMENT OF AUTHENTICITY

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ABSTRACT

This project work which seeks to find challenges of the tax administration in the Kumasi was used as a case study.

The main purpose of the study was to find out the benefits of tax payers, problems of tax administration in Kumasi.

The researcher used questionnaire and interviews to gather data for the study.

The findings were that tax administrators lack adequate logistics in their supervisory and monitoring roles.

A number of findings were made. Some are; the VAT staff having or no knowledge in accounting and taxation, no motivation and training of staff, tax payers unable to keep proper records, educational level of majority of tax payers being very low.

The research work was constrained with the following limitations; limited time of respondents due to the demanding nature of their work. They couldn't give out detailed information, unwillingness of the Local VAT Service officers to give out certain information which they deemed to be confidential; the semi- structured form of interview technique we used limited our ability to access all the important information that we needed from the officers of the VAT Service.

It is recommended among others that the challenges revealed are real and that if the recommendations made are adhered to, the challenges of tax administration will be minimized.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A tax is a compulsory levy imposed by the law-making body of a country or by a decree that is enforceable by law. In Ghana, a tax is a compulsory levy on a person, imposed by an enactment of the parliament of Ghana” Nsor-Ambala, (2008). The inhabitants of every nation ought to contribute towards the support of the government in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state” Smith, (1776). By these assertions, it is clear that taxes are now seen as compulsory extractions that involve personal obligations for common public purposes. The government needs new taxation tools and promotion of taxation culture to materialize the targeted goals. This therefore led to the introduction of VAT in March 1995. VAT proved burdensome and inconvenient to retailers, hence the introduction of the VAT Flat Rate Scheme.

The VAT Flat Rate Scheme is a VAT collection/accounting mechanism that applies a marginal tax rate of 3%, representing the net VAT payable on the value of taxable goods supplied. It is an alternative to the invoice-credit method (or standard VAT System) which charges a given percentage on sales (in this case 3%) for each transaction without recourse to input tax deduction.

The focus of our study is to find out whether the implementation of the VAT Flat Rate Scheme has seen any improvement with regards to its contribution to government revenue, the challenges it is facing since its implementation and the possible solutions to rectify the situation.

1.2 Statement of the Problem

1. The invoice credit system of VAT accounting posed several challenges to retailers who were registered to collect and account for VAT. These challenges existed mainly because of poor record keeping on the part of most retailers. This prevented them from taking credit for their input taxes unlike their counterparts from other sectors with proper accounting records. This and many other reasons discouraged compliance on the part of most retailers. There was therefore the need for the VAT service to come out with a scheme that could be more convenient to retailers in order to boost government's revenue.
2. Furthermore, many retailers were not meeting the registration threshold which is GHC 2,500 for the first three (3) months, GHC 5,000, GHC 7,500 and GHC 10,000 and further could not register to collect VAT as agents.
3. In view of this, the objectives of VAT which was to expand the tax base in one way or the other could not be achieved. One way of doing away with the registration threshold was the VAT Flat Rate Scheme.

Here a retailer does not require belonging to any sales volume threshold, but automatically has to register as an agent so long as the retailer deals in taxable goods.
4. Consequently, the VAT Flat Rate scheme was introduced in March 2007 by the VAT Amendment Act 2007 (Act 734) to address the challenges that confronted retailers in complying with the standard rate scheme.

1.3 Research Objectives

The general objective of the study is to explore the challenges encountered in administering the VAT Flat Rate Scheme. To achieve the general objective, the following specific objectives have been formulated to guide in data collection and analysis.

Specifically, the study attempts to:

1. Assess the contribution of VFRS to government revenue
2. Identify the challenges in administering the scheme.
3. Recommend solutions that will help mitigate these challenges.

1.4 Research Questions

The need to increase revenue so that government can substantially finance its development agenda independent of external donors is of paramount interest to developing countries especially Ghana. This demands that revenue and tax authorities must increase their effort in revenue collection, increase compliance and bridging tax loopholes, hence, the introduction of the VAT Flat Rate Scheme in 2007.

The following are the research questions for the study.

1. What is the contribution of the VFRS to government revenue?
2. What are the challenges of the Scheme?

1.5 Significance of the Study

The rate of development in every economy is directly related to its ability to generate sufficient revenue necessary to support its development agenda. The raising of tax revenue is the most central activity of every state. Most essentially, revenue from taxation is what factually sustains

the existence of the state, providing the funding for everything from social programs to investment in infrastructure. Ghana as a developing country has a huge gap in terms of infrastructure and this has affected the delivery of quality services in vital areas such as security, health and education. The fact still remains clear that, in the light of these basic needs of society, the rate of tax evasion in the large informal sector is still high.

It is therefore justifiable to explore the challenges confronting the administration of the VAT Flat Rate Scheme so as to come out with helpful suggestions that will enhance its efficiency and effectiveness. This study is intended to serve as a guide to the government, policy makers, operators in the retail sector and the general public at large.

It will help the VAT Service to discover the setbacks in operating the VAT Flat Rate Scheme and use that as a basis to come out with mechanisms to improve its administration and enhance its revenue. This research also forms part of a broader civil society effort to expand public participation in debates about taxation, and to correspondingly improve development outcomes. To the retailers and agents of VAT this study is intended to improve their understanding of the VAT Flat Rate Scheme thereby encouraging compliance. This understanding therefore would be the basis for comparative study in future operations of the scheme.

1.6 Scope of the Study

This study is purported to represent the entire nation; however, it is confined to the Local VAT Office (Kumasi). The duration of the study is from August 2010 to May 2011. The choice of our focus in Kumasi is partly due to the proximity to the studying group which is all student workers. Other factors for the choice of the location include financial and time constraints. The study

seeks to look at the introduction of the scheme in 2007, its implementation and the challenges within its first three years of operation.

1.7 Limitation of the Study

In undertaking this project, the following constraints were encountered.

1. Limited time of respondents due to the demanding nature of their work. They couldn't give out detailed information.
2. Unwillingness of the Local VAT Service officers to give out certain information which they deemed to be confidential.
3. The semi- structured form of interview technique we used limited our ability to access all the important information that we needed from the officers of the VAT Service.
4. The interactions we had with the VAT Service personnel showed that only information on VAT contributions for 2007 and 2008 were available. Other information on VAT contributions for 2009 and 2010 fiscal years were very difficult to access.

1.8 Organization of the Study

This essay is structured into five main chapters. Chapter one deals with the background of the study, problem statement, research objectives and questions, significance of the study, scope of the study and limitations of the study.

Chapter Two covers systematic review of literature with emphasis on history and introduction of VAT Flat Rate Scheme in Ghana, the effect of the Scheme on the Ghanaian economy, benefits derived from the Scheme and transitional arrangement with respect to the scheme

The Third Chapter deals with research methodology including population, sampling techniques, methods of Data Collection and the research instruments employed.

Chapter Four is also made up of detailed analysis of data collected and presentation of information with the aid of quantitative and statistical models.

The Fifth Chapter covers the summary of findings, recommendations and conclusion.

CHAPTER TWO

REVIEW OF LITERATURE

2.0 Introduction

The literature review starts with the introduction of the concept of taxation and further explores what various commentators have said concerning taxation and its implications.

2.1 The Concept of Taxation

Taxation is defined as “the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities” Ali-Nakyea, (2008). No specific reward is gained by the tax payer. The money collected is used by the state for the production of certain goods and services, provision of infrastructure and maintenance of law and order.

Agyeman (2005) also defines taxation as “the demand by the central or local government for a compulsory payment of money by citizens of a country other than as payment for some specific service or as a penalty for some specific offence”. Other importance of taxation are to reduce inequalities arising from the distribution of wealth, to restrain certain types of consumption, example, alcoholic beverages and cigarettes, to protect home industries and to control certain aspects of the country’s economy e.g. balance of payment, investment and productivity.

Taxation has gone through a number of reforms in all economies in which it is applied and Ghana is no exception to this phenomenon.

Caminada (2001) stated, “In the Netherlands for instance, personal income taxes have been subjected to considerable reform efforts lately; a major revision took place in 1990 and another reform came into effect on 1 January 2001. In both cases the tax reforms are characterized by base broadening, reduction of tax rates and flattening of the rate structure”.

Musgrave (1988) pointed out that, tax reforms in developing countries involve broad issues of economic policy as well as specific problems of tax structure design and administration.

Among the more specific tax issues, attention needs to be given to the composition of the tax structure as well as to the design of its major components.

Musgrave (1995) points out that, broadening the bases may raise the threshold of taxation and have fewer and lower tax rates. Some countries have attempted to protect the poor by exempting or zero rating foods under a value added tax (VAT) and by raising the threshold of taxes on personal income, urban property and agricultural land.

Tax administration in developing countries has, however, not been effective due to some challenges it poses. According to Tanzi and Zee (2000), the establishment of effective and efficient tax systems in developing countries faces some formidable challenges. These challenges include the structure of the economy, limited capacity of the tax administration, the paucity or the poor quality of basic data and the political set up.

2.1.1 Canons of Taxation

Adam Smith, a British Economist, outlined four canons of taxation in his book “The Wealth of Nations” (1776). He said, “The evident justice and utility of these maxims have recommended them more or less to the attention of all nations”. These principles outlined below are very significant in modern Economics.

Equity: The subject of every state is to contribute towards the support of the government in equal proportions to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. Horizontal equity: all purchasers of the same equity pay the same tax. Thus persons with the same income level pay the same amount of tax. Vertical equity: unequally situated taxpayers being taxed on their ability to pay as per progressive taxation philosophies. Those who earn higher pay more than others who earn lesser than them.

Certainty: The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.

Convenience: Every tax ought to be levied at the time or in a manner in which it is most likely to be convenient for the contributor.

Economy: Every tax ought to be contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. Compliance and administration of tax should be minimal in terms of costs.

2.2 The Concept of VAT

VAT is a tax that is levied on the value added along different stages of production and distribution of a commodity or service. In this sense, it is equivalent to a retail sales tax which would be collected only at the retail stage Shome & Spahn, (1996).

The term “Value Added” according to the VAT Act, 1994 (Act 486) of Ghana refers to increase in value of goods and services at each stage of production or transfer of goods and services. Thus, Value Added Tax is basically a tax levied on the value added by an organization at each stage of production of goods or rendering of services. VAT is a tax on the final consumption of goods or services. It is ultimately borne by the consumer although it is collected at every stage of production or distribution. A tax credit is granted at every stage for tax paid at the earlier stage in the chain of transfer or sale of goods and services till it reaches the final consumer.

Value Added Tax (VAT) is levied on the sale of goods and services by registered businesses (those with annual turnover above some threshold level or who choose to register voluntarily). It applies to all sales, whether to private consumers or other businesses (in contrast to the retail sales taxes levied in the US, for example, which aim to tax sales to final consumers only). The VAT has now been adopted by more than 130 countries, including all members of the OECD other than the US. (Crawford et al, 2010)

According to Pritchard (2009), “VAT is a tax on consumers and is levied on the supplies of goods and services made by a taxable person in the course of furtherance of a business carried by him”.

Peggy, (1985) cited Quarshie (2009) stated “a properly implemented VAT is equivalent to a corresponding single-stage sales tax”. He said, under the expenditure tax, the VAT is not genuinely a new form of taxation but a merely sales tax administered in different form. Any form of taxation can be used to discourage consumption of commodities yielding negative externalities so as to stabilize national income and to redistribute income.

VAT is a consumption tax applied on the value added resulting from the own-activity of the business enterprise. It is imposed on the expenditure incurred in buying goods and services. Value added is the difference between the value of sales and the value of purchased inputs used in producing the commodity sold. Though by its definition, it is a consumption tax borne by the consumer, it is practically impossible to collect the tax from each individual consumer. Thus, the trader, manufacturer or importer, is often registered as an agent for collecting the tax on behalf of the VAT Service. Ali-Nakyea, (2008).

Maurice Lauré, Joint Director of the French Tax Authority and Director General of Imports was the first to introduce VAT on April 10, 1954, though German industrialist Dr. Wilhelm Von Siemens proposed the concept in 1918 (Minh Le, 2003). The invoice-credit form of the VAT is the universal basis of all national level VAT accounting with the exception of Japan. Under this method, registered businesses offset the VAT they have been charged on their purchases (input VAT) against the liability (output VAT) on their sales, remitting only the net amount due. The result, if this chain of output tax and input credit remains unbroken, is that no net revenue is collected from the taxation of intermediate goods sales (business-to-business sales), so that the ultimate base of the tax is final consumption. The universal practice is to zero-rate exports and

fully subject all imports to the VAT. This is as a way of ensuring that the VAT applies only to domestic consumption, consistent with the destination principle and contrasted with the origin principle of taxation i.e. taxation by place of production. (Crawford et al, 2010).

Denmark, though not a member of the European Economic Community (EEC), was the first European Country to extend the VAT to the retail sector followed by France and Germany. Several developing countries have also given increased attention to VAT as a means of rationalizing the system of taxation. Among them are: Nigeria, Senegal, Cote D'Ivoire, Morocco and Tunisia. Almost unknown in 1960, VAT is now found in over 130 countries around the world, generates about 20% of the world's tax revenue and has been the centerpiece of tax reform in most developing countries because it is intended to impose a neutral effect on businesses' Keen & Lockwood, (2007), Quarshie (2009).

2.2.1 Value Added Tax (VAT) in Ghana

Ghana is probably the only exception to the observation that, aside a short-lived Value Added Tax in Vietnam in the early 1970s, no country has ever repealed VAT legislations (Quarshie, 2009). In October 1992, the Government of Ghana instituted a project office tasked for the design and implementation of a tax to replace the sales tax regime that had been in existence since 1965. After two years of careful planning by a technical committee, a supervisory body to this committee and consultants from Crown Agents (UK), Parliament passed the Value Added Tax (VAT) Act, 1994 (Act, 486) in November 1994. The VAT Regulations (Legislative Instrument No.1598) were subsequently passed by the House in February 1995.

The instruments actually became effective in March 1995 after a 21-day statutory notification period. Though the VAT Act became effective on January 1, 1995, actual implementation of the tax commenced on March 1, 1995.

In a manner similar to what happened when Income Tax was first introduced in 1931, the VAT was fiercely resisted and government was forced to suspend its implementation after only three months of existence. In May 1995, Parliament moved with dispatch to re-open debate on the fate of what had become Ghana's first real effort at implementing a comprehensive domestic indirect tax regime. This move by Parliament became necessary following demonstration by the public as a result of the perceived cascading impact of the VAT system.

The decision eventually taken by the House to repeal the laws clearly contradicted the modern trend in global tax reforms, and appears to have taken many informed technical advisers by surprise. Two separate laws, the Customs, Excise and Preventive Service Management (amendment) (No. 2) Act 1995 (Act 500) and the Service Tax Act 1995 (Act 501) were passed to replace the VAT law and regulations. These two laws effectively restored the previous sales and other indirect tax regimes to their original status.

2.2.2 Reasons for the Introduction of VAT

Several reasons existed for the introduction of VAT to replace the Sales and Service Taxes. The main reasons for introducing VAT include:

1. Adopting a uniform basis for collecting the General Consumption Taxes (GCT).
2. Expanding and diversifying the tax base.
3. Improving the efficiency and equity in revenue collection.
4. Making tax administration and compliance simpler.
5. Controlling and curtailing smuggling. (VAT Guide for facilitators, 1998).

2.2.3 The resistance of VAT

The VAT was fiercely resisted at the early stages of its implementation because;

1. The initial VAT rate of 17½% was considered too harsh. For instance, the VAT was among others, to replace the sales tax, which was at 15% and covered fewer transactions.
2. Public education on the new tax system was not sufficient.
3. Personnel of the VAT Service and persons who were to act as agents of the Service were not sufficiently trained to handle all aspects of the new tax efficiently. For example, there was lack of uniformity in assessment of tax.
4. The threshold was too low [annual turnover of ₵25 million (now GH₵ 2,500)] and therefore persons who were not capable of administering the VAT became taxable persons.
5. The introduction of the VAT worsened the already high inflation that existed by then as prices of goods and services shot up and there were agitations from the general public (Adom, 2000).

2.2.4 The Reintroduction of VAT

After the above complaints had been addressed and other precautions taken, the Value Added Tax was successfully reintroduced in 1998. The Value Added Tax Act, 1998 (Act 546) reintroduced the Value Added Tax System to replace the then existing Sales and Service Taxes. The distinctive feature about the two tax systems was that the VAT System was to be charged at 10% whereas the Sales and Service was at 15% each.

2.2.5 Accounting for VAT

Presently, the taxable traders account for VAT under two accounting systems namely the Standard Rated and the VAT Flat Rate Schemes.

2.2.6 Standard Rated Scheme (The Invoice-credit Method)

Under the invoice-credit method, a registered person or enterprise making taxable supplies accounts for VAT for an accounting period which is usually one calendar month. The amount of tax payable to tax authorities is the difference between the total VAT collected from customers on sales (Output VAT) and the total VAT paid on purchases and expenses (Input VAT).

2.3 The Concept of VAT Flat Rate Scheme

The meaning of a “flat tax” is somewhat ambiguous in political debates and in the economic literature, but generally, a flat rate tax system has two key features: a very broad tax base and one fixed rate (Caminada, 2001).

In the United Kingdom, an optional flat rate scheme was introduced with effect from 24th April, 2002 to help small businesses by taking some of the work out of recording VAT sales and purchases. In using the scheme, a single percentage is applied on the turnover in a VAT period.

At the introduction date, the scheme was available to all small businesses:

1. with a VAT exclusive annual taxable turnover of up to £100,000, and
2. with a VAT exclusive annual turnover, including the value of exempt supplies and other non taxable income, of up to £125,000.

Both the above requirements apply at the point of entry into the scheme. Businesses check turnover each year after joining the scheme and if it is over £150,000 VAT inclusive, they must leave the scheme.

A business that joins the scheme avoids having to account internally for VAT on all purchases and supplies and instead, calculates its net liability by applying a flat rate percentage to the tax inclusive turnover. The flat rate percentage depends on the trade sector into which a business falls for the purposes of the scheme. There is a wide spread of applicable percentages ranging (on introduction of the scheme) from 5% to 14.5%. However, effective 4th January, 2011, the rates will range from 4% to 14.5%.

Under the flat rate scheme businesses:

1. continue to charge their customers the normal rate for the supply (i.e. not the flat rate percentage) on all taxable supplies of goods or services.

2. issue tax invoices to their VAT registered customers, and also to all other customers if the business chooses to do so (these invoices show the normal rate for the supply and are used for the customers' VAT reclaim).

The flat rate scheme removes the necessity to calculate VAT on each individual input and output for the VAT account. Instead only the VAT Flat Rate will need to be passed to the VAT account. The flat rate percentages are calculated in a way that takes into account zero-rated and exempt sales. They also contain an allowance for the VAT you spend on your purchases. So the VAT

Flat Rate Scheme might be disadvantageous if:

1. You buy mostly standard-rated items, as you cannot generally reclaim any VAT on your purchases.
2. You regularly receive a VAT repayment under standard VAT accounting or
3. You make a lot of zero-rated or exempt sales.

Moore (2004), in commenting on Slovakia's tax structure, stated that the single-rate VAT should be particularly helpful in addressing long-standing problems with refunds. Given the wide range of commodities subject to the lower rate, it had been possible in some sectors, for example construction, to claim refunds on inputs at the higher VAT rate and sell output taxed at the lower rate. Outright fraud also contributed to refund problems. Indeed, in 2002, VAT refunds had exceeded domestic VAT collections.

2.3.1 VAT Flat Rate in Ghana

Ghana's tax system has seen a number of reorganization and restructuring since its introduction. This several adjustments have brought about the VAT Flat Rate Scheme. Government, in its vision of bringing rapid development to the nation and reducing poverty on a sustainable basis as articulated by the GPRS I & II documents, has over the years consistently pursued tax reform policies geared towards the simplification of the compliance requirements of tax legislation in general.

It has encouraged, in particular, tapping into the immense revenue potential of the retail/informal sector in the nation's collective effort, in the medium to long term, to build a buoyant revenue mobilization base to wholly support government expenditure budgets thereby reducing support from her development partners.

In consonance with this vision, and recognizing that:

1. in an emerging economy like Ghana with low level of literacy and low record keeping capacities in the retail sector, the desired compliance requirements of the invoice-credit scheme that has hitherto been used in the administration of VAT to the sector have not sufficiently been met and
2. for this sector, the perceived complexities of the invoice credit method of collecting and accounting for the tax feeds into trader frustration and the difficulties that dog the administration of the tax within the sector, the VAT Service, in its Action Plans dating back to 2005, has consistently proposed a number of initiatives for the sector. The most significant initiative being the proposed introduction of a special scheme to cater for the peculiar needs

of the informal/retail sector; a scheme that has the potential of enhancing equity in the tax system by widening the tax net and tapping into the immense revenue potential of the informal sector.

Coincidentally, in 2005, Ghana Union of Traders Association (GUTA) one of the leading trade associations in the country in a ten-point resolution to the VAT Service copied to the Ministries of Finance and Trade sought for the co-operation and involvement of the two ministries to address the problems and frustrations that their membership faced at the retail level in their effort to comply with the requirements of the standard VAT system. GUTA, in the resolution, also proposed a special flat scheme for all retailers with the objective of simplifying the tax accounting system and widening the tax net to encompass the entire retail sector.

It was against this background that a VAT Service/GUTA working group was constituted with a mandate to come up with a special scheme for the informal/retail sector that was simpler and easier to operate, that would reduce the burden of compliance for operatives in the sector and lead to the widening of the tax net.

These antecedents culminated in the proposal by the Minister of Finance and Economic Planning in the 2006 Budget Statement and Economic Policy that a special flat rate scheme for the informal/retail distributive trade sector would be evaluated for implementation in the course of the year.

2.3.2 Definition of VAT Flat Rate Scheme

The VAT Flat Rate Scheme is a VAT collection/accounting mechanism that applies a marginal tax rate of 3%, representing the net VAT payable, on the value of taxable goods supplied. It is an alternative to the invoice credit method (or standard VAT system) which charges a given percentage on sales (in this case 3%) for each transaction without recourse to input tax deduction.

2.3.3 Reasons for introduction of the Scheme

The main aim of the Flat Rate Scheme is to reduce the cost of complying with VAT obligations by simplifying the way small businesses calculate their VAT.

2.3.4 Key features of the Scheme

The following are the main features identified with the VFRS:

1. VFRS operators apply a marginal tax rate of 3% on the value of taxable supplies for each sale transaction.
2. VFRS operators issue a simplified VAT/NHIL invoice for each sale transaction.
3. They also submit a simplified monthly VAT/NHIL returns form which does not show input taxes.
4. VFRS operators are not required to keep or maintain a separate register on input taxes and do not take credit for input taxes, but recover such input taxes as part of their costs in arriving at selling prices.
5. VFRS operators are issued with the regular VAT Certificate of Registration upon registration.

6. Minimal record keeping, to the extent that records are adequate in determining the correct VAT/NHIL payable to the VAT Service.

2.3.5 Transitional Arrangements

Registered retailers whose status would have to change from being operators of the Standard VAT Scheme to being operators of the VFRS, and who have in stock quantities of unused or partly-used standard VAT/NHIL invoice booklets, would be required to submit such invoice booklets to their Local VAT Offices for replacement at no cost. It must be noted that used invoices must be accounted for appropriately.

2.3.6 Outstanding VAT returns

A retailer currently registered with the VAT Service who qualifies to be registered as a VFRS operator is required to file all outstanding returns for the periods preceding the month in which the retailer's status changes to a VFRS operator. Such returns shall be filed on the standard VAT return form (VAT 20) currently used by operators of the standard scheme.

2.3.7 Advantages of VAT Flat Rate Scheme

1. The scheme is simple to operate, with simplified and easy to complete return forms and will solve the problem at the informal retail level of what input tax one can or cannot claim and will consequently curtail the submission of repayment returns (credit returns) by retailers.
2. The simplicity of the scheme will encourage a lot more retailers who were hitherto not registered with the VAT Service to register. This will consequently broaden the tax base and boost revenue collection.

3. The scheme holds tremendous promise for the removal of the compliance and enforcement barriers that currently plague the administration of VAT at the informal retail level where value added is least and the incidence of non-compliance highest.

2.3.8 Contribution of the Scheme to Government Revenue

The VAT Flat Rate Scheme since its introduction has contributed massively to the total revenue available to government for each of the years subsequent to its introduction. According to Prichard and Bentum (2009), the VFRS for the last four months of 2007; the year of its introduction, generated a total of GH¢ 2.69million representing 0.79% of the total domestic revenue which amounted to GH¢ 337.27million.

For the 2008 fiscal year, out of the total domestic revenue of GH¢ 417.2million, revenue from VAT Flat Rate Scheme constituted about GH¢ 25.9million. This represents about 6.2% of the total domestic revenue (2009 budget statement).

CHAPTER THREE

THE RESEARCH METHODOLOGY

3.0 Introduction

This section presents the study area, the research population, sample size, data collection method and the data analysis technique. Besides, the research instrument used in the data collection and data analysis tools are also discussed. A chapter summary is provided at the end.

Research methods are rules and procedures that can be seen as tools or ways of proceeding to solve problems. The following are some of the roles research play;

1. Rules for communication, thus to explain how the findings have been achieved
2. Logic or ways of reasoning to arrive at solutions
3. Rules for inter-subjectivity, thus, outsiders should be able to examine and evaluate research findings. Ibn Saeed, (2008)

3.1 Study Area

The Local VAT Office is located in the Opoku Ware II House at Bompata, a suburb of Kumasi.

The choice of the Kumasi Metropolis in general and VAT office in particular was painstakingly considered owing to its representation, accessibility and limited time constraint as well as financial difficulties to enable this research cover the whole VAT fraternity in Ghana.

3.2 Research Design

In quantitative research the aim is to determine the relationship between one thing (an independent variable) and another (a dependent or outcome variable) in a population. Quantitative research designs are either descriptive (subjects usually measured once) or experimental (subjects measured before and after a treatment).

Qualitative research gathers an in-depth understanding of human behavior and reasons that govern such behavior. It investigates the why and how of decision making not just what, where, when. It categorizes data into pattern as the primary basis for organizing and reporting results.

Types of Research

Exploratory research is often conducted because a problem has not been clearly defined as yet, or its real scope is as yet unclear.

Explanatory research is a style of research in which the primary goal is to understand the nature or mechanisms of the relationship between the independent variable.

3.3 Research Population

Population is the entire collection of items from which samples can be drawn. As aforementioned, the ideal population for this study is the entire staff of the VAT service (Adum Branch), all retailers of domestic goods operating around the central business area of Kumasi, thus Adum/Kejetia, consumers of goods affected by the VAT Flat Rate Scheme and personnel from the Internal Revenue Service (Adum Branch)

3.4 Sample Size

A sample is a representative selection of sampling units within a research population on which a study is based in order to draw a general conclusion about the entire population. Sampling units refer to the individual items within a population. For the purpose of this study, Sixty-five (65) respondents were sampled in total which composed of five (5) staff members of the VAT Service and sixty (60) retailers of goods operating the Scheme.

3.5 Sampling Techniques

Sampling is the process of selecting a part of a population to represent a whole. In getting the sample for the research, purposive sampling technique is used. Purposive sampling is the technique in which the researcher picks sample he thinks will deliver the best information in order to satisfy the research objectives.

3.6 Data Collection Methods/Techniques

The data collection method is designed to assist in gathering information relevant to the study in order to draw a valid and reliable conclusion. We obtained our information from both primary and secondary data sources.

Poku, (2010); Primary data are the first occurrence of a piece of work. Examples are documents and reports. Secondary data on the other hand are subsequent publications of primary data. Examples are books, journals and newspapers.

Questionnaires were the major instruments we used. A questionnaire is regarded as a series of questions used to elicit responses in a survey. We self-administered questionnaires to retailers operating around the central business area of Kumasi.

Questionnaires were used for this research because of the following reasons:

1. They are cost effective compared to the other data collection tools.
2. They reduce bias because of uniform presentation of questions.
3. They are easy to analyze: data entry and tabulation can easily be done with many computer software packages like Statistical Package for Social Sciences (SPSS).

Both close-ended and open-ended questions are used. The close-ended questions are intended to guide respondents with regards to answering peculiar questions. Open ended questions are those questions where respondents are allowed to express their views on the questions posed by the interviewer. It purports to seek personal opinions of respondents on certain issues pertaining to the administration of the VAT Flat Rate Scheme in Ghana.

The other instrument we used was interviews. Semi-structured and Unstructured forms of interview such as telephone and face-to-face interview are used to obtain information from the staff of the Local VAT Service Office, Kumasi.

3.7 Data Analysis and Interpretation

Both quantitative and qualitative methods are employed in the data analysis. Quantitative research technique is based on the collection of facts and observable phenomena and is used to

deduce laws and establish relationships. In this research, Statistical model was used. Qualitative research is a descriptive, non- numerical way to collect and interpret information.

The findings would be critically examined to make sure that they are not inconsistent with the research objectives.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents and provides analysis of the findings of the questionnaires administered and the interview guide used. In sampling opinions on the challenges of tax administration; the case of the VAT Flat Rate Scheme, traders in Adum and Kejetia were surveyed.

4.1 Contribution of the Scheme to Government Revenue

As part of the objectives of the study, it sought to assess the contribution of the scheme to government revenue. The table below presents information on the contribution of the VAT Flat Rate Scheme to Total Domestic Revenue.

Table 4.1 Contribution of VFRS to government revenue

Year	Total Domestic Revenue	VAT Flat Rate Scheme contribution	Percentage contribution of VFRS
	GH¢	GH¢	%
2007 (Sept - Dec)	337.27million.	2.69million	0.79
2008	417.2million	25.9million	6.20

Source: Ghana Tax Report, 2009 and Budget Statement of Ghana, 2009

From the table above, it can be seen that the contribution of the VFRS to Total Domestic Revenue is about 0.79%. This is as a result of the scheme being introduced within the last four months of the year. (i.e. September to December 2007). In 2008, it contributed GH¢ 25.9million, representing about 6.2% of Total Domestic Revenue.

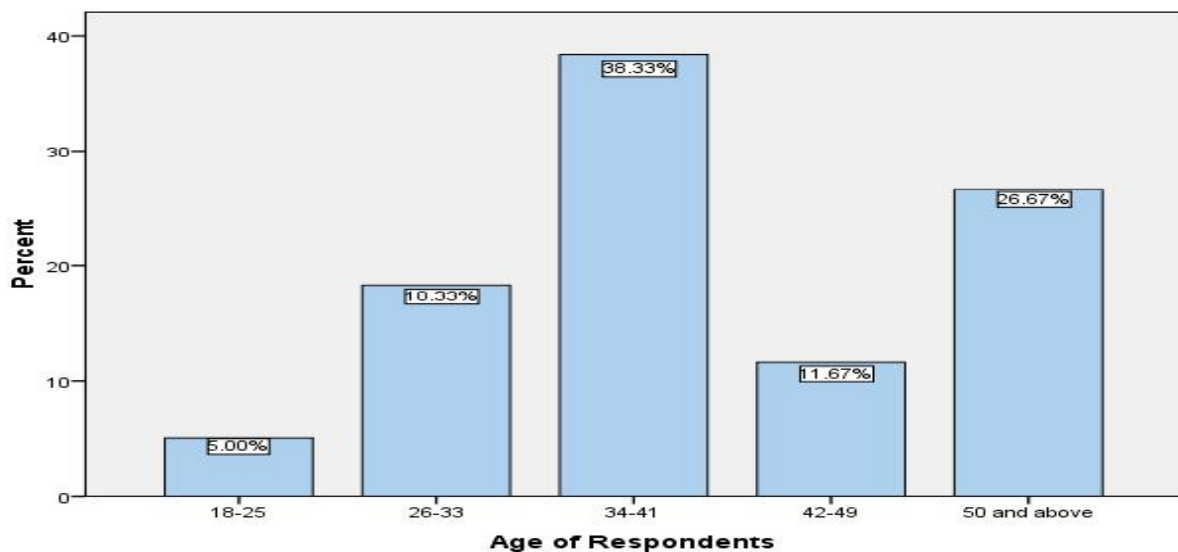
As stated in the limitations to the study, assessing information on the contribution of the scheme to government revenue for 2009 and 2010 proved burdensome as the research was constrained in terms of resource and time. Nevertheless, the scheme can be said to have contributed tremendously to government revenue for the first two years of its introduction. The scheme therefore holds great promise for the economy in terms of contributing to government revenue and much attention should be directed towards it by government.

4.2 Analysis of Questionnaires

In all, a total of sixty (60) retailers were surveyed. The survey spanned across retailers of taxable goods who were registered to operate the flat rate scheme (3%).

The figure below represents the age distribution of the respondents.

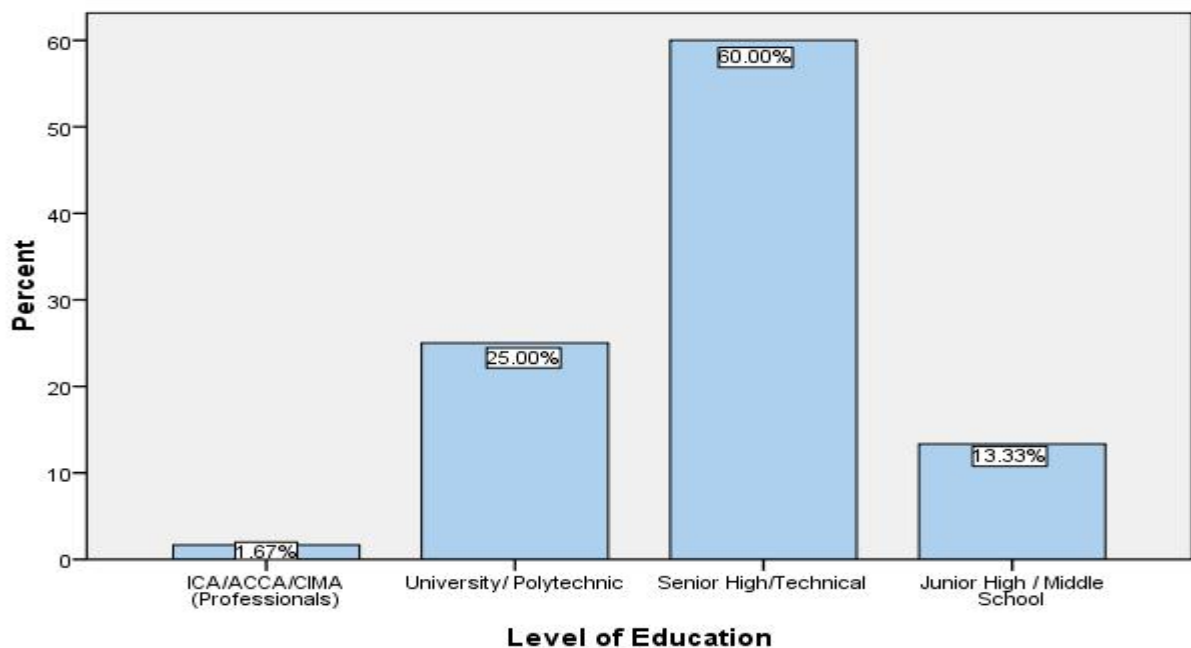
FIGURE 1 Age Distribution of Respondents



Source: Field survey

According to figure 1 above, 5% of the respondents fall between the age group of 18-25years while 18.33% fall between the ages of 26-33 years. Also 38.33%, 11.67% and 26.67% of the respondents fall between the ages of 34-41years, 42-49 years and 50 years and above respectively. The figure below describes the various levels of education of respondents.

FIGURE 2 Educational background of respondents



Source: Field survey

From figure 2 above, 1.67% of respondents have professional qualification. 25% have University or Polytechnic qualification. 60% representing majority of the respondents have Senior High School qualification and only 13.33% of the respondents have Junior High or Middle School qualification. From the above data, it can be deduced that the minimum educational qualification possessed by retailers have enhanced their understanding of the scheme.

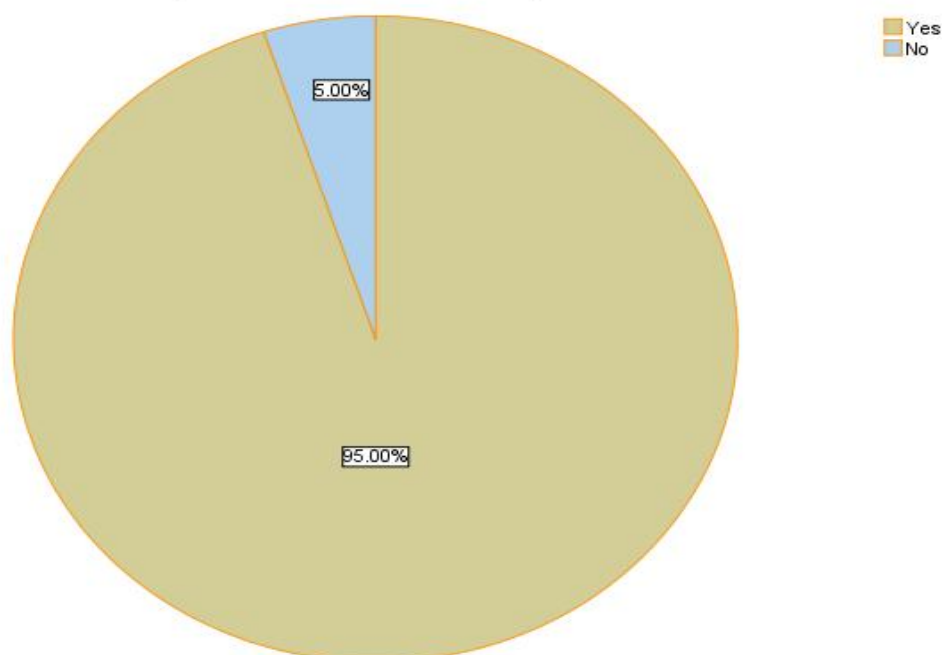
Table 4.2 Type of Business Entity

		Frequency	Percent	Valid <i>Percent</i>	Cumulative Percent
Valid	Sole-proprietorship	47	78.3	78.3	78.3
	Partnership	13	21.7	21.7	100.0
	Total	60	100.0	100.0	

Source: Field survey

From the table above, 78.3% of the businesses are sole-proprietorship and 21.7% are partnership type of business entities. This is an indication of the fact that most businesses that operate in the retail sector are individually owned. This results in their low contribution to the scheme due to the small transactions involved in their operations.

FIGURE 3 Do you understand the concept of VAT Flat Rate Scheme?



Source: Field survey

From the diagram, 95% claim to understand the concept while 5% do not understand. The study reveals that majority of retailers in the metropolis understand the VAT Flat Rate Scheme. This is evident in respondents' descriptions of what the scheme really is. Respondents were of the view that VAT Flat Rate Scheme is about applying 3% on sales to customers. Also, the 3% was to mitigate the high prices of goods brought about by the invoice credit system (15%).

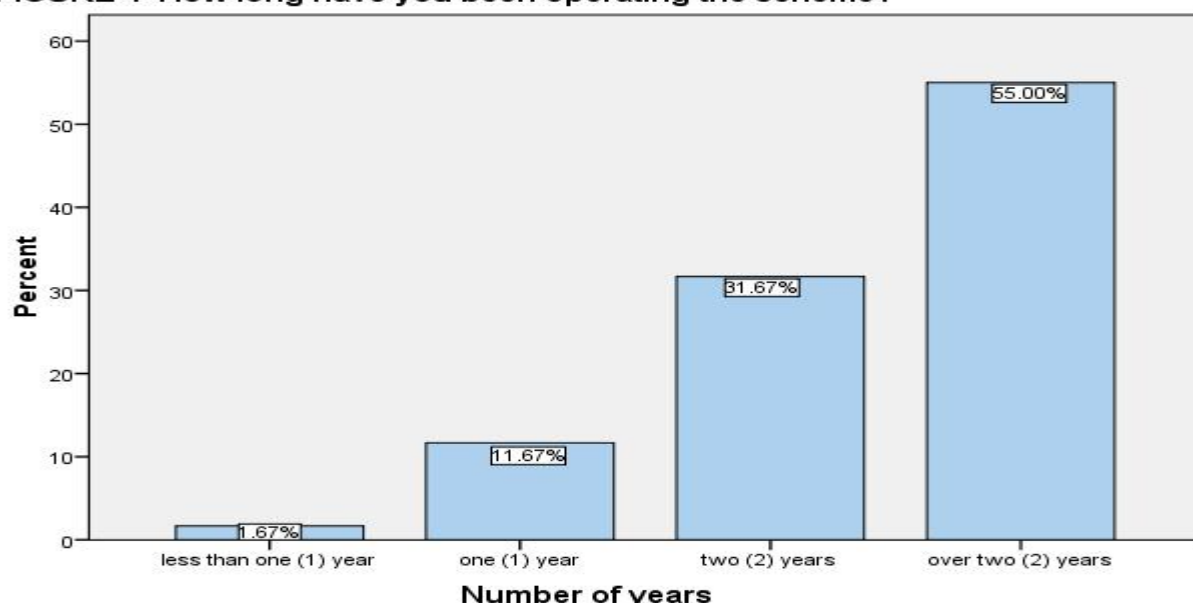
Table 4.3 Are you able to calculate your tax liability?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	55	91.7	91.7	91.7
No	5	8.3	8.3	100.0
Total	60	100.0	100.0	

Source: Field survey

From the data above, 91.7% are able to calculate their tax liability whereas 8.3% are not able to do so. Retailers' understanding of the concept of VAT Flat Rate Scheme culminates into their ability of affecting the scheme. The study reveals that most retailers are able to calculate their tax liability with ease.

FIGURE 4 How long have you been operating the scheme?



Source: Field survey

As depicted in the chart, 55% of the respondents indicated that they have been operating the scheme over the past two (2) years. Also, 31.67%, 11.67% and 1.67% have been operating the scheme for two (2) years, one (1) year and less than one (1) year respectively. This is an indication that, it was at the introductory stage of the scheme that the VAT Service embarked on a mass registration of retailers from which nothing of such sort has been carried out leading to less registration within the period of last one (1) year.

Table 4.4 Were you initially operating the invoice credit method?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	39	65.0	65.0	65.0
No	21	35.0	35.0	100.0
Total	60	100.0	100.0	

Source: Field survey

The data above shows that 65% of the respondents were initially operating the invoice credit system before the introduction of the Flat Rate Scheme in 2007. However, 35% were not operating the invoice credit system.

This is an indication that registration of new businesses has not been effective after the massive registration at the introductory stage.

Table 4.5 how was the transition process to you?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Convenient	35	58.3	58.3	58.3
Inconvenient	4	6.7	6.7	65.0
not applicable	21	35.0	35.0	100.0
Total	60	100.0	100.0	

Source: Field survey

The transition process according to most traders was convenient as they did not have to go through any cumbersome process. This is evident in the data above. 58.3% gave positive response to the statement whereas 6.7% were of the opposing view. However, 35% were not initially operating the invoice credit system (15%) and so the transition process was not applicable to them. This suggests that, operators of the invoice credit system do not have to go through an arduous task of registering under the Flat Rate Scheme.

Table 4.6 was the registration process convenient to you?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	17	28.3	28.3	28.3
No	1	1.7	1.7	30.0
not applicable	42	70.0	70.0	100.0
Total	60	100.0	100.0	

Source: Field survey

As depicted in the above table, 28.3% of the traders who were hitherto not operating the invoice credit system (15%) were of the view that, the registration process was convenient. Nonetheless, 1.7% of the traders found the process to be inconvenient. This suggests that, the registration process is simple and devoid of any form of bureaucracies.

Table 4.7 Do you face challenges in operating the scheme?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	37	61.7	61.7	61.7
No	23	38.3	38.3	100.0
Total	60	100.0	100.0	

Source: Field survey

Concerning challenges in operating the scheme, 61.7% of the respondents were of the view that it posed a challenge to them. To them, the marginal rates of 3% makes their products expensive compared to their competitors who are eligible but not registered with the Scheme as well as those covered by the Scheme but are not charging it. As a result these businesses who always apply the Scheme lose a chunk of their customers to their competitors. Other challenges they

stated include: delays in receiving returns form, customers' reluctance to pay VAT and businesses filing returns ahead of cash collection for credit sales made to institutions.

Table 4.8 Do you have easy interaction with the VAT Service?

	Frequency	Percent	Valid Percent	Cumulative Percent
Vali strongly disagree d	2	3.3	3.3	3.3
Disagree	18	30.0	30.0	33.3
Neutral	1	1.7	1.7	35.0
Agree	34	56.7	56.7	91.7
strongly agree	5	8.3	8.3	100.0
Total	60	100.0	100.0	

Source: Field survey

Respondents when asked whether they have easy interaction with the VAT Service, 3.3% strongly disagreed, 30% disagreed, 1.7% were neutral, 56.7% agreed and 8.3% strongly agreed. The cause of disagreement they indicated was the hostility on the part of the VAT Service personnel.

Table 4.9 Do you get information required to enable you pay my returns on time?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.7	1.7	1.7
Disagree	7	11.7	11.7	13.3
Neutral	2	3.3	3.3	16.7
Agree	40	66.7	66.7	83.3
strongly agree	10	16.7	16.7	100.0
Total	60	100.0	100.0	

Source: Field Survey

From the above data, 66.7% of the respondents agreed to the fact that, they get information required to enable them file their returns on time. According to respondents, officials of the VAT Service notify them when it is time to file their returns. Conversely, 11.7% disagreed to the proposition. This is an indication that pragmatic steps have been taken by the VAT Service to ensure that all relevant information are made available to traders to enable them file their returns.

Table 4.10 Do VAT officials organize tax education to sensitize you?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	8	13.3	13.3	13.3
Disagree	33	55.0	55.0	68.3
Neutral	3	5.0	5.0	73.3
Agree	14	23.3	23.3	96.7
strongly agree	2	3.3	3.3	100.0
Total	60	100.0	100.0	

Source: Field survey

From the table above, 55% disagreed and 13% strongly disagreed that VAT officials organise tax education to sensitize them. 23.3% and 3.3% agreed and strongly agreed respectively to the proposition. However, 5% were neutral to the proposition. It can therefore be deduced that this has contributed to most traders facing challenges in operating the Scheme as shown in Table 4.1.6 above.

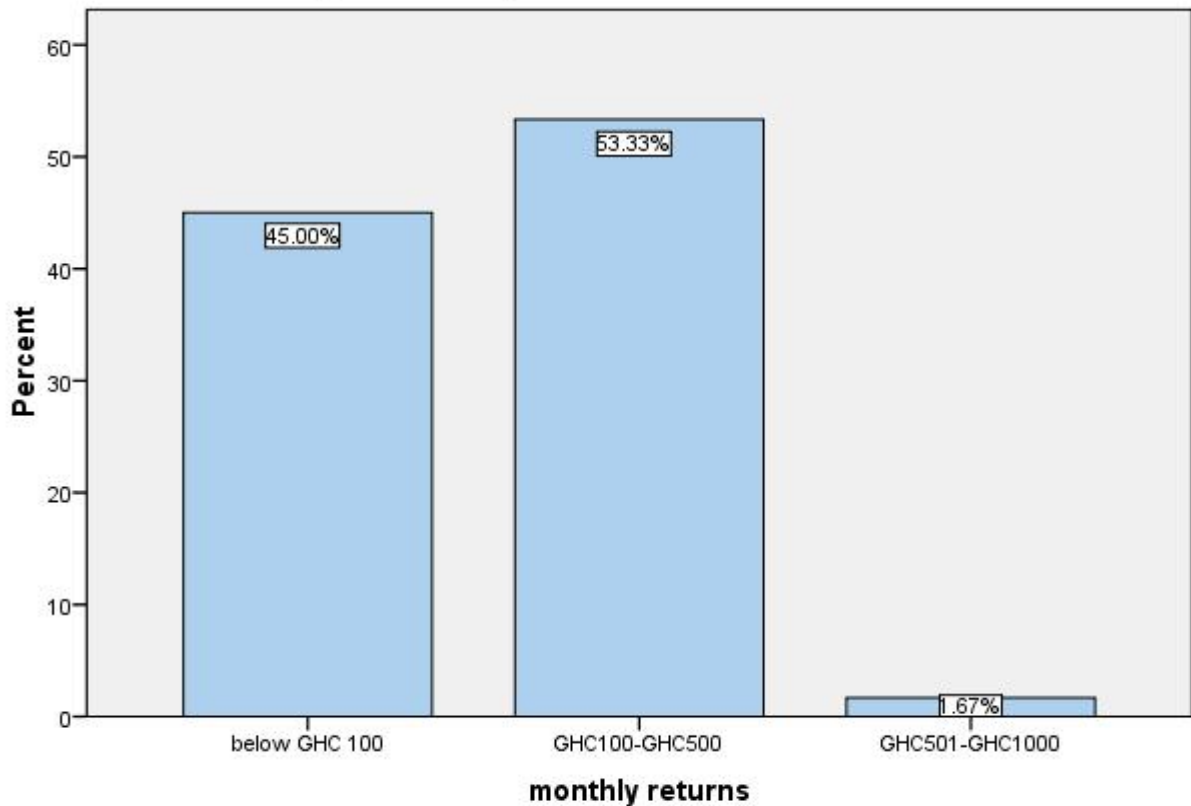
Table 4.11 Indicate the regularity of your tax payment

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid very regular	41	68.3	68.3	68.3
Regular	14	23.3	23.3	91.7
not regular	5	8.3	8.3	100.0
Total	60	100.0	100.0	

Source: Field survey

The data above shows the regularity of tax payment of registered businesses of the Flat Rate Scheme. 68.3% indicated that their tax payment is very regular; 23.3% affirmed that their tax payment is regular and 8.3% indicated that their tax payment is not regular. The regularity of tax payment they indicated is greatly influenced by their understanding of the scheme.

FIGURE 5 Indicate your monthly returns

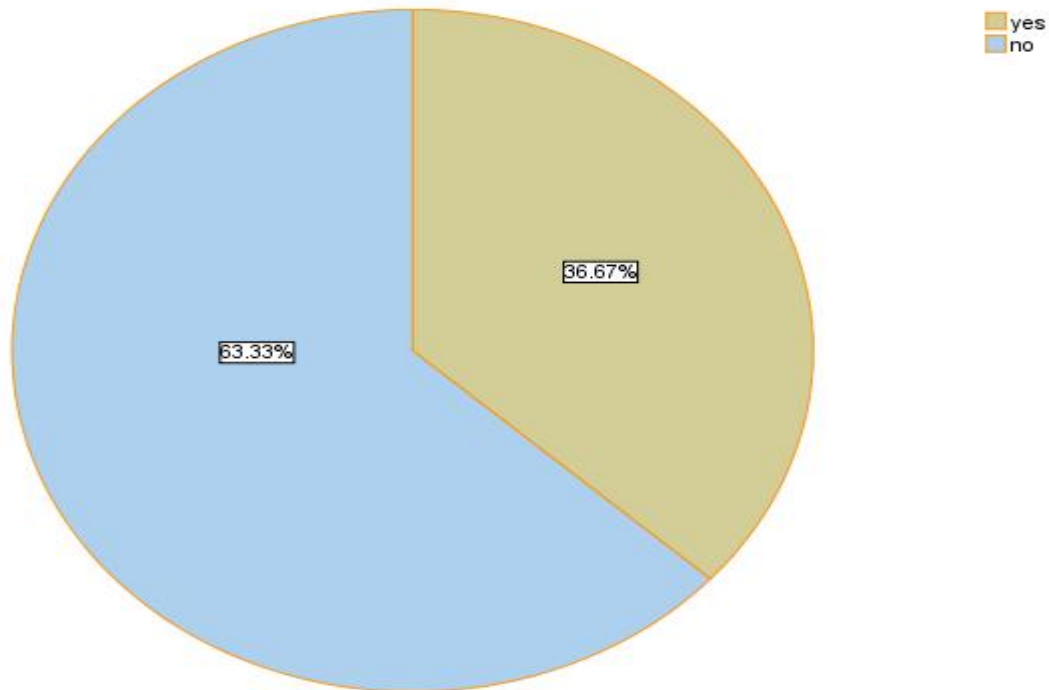


Source: Field survey

The above figure shows the monthly returns filed by the businesses used in the survey. 45% of the respondents said their monthly returns is below GH¢100. 53.33% being majority indicated that their monthly returns ranges from GH¢100 to GH¢500 and 1.67% indicated their monthly returns is between GH¢501-GH¢1000.

The low sales of retailers have resulted in their low contribution to government.

FIGURE 6 Has the implementation of VAT Flat Rate Scheme been effective?



Source: Field survey

From the diagram above, 36.67% of the respondents agree that the implementation of the VAT Flat Rate Scheme has been effective. Conversely, 53.33% do not share in that view. They indicated that the 3% flat rate is still high which makes their products expensive in relation to the products of competitors who are not covered by the scheme. They also asserted that, those registered to operate the scheme do not charge the 3% on their sales for fear of losing their customers.

Table 4.12 Indicate the average time spent when filing your monthly returns.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 20 mins	41	68.3	68.3	68.3
	between 20-40 mins	14	23.3	23.3	91.7
	between 40-60 mins	2	3.3	3.3	95.0
	60 mins and above	3	5.0	5.0	100.0
	Total	60	100.0	100.0	

Source: Field survey

From the table above, 68.3% of the respondents said they spend less than 20mins when filing returns. 23.3% spend between 20-40mins, 3.3% spend between 40-60mins and 5% claim to spend over 60mins at the premises of the VAT service when filing returns.

From the survey, it was obvious that less time is spent when filing returns with the VAT service. This is an indication of the fact that the scheme is simple and easy to operate.

4.3 Analysis of Interview Guide

Five personnel of the VAT Service were interviewed using an Interview Guide. The following findings were made upon interrogation. According to the VAT Service, the only medium through which retailers can file returns is to visit their premises. This is a disincentive to tax payment as retailers may have to sacrifice business hours to file their returns.

On the other hand, the study revealed that, the VAT Service has plans of introducing electronic means for retailers to file their returns. This is in the form of an Electronic Cash Register which was reported by the Wednesday, December 30, 2009's edition of the Daily Graphic to have been introduced by the Service to facilitate the collection and payment of VAT by retailers. The system was however, not user friendly to retailers which made the Service lose sight of that initiative.

4.4 Challenges of Administering the Scheme

The primary motive of this work is to find out the challenges of administering the VFRS. Interview with a sample of personnel of the VAT Service identified a number of factors that in their view impede the smooth administration of the VFRS in Ghana.

Chief among them are outlined below.

1. Poor record keeping.

According to the officials, traders do not keep proper record that could facilitate easy assessment of the right amount to file and pay as returns. This has led to traders filing inaccurate returns.

2. Lack of logistics

Another factor identified upon interrogating officials of the VAT Service was inadequate logistics such as staffing, vehicles, stationery among others needed to carry out their operations. This consequently retards the efforts of the service in ensuring the smooth execution of the scheme.

3. Traders' reluctance to forward their grievances

Traders are reluctant in channeling their grievances to the Service due to the perception that VAT officers are non-responsive to their problems. This poses a great deal of challenge to the Service due to difficulties in identifying trader frustrations and tackling them accordingly.

4. Filing of Returns

The VAT Service commented on the irregularity of traders in filing their returns. To them, traders are not consistent in filing their returns. This is however, contrary to retailers' view in Table 4.1.10 where majority of them confirmed that they file their returns regularly. Due to the disparity between the two opinions, a valid conclusion cannot be drawn.

5. Re-organization of the VAT Service

Government, in its attempt of achieving outlined economic targets, is integrating the three (3) revenue collection agencies (CEPS, IRS and VAT Service) under one umbrella called the Ghana Revenue Authority (GRA) to harmonize revenue mobilization process. In line with this the VAT service is currently undergoing a structural adjustment to complement this vision. This is crippling its effort of effectively administering the VFRS as there are delays in making monies available to the Service to carry out its operations.

CHAPTER FIVE

FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.0 Introduction

This chapter presents the summary of findings which is based on the analysis of data elicited from both classes of respondents on the administration of the scheme. The chapter also presents recommendations based on the findings to help improve upon the administration of the scheme. It then ends with a conclusion to the study.

5.1 Findings

GUTA, one of the leading trade associations in the country, in a ten-point resolution to the VAT Service, copied to the Ministries of Finance and Trade, sought for the cooperation and involvement of the two ministries to address the problems and frustrations that their membership faced at the retail level in their effort to comply with the requirements of the standard VAT system. GUTA, in the resolution, also proposed a special flat scheme for all retailers with the objective of simplifying the tax accounting system and widening the tax net to encompass the entire retail sector.

These resolutions brought about the VAT Flat Rate Scheme. In exploring the challenges of administering this scheme, questionnaires and personal interviews were designed to obtain data. The questionnaires sought to find out retailers understanding of the scheme and whether they were confronted with challenges in applying it in their trade. The interview conducted was to

gather responses from the VAT officers on the challenges of implementing the scheme. Based on the responses elicited by both class of respondents, the following findings were noted.

1. In Ghana, the VAT Flat Rate covers only retailers of goods unlike in the United Kingdom where it covers all categories of businesses. For instance, in the UK the flat rate ranges from 4% to 14.5%.
2. Most retailers of the scheme are sole-proprietors making monthly returns below GH¢100. This results in their low contribution to the scheme due to the small nature of transactions involved in their operations.
3. The marginal tax rate of 3% is well understood by most retailers. This is evident in their ability to calculate their tax liability.
4. The simplicity of the scheme cannot be overlooked as most retailers unequivocally found it easier complying than the standard rated scheme (15%).
5. Notwithstanding the numerous benefits of the scheme over the standard rated scheme, retailers still consider the scheme not to have mitigated the challenges that emerged with the standard rated scheme. They agitated that the marginal rate of 3% makes their products expensive relative to those of their competitors who are not registered. The traders also consider the scheme less flexible as they are made to file returns on credit sales made. The VAT service has a Debt Management Unit to cater for such complaints and agitations where retailers are allowed to file their returns using post-dated cheques. However, the retailers are oblivious of the existence of such a unit.
6. The regularity of retailers' filing their returns is largely propelled by the availability of information. From the survey, most retailers affirmed that they get the needed information from the VAT Service to file their returns.

7. The processes involved in registering a business under flat rate scheme is seen by majority of the retailers as convenient and not bureaucratic. .
8. Most retailers who were registered under the scheme up to date are those who were initially registered under the invoice credit system. The number of new businesses that have joined the scheme is however sparse.
9. Retailers only pay their returns by visiting the premises of the Service.

5.2 Recommendations

In the light of the above findings, the following recommendations are made:

1. The VAT Service should embark on a massive registration exercise to ensure that new businesses who qualify to be registered to operate the flat rate are duly registered. Also, existing businesses that are not registered should be identified and duly registered as well.
2. Registered retailers who do not apply the 3% on their sales for fear of losing their customers as a result of high prices must be identified and fined or prosecuted.
3. The VAT Service should undertake a general education campaign to get retailers informed of the Debt Management Unit (DMU) at the Service and what it does.

The education exercise must also seek to educate both registered and unregistered businesses on the benefits of applying the scheme.
4. The Service should also consider devising other media through which retailers can file their returns without necessarily walking into the premises of the service. Electronic means such as via internet and EMS among others are good considerations.
5. The government must make available the necessary funds to the Revenue authority to exploit more efficient methods of administering the VAT flat rate scheme such as through the

Electronic Cash Register as it will help curb the leakages associated with the current manual filing system and also encourage the prompt submission of VAT returns.

6. The GRA must recruit and train more employees to help meet the manpower needs of the VAT Service.
7. On the contribution of the Scheme, we recommend that further related research on the topic pick it up from here and explore more on the contribution of the scheme to government revenue.

5.3 Conclusion

The study sought to explore the challenges confronting the administration of the VAT Flat Rate scheme since its implementation in September, 2007.

In order to achieve this objective, questionnaires were administered to seek the views of retailers operating the scheme on the challenges they encounter as well as its impact on their profits. In addition, personnel of the VAT Service were interviewed on the subject with the aid of an interview guide. Data collected was analyzed through the use of Statistical model. Although the study was constrained by a number of factors which hindered access to all relevant information, it was successful and in line with the aforementioned objective, analysis of the data collected revealed that; with the exception of high prices of products brought about by the marginal rate, retailers' understanding and compliance with respect to the scheme has improved and that has to a larger extent, mitigated the challenges inherent in the Standard Rated Scheme. Besides, the study discovered that the 3% flat rate has ensured that retailers who were hitherto not registered under the invoice-credit system (15%) have got their businesses registered, and has significantly enhanced government revenue over the years in which it has been in existence.

On the other hand, the administration of the Scheme has not been smooth owing to a number of drawbacks as identified in chapter four. Nevertheless, the Scheme still holds greater prospects of harnessing revenue available to government from the operation of business activities. The study finally recommends that further studies in this area should consider looking more into the contributions of the scheme to government revenue.

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QUESTIONNAIRE

SECTION B

The concept of VAT Flat Rate Scheme

6. Do you understand the concept of VAT Flat Rate Scheme? Yes [] No []
7. What is your understanding of the Scheme?
.....
.....
8. Are you able to calculate your tax liability with ease? Yes [] No []
9. How long have you been operating under the scheme?
a. Less than one (1) year [] b. One (1) year [] c. Two (2) years []
d. Over two (2) years []
10. Were you initially operating the invoice credit method? Yes [] No []
11. If Yes, how was the transition process to you? Convenient [] Inconvenient []
12. If No, was the registration process convenient to you? Yes [] No []
13. Do you face challenges in operating the Scheme? Yes [] No []
14. If Yes, what are these challenges?
.....
.....

SECTION C

Please indicate your level of agreement with the following statements

15. I have easy interaction with the VAT Service.
(1) Strongly Disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree
16. I get information required to enable me pay my returns on time.
(1) Strongly Disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree
17. VAT officials organise tax education to sensitize me.
(1) Strongly Disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree
18. It is unfair to pay tax considering revenue from gold, diamond, timber and the recent discovery of oil.
(1) Strongly Disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly Agree
19. Please indicate the regularity of your tax payment on the scale below
(1) Very Regular (2) Regular (3) Neutral (4) Not Regular (5) Not Regular at all

20. What are your monthly returns to the VAT Service?
- a. Below GH¢ 100 [] b. GH¢ 100- GH¢ 500 [] c. GH¢ 501- GH¢ 1000 []
 d. GH¢ 1001- GH¢ 1500 [] e. Above GH¢ 1500 []

21. Has the implementation of VAT Flat Rate Scheme been effective? Yes [] No []

22. If No, what is the cause(s)?

.....

23. Please indicate the average time spent when filing monthly returns.

- a. Less than 20 minute [] b. Between 20 - 40 minutes []
 c. Between 40 - 60 minutes [] d. 60 minutes and above []

24. What sanction is levied against you for non-payment of tax obligation?

.....

25. Critical Success Factors

Please use the scale below to indicate the critical success factors in Ghana VAT Service.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The composition and character of the management team	1	2	3	4	5
Funding	1	2	3	4	5
Canons of Taxation					
- Equity & Fairness	1	2	3	4	5
- Economy	1	2	3	4	5
- Certainty	1	2	3	4	5
- Convenience	1	2	3	4	5
- Competitive/International	1	2	3	4	5
Close relations with customers	1	2	3	4	5
Close relations with other Revenue agencies	1	2	3	4	5

APPENDIX B
INTERVIEW GUIDE
CHRISTIAN SERVICE UNIVERSITY COLLEGE
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING

Topic: *An Exploratory Study on the Challenges of VAT Flat Rate Scheme since Its Introduction, Evidence from Kumasi.*

The purpose of this interview guide is to gather information on the Challenges of Tax Administration in the country, with focus on VAT Flat Rate Scheme. This is an academic exercise and the confidentiality of any information provided by respondents would be strictly observed. We would therefore be most grateful if you could answer the following questions.

THE VAT SERVICE

Registration

1. Who can join the scheme?
2. How do you get retailers registered?
3. What are the processes involved in registering a retailer?
4. Is the scheme applied on stocks owned before registration?
5. Can a retailer combine the flat rate scheme with the standard rated schemes?
6. What happens if a retailer stops business activity in the course of the year?

Records and Accounting

7. Are there special records expected to be kept by retailers?
8. What are the mediums through which retailers can file their VAT returns?
9. How do retailers pay their VAT returns?
10. Do you allow retailers to check their VAT contributions from time to time?

Tax Regulations and Awareness

- 11. Are the laws guiding tax payment made available to retailers?
- 12. What are the penalties for default by retailers?
- 13. Do you organise educational programs for retailers?
- 14. Do you organise periodic training sessions for your staff?

Challenges

- 15. What are the challenges in administering the scheme with respect to staffing, logistics and finance?
- 16. What has been the impact of VAT Flat Rate on government revenue since its implementation?

APPENDIX C

Abbreviations

CEPS.....	Custom Excise and Preventive Service
DMU.....	Debt Management Unit
EEC.....	European Economic Community
GCT.....	General Consumption Tax
GPRS.....	Ghana Poverty Reduction Strategy
GRA.....	Ghana Revenue Authority
GUTA.....	Ghana Union of Traders' Association
IRS.....	Internal Revenue Service
NHIL.....	National Health Insurance Levy
OECD.....	Organisation of Economic Co-operation and Development
SPSS.....	Statistical Package for Social Sciences
UK.....	United Kingdom
US.....	United States
VAT.....	Value Added Tax
VFRS.....	Value Added Tax Flat Rate Scheme