

**CHRISTIAN SERVICE UNIVERSITY COLLEGE**

**DEPARTMENT OF BUSINESS STUDIES**

**EXPLORATORY STUDY OF TAX EVASION**

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## DECLARATION

We have read the University regulation relating to plagiarism and certify that the dissertation is our own work and do not contain unacknowledged work from any other source.

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## ABSTRACT

Tax is a compulsory payment which the state imposes on individuals, firms and organizations not as a penalty for any offense or immediate exchange of goods, but as income to enable her meet its expenditure. Tax evasion is a deliberate attempt to evade tax, it has a negative effect on economic development. Many developed and developing countries are losing revenue through tax evasion which could have been channeled into infrastructural development.

The study was conducted using primary data. Self administered questionnaires and interviews were the tools used to collect data from the respondents from the staff of Ghana Revenue Authority -Domestic Tax Revenue Division (DTRD) and the working populace in the Kumasi Metropolis. In all 65 questionnaires was sent out and 55 was retrieved representing 85% of the respondents. This means the research is fairly represented. SPSS version 17 was used for the data analysis.

The study revealed that all the respondents (100%) had knowledge on tax evasion and its effects on national development. They were also of the view that taxes are essential ingredients for national development. But 75% of the respondents said taxes collected are not effectively utilized. They were of the view that improvement on social amenities cannot be felt in each part of Ghana but rather restricted to some few areas which is the reason why some of them would not declare their income to be taxed.

The Ghana Revenue Authority- Domestic Tax Revenue Division identified lack of logistics, difficulty in tracing and identifying traders, lack of personnel, inadequate periodic training, illiteracy on the part of traders and political interference as challenges which are faced by the division.

## **DEDICATION**

This research work is dedicated to God Almighty.

## **ACKNOWLEDGEMENT**

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## LIST OF ACRONYMS

DTRD - Domestic Tax Revenue Division

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

Governments all over the world have used taxation as a major tool to raise revenues to fund its objectives. For instance, leaders in centuries past have raised revenues through the imposition of taxes to fund war expenditures. In modern times, revenues from taxes are used to provide social infrastructure! amenities such as roads, schools, hospital and public services for the benefit of the citizenry, attraction of foreign investment through tax holidays, discouragement of the use and production of certain harmful products such as cigarette, hard drugs, alcoholic beverages etc. to humans and the environment by imposing high rate of taxes.

Taxation is a major source of revenue for developing countries worldwide. A tax may be defined as a “property to support the government, a payment exacted by legislative authority’. A tax “is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” (Ambala, 2008).

In Ghana, tax plays a very important role in the development of the country. The government of Ghana obtains 75% of its revenue from taxes to finance her numerous expenditure (Ambala 2008). Customs excise and preventive service organization is responsible for the collection of taxes levied on imports, exports and locally manufactured goods.

The Value Added Tax Service is responsible for collecting levies on the supply of goods and services. The Domestic Tax Revenue Division is responsible for the collection of direct tax in Ghana which falls directly on incomes of persons and companies.

The various tax agencies which administer the tax system over the years have not been able to meet their target because of the issue of tax evasion. Evasion of taxes decreases the revenue of the country which in turn reduces infrastructural development and other social amenities in the country (Rowley and Tollison, 1988).

## **1.2 Statement of Problem**

Taxes, both direct and indirect are levied to raise revenue for the government to enable her meet finance its expenditure namely cost of general administration, defense, social services and infrastructural developments to mention but a few.

The Domestic Tax Revenue Division is task to collect revenue in the form taxes on behalf of the nation for national development. The major sources of most government revenue come from tax.

This is the reason why revenue collection agencies and divisions are setup in every city, town and districts in the country. As a matter of fact, targets have been given to every division to achieve in a year. These agencies are mainly responsible to collect revenue to finance government developmental machinery to improve the living standard of the people. Aside this main responsibility, they are task to provide special allowance packages such as capital allowance to companies, tax relief to individuals. These allowances are to reduce the tax burden and encourage institutions and individuals to pay taxes for national development.

Tax Evasion is a deliberate attempt artificially carried to evade the payment of taxes. Tax avoidance is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable by means that are within the law. By contrast tax evasion is the general term for efforts to not pay taxes by illegal means.

People evade tax by under-invoicing and misdeclaration of quality and product-description.

Smuggling or exportation of foreign products through unauthorized route is resorted to for total evasion of leviable customs duties as well as for importation of contraband items is a form of evasion.

Corrupt tax officials cooperate with the tax payers who intend to evade taxes. When they detect an instance of evasion; they refrain from reporting in return for illegal gratification or bribe. Corruption by the tax officials is a serious problem for tax administration in a huge number of underdeveloped countries.

The question here is, why do people evade tax after the introduction of tax relief and capital allowances which reduces the burden of tax on the Ghanaian worker? There is the need to explore the reasons why Ghanaian workers evade tax. This is the gap this research intends to fill.

### **1.3 Objectives of the Study**

Specifically, the study seeks to:

- Find out why people evade tax in Ghana and its effect on the economy
- Identify how taxes are evaded in the country
- Find out whether people in the country know the consequences of evading tax
- To recommend measures to rectify the evasion of taxes in the country.



#### **1.4 Research Questions:**

- Why do people evade tax?
- How do people evade tax?
- What are the consequences of evading tax?
- How can tax evaders be detected?

#### **1.5 Significance of the Study**

The exploration study of tax evasion in the economy of Ghana when concluded would help the researcher to add knowledge to the existing body of knowledge, help policy makers to put in place measures to combat tax evasion. Again, it will improve policy formulation for the DTRD and also tax student will find it stimulating enough and encourage them carry out further studies in this area and also increase the store of knowledge in this area.

#### **1.6 Scope**

The research would focus on tax evasion and its effects on the Ghanaian economy by using the Ghana Revenue Authority - Domestic Tax Revenue Division in Kumasi as a case study.

#### **1.7 Limitations of the Study**

The following limitations would be encountered during the research exercise;

- **Lack of Data:** Most workers do not having enough knowledge on tax evasion so it was difficult to gather more information on the subject.
- **Time constraints:** the shortness of the duration for the study did not allow the researchers to conduct enough interviews and administer more questionnaires in the Domestic Tax Revenue Division and all the workers concern.
- **Financial constraint:** This relates to the transportation cost and other related costs that limited the number of questionnaires administered.

- **Search for literature:** There are limited or scanty information on the subject under review which made it difficult to seek for information on the internet.

## **1.8 Organization of the Study**

The research is structured into five main chapters

Chapter 1 – Introduction: This covered the background of the study, statement of problem, objectives of the study and research question.

Chapter 2 – Literature Review: This covered the literature and the conceptual framework of the study

Chapter 3 – Methodology: It consists of the various data collection methods that were used and the limitation of the study.

Chapter 4 – Data Analysis: It contains the analysis and interpretation of data gathered.

Chapter 5 – Recommendation and Conclusion: This considers the summary of findings, conclusion and recommendation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 What Is Tax?**

Tax is a charge levied on the citizens by a state. Tax is a compulsory payment which the state imposes on individuals, firms, and organizations not as a penalty for any offence or immediate exchange of goods but as income to enable her meet its expenditure.

#### **2.2 History of Taxation in Ghana**

Income Tax Administration in Ghana started in September 1943. This was as a result of the passing into law of the income Tax Ordinance No. 27 on 22nd September, 1943 and the establishment of Income Tax Department. Over the years other taxes and duties were added to the income Tax Ordinance by way of amendments. These were:

- Minerals Duty 1952
- Betting Tax 1952
- Casino Revenue Tax 1952
- Property Tax 1961
- Entertainment Duty Tax 1952
- Airport Tax 1963
- Hotel Customers Tax 1963
- Standard Assessment and excess Profit Tax 1963

Pay As You Earn (PAYE) was introduced with effect from 1st July, 1961 and the tax year was changed from April - March to July - June. The tax year was again changed to January - December with effect from 1st January, 1983.

In July 1963, the Income Tax Department was renamed Central Revenue department to reflect the broad scope of taxes to be collected. All these years 1943 – 1985 the Department was a civil service department.

In July 1986, the Provisional National Defense Council (PNDC) government took a decision on structural changes in the organization and legislation.

The Internal Revenue Service (IRS) law — 1986 (PNDC 143) was passed. This law transformed the hitherto Central Revenue Department into a public service organization. Prior to the promulgation of (PNDC 143) in 1986 the government in 1985 established the National Revenue Secretariat (NRS) with a ministerial status to supervise the revenue Agencies. This role was performed with virtual autonomy from the ministry of finance.

In 1991, the National Revenue Secretariat was relocated under the ministry of Finance and Economic Planning (MFEP). With the coming into force of the constitution of the Fourth Republic the NRS lost its ministerial status and was placed strategically between the sector Ministry and the Revenue Institutions.

Further restructuring led to the promulgation of the Revenue Agencies (Governing) Board Act, 1998 (Act, 558) as a Central governing body in place of the existing governing boards of IRS, CEPS, and VATS. However, the Revenue Agencies Governing Board was constituted in the year 2001 to ensure supervision and co-ordination of the activities of the three Revenue Agencies.

### **2.2.1 Direct Taxes:**

These are taxes charged on income, profits or other gains and are deducted at source and paid directly to the tax authorities. Some direct taxes charged by Central Government are company tax, property tax, capital gain tax, stamp duties, gift tax and rent tax.

### **2.2.2 Indirect taxes:**

They are taxes on spending. They are charged when a taxpayer buys items and are paid to the vendor as part of the purchase price of the item. Purchase tax, export and import tax, excise duties, entertainments tax, licenses, value added tax and petroleum tax are indirect taxes charged by the Central Government.

## **2.3 Various Ways of Taxing**

### **2.3.1 Income Tax:**

Income tax assessments are computed for a tax year and are based on the taxpayer's aggregate income for that year from all sources, employment, investment and business ignoring any income which is exempt from income tax. The computation takes into account any tax-deductible payments made by the taxpayer's during the year and the taxpayer's entitlement to reliefs and capital allowances.

### **2.3.2 Corporate Tax:**

A tax levied by various jurisdictions on the profits made by company or association.

### **2.3.3Excise:**

Is a type of tax charged on goods produced within the country as opposed to import duties, charged on imported goods.

### **2.3.4 Property Tax:**

Capital tax on property imposed by municipalities based on the estimated value of property.

### **2.3.5 Import duties:**

These are tax on goods upon importation. When a ship arrives in a port a custom officer inspects the contents and charges a tax according to the tariff formula.

### **2.3.6Employment**

Government expenditure undertaken through tax revenue generates employment for millions of people in the economy. Many people are employed in the public sector, and other organs of the government because of the administration of the tax system. The government is the largest employer.

### **2.3.7 Trade Cycle:**

Many economies are subject to cyclical fluctuation in growth or in economic activities. There are periods of boom that alternate with periods of depression. When the economy is expanding towards boom, it is associated with high level of inflation. To reduce the rate of inflation, there would be the need for increase in direct taxes. This leads to a fall in disposable income. Demand will fall to slow down the inflationary pressure. When prices fall the rate of inflation will reduce. During depressions, government will reduce income taxes. This will increase disposable income. Demand will increase and this will stimulate production and lift the economy out of depression.

### **2.3.8 Production:**

Revenue from taxation can be used in direct production by the government. The governments can engage itself in agricultural plantation or in industries such as mining. These activities help to increase economic growth. The government can also reduce taxes on production or give tax incentives to producers to enable them produce more.

## **2.4 Functions of Ghana Revenue Service**

The functions of GRS are;

- To identify the taxpayer
- Assess the taxpayer to tax
- Collect the tax and penalties assessed
- Pay all amounts collected into consolidated fund.
- Collection of direct tax with income tax administrative purpose.

## **2.5 Impact of tax on National Development**

Taxation plays the following role in the national economy:

### **2.5.1 To raise revenue:**

Taxes, both direct and indirect are levied to raise revenue for the government to enable her meet finance its expenditure namely cost of general administration, defense, social services and infrastructural developments to mention but a few.

### **2.5.2 To protect infant industries:**

Protection is the surest way to make infant industries survive. Since, they are newly established and as such have not gained their feet to compete favorably with the foreign industries. To ensure that the local industries continue to operate to maintain employment and expand in future, the government imposes heavy taxes on imported goods so that their prices will rise above the locally produced goods. This will have the effect of stimulating the demand for locally manufactured goods and consequently leading to a growth in the industrial sector.

### **2.5.3 To redistribute Income:**

Through direct tax, the wide income disparity existing between the poor and the rich are reduced. A progressive tax system that takes more income from the rich and less from the poor usually does this. In this way, income has been redistributed since the gap between the rich and the poor before the imposition of the tax is bridged.

### **2.5.4 To prevent undesirable or Harmful good:**

It could be used to check or reduce the production, importation and consumption of certain goods considered to be undesirable or harmful to the health of the people or development of the country through imposing high taxes on them. The government deliberately imposes heavy indirect taxes on these goods so as to raise their prices and hence reduce their supply and demand.

## **2.6 Tax Evasion**

A deliberate attempt artificially carried to evade the payment of taxes. Tax avoidance is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable by means that are within the law. By contrast tax evasion is the general term for efforts to not pay taxes by illegal means.

## **2.7 Various Ways of Tax Evasion**

The following are the various ways of tax evasion;

### **2.7.1 Evasion of Customs duty**

Customs duties are an important source of revenue in the developing countries. The importers purport to evade customs duty

- a. Under-invoicing and
- b. Misdeclaration of quality and product-description.

Smuggling or exportation of foreign products through unauthorized route is resorted to for total evasion of livable customs duties as well as for importation of contraband items is a form of evasion.

## **2.8 CEPS Officials aid smugglers defraud Ghana of millions in revenue**

The Ghana flag is fluttering and flying proudly at full mast at Kofi Badu Krom border. The apparent diligence and commitment to the patriotic duty of serving mother Ghana with integrity was on shining display.

The coat of arms on their berets glittering in its entire splendor, these officers of the Customs, Excise and Preventive Service (CEPS) were in every sense a true reflection of the Ghanaian public servant's outward elegance. They are in pleasantly sharp contrast to the abrasive, intimidating and extortionist attitude of the Ivorian security people who seem to derive a special joy in erecting barriers and barricades.

Behind these broad smiles on the faces of some of these CEPS men, exists a complex web of rot and fraud under their happy supervision. The New Crusading Guide undercover reporter's hidden camera has caught the 'men in blue' (motion picture) neck deep busily helping the smuggling mafia to deprive mother Ghana of her needed revenue.

Not only that, the rot and bribery was so deep that our reporter who bought a truck full of (as an undercover businessman, Prince Agyei) and went through the secret smuggling



route through La cote d'Ivoire, had to pay Fifty Ghana Cedis (GH¢50) as bribe to bring the truck full of rice and other smuggled goods to Ghana. He posed as a business man registering and joining the smuggling syndicate who operate within Kwame Krom, Sie Krom, and Kofi Badu Krom in the Western Region of Ghana.

When Ghana government announced the long-anticipated and much —vaunted tax rebate on imported rice and other commodities in a bid to ease the squeeze on Ghanaians of the global economic crisis, little did the authorities know that it was an exercise in futility. It came too late and was, ironically, too scanty, notwithstanding how well-intentioned and carefully thought out. In fact, the package fell flat in the face, and far short, of the fantastic philanthropy that tax agents on the country's western border had been displaying long before.

As the undercover footage shows, CEPS officials started given rebate in Kofi Badukrom Kwame Sie Krom and Gono Krom, long ago. Effortlessly one could pay a paltry sum of (GH¢50 as “duty” at the Kofi Badukrom, Kwame Sie Krom and Gono Krom on a 40-foot container truck load of rice as this reporter did. At Kofi-Badukrom 15 cars arrived each day with smuggled rice from La Cote d'Ivoire, what this means is that, in three months 1395 trucks of rice are smuggled into Ghana without the appropriate duties being paid. Each truck carries over 400 bags of rice and other smuggled stuffs.

On the average however over one million bags of rice are smuggled into Ghana within 6 months.”Our job here is to offload the rice from one truck to the other, we load 15 to 20 truck of smuggled rice per day, and sometimes when we are loading we see other things at the bottom of the truck” Amakye one of the ‘goro’ boys told our reporter.

The New Crusading Guide also uncovered multiple acts of corruption by several officials holding post at Ghana's borders. These officers do not only aid criminals to smuggle several from Cote d'Ivoire and other neighboring countries but also extort money from people who do not have appropriate traveling documents. Instead of guarding our border posts with extreme watchfulness, these officials usually team up with smugglers to rob

Another Ghana of her due. They are mainly concerned with enriching themselves and see their work post as 'gold mines'.

Through several alliances *with* insiders in the rice smuggling trade, backed by sufficient to pay CEPS officials on guard, the New Crusading Guide was able to break into money the unapproved routes of the syndicate.

After beating several odds within the syndicate our reporter joined the smuggling syndicate and uncovered the illicit trade of these smugglers and their relationship with dubious CEPS officials. A copy of the video showing faces of the corrupt CEPS it officials has been given to the appropriate State institutions for action.

From Abidjan, the smugglers ply terrifying routes and pay bribe at every single Ivorian post. They then set off at 7pm, with many truck-loads of rice lined up along the road to start the journey into Ghana. Some of the smugglers head for Tamale, Kumasi and other part of the country. Most of the heavy trucks, our investigations revealed, are owned by the Ghanaian rice smugglers themselves.

At the Ghana border, CEPS officials were bribed (captured on video) by our reporter with assorted bottles of Exotic British wine, bags of rice and other assorted products. They finally extorted money from our reporter and other smugglers and granted them entry into the country with the smuggled rice, this happened on several occasions.

Although military men were at post, they normally drove in a military vehicle; looked at the smuggling syndicate and left. The Defense Public relations argues that 'it is the responsibility of CEPS to check smuggled goods, and that the presence of Military is a routine check up' Col Nibo told our reporter in a separate interview. CEPS would not comment on the story at all when the paper called for their side of it.

Another likely consequence of this disturbing trend is the proliferation of smuggled arms, drug and other illegal items into the country. 'Arms and cocaine pass through Kwame Sie Krom, Gono Krom and Kofi Badu krom hidden in rice sacks but nobody checks them

once you can pay enough to the CEPS guys there' Tony Kpogah (not his real name hinted the paper) a deep throat whispered to this paper.

**Source: TheNewCrusadingGuide**<http://ghanabusinessnews.com2009/05/05/ceps-officials-aid-smugglers-defraud-ghana-of-millions-in-revenue/comment-page-1/>

## **2.9 Evasion of VAT**

Customers who purchase items from black markets or untaxed jurisdiction are in fact breaking the law in most cases because they avoid VAT.

## **2.10 Corruption by tax Officials**

Corrupt tax officials cooperate with the tax payers who intend to evade taxes. When they detect an instance of evasion; they refrain from reporting in return for illegal gratification or bribe. Corruption by the tax officials is a serious problem for tax administration in a huge number of underdeveloped countries.

## **2.11 Role of middlemen**

It is often alleged that tax lawyers and chartered accountants help taxpayers including firms and companies in evading taxes.

## **2.12 Ex Boss Up For Tax Evasion**

The former head of internal audit at the South African Revenue Service (Sars) is expected to face tax evasion charges in the Johannesburg magistrate's court on Monday.

Edward Mmbulungeni Mushanganyisi, who was appointed the head of internal audit in September 2001, was suspended in July 2003 following allegations of misconduct, said Sars spokesperson Adrian Lackey.

This included a charge that he only appointed candidates from a recruitment agency called Izwe Labantu and that he received kick-backs from placement fees. The Special Compliance Unit, now known as the National Enforcement Unit, investigated the allegations and a disciplinary inquiry followed.

The internal inquiry found Mushanganyisi guilty of corruption related to his relationship with Izwe Labantu.

He was also found guilty of creating another recruitment agency, Glory of the Nation, in the name of his wife and mother-in-law, by forging the signature of a manager in the internal audit department.

The internal inquiry also found Mushanganyisi guilty of a third charge of tax fraud for submitting fraudulent information on the business kilometres he travelled. He was dismissed in 2004 but appealed the decision at the Commission for Conciliation, Mediation and Arbitration (CCMA).

However, the CCMA dismissed the matter, which was before the commission from August 2005 to February 2008.

‘The matter was then handed over to the Scorpions for further investigation and now a criminal case has been brought against him,’ said Lackey.

Mushanganyisi is facing two charges of tax evasion related to fraudulent travel claims in 2001 and 2002.

### **2.13 Europe and Tax Evasion**

Taxation is based on mutual trust between citizens and government. Governments collect taxes and in exchange provide services, from civil and military protection to housing and sanitation.

But revelations that hundreds of wealthy and prominent Europeans have been hiding vast sums for years in secret Liechtenstein bank accounts has caused heated public debate, particularly in Germany, where doubts are emerging about the fairness of the tax system. The wealthiest “feel they can choose to pay taxes”, says Will Hutton, author and chief executive of the UK-based Work Foundation. He points to “culture of entitlement” among Europe’s elites.

But many commentators feel it is justifiable for people to minimize their tax bills, and question rather to what extent paying taxes, in particular high taxes, is justified.

Germany has one of the highest personal and corporate tax rates in Europe, and as a percentage of GDP, Britain's tax rate is now one of the highest in Europe, according to Stephen Coleclough of the European Fiscal Confederation.

"Taxation is not a natural law," says Coleclough, who calls taxation a "carve out" from human rights, since governments are the only entities that are legally able to take one's property.

## **2.14 Beyond Compliance**

For tax advisers, who have a clear interest in easing the tax burden of their clients, decisions on where to draw the line between mitigation and evasion are usually not based on whether or not taxation is moral or justifiable.

The ethical guidelines of the "big four" tax advisory firms — Deloitte, KPMG, PricewaterhouseCoopers and Ernst & Young — are based on a respect of the letter of the law of a given country and devoid of any potentially vague language on the ethics of mitigation.

Ernst & Young, for example, in its global code of conduct promises to "uphold the professional standards and rules applicable to us", and to "actively work with the regulators who oversee our professional conduct to ensure that these rules and standards meet the continuously changing needs of the market".

Nonetheless, ethics is a sensitive issue for many advisory firms, at least from a public relations standpoint. Most of the big four were reluctant to discuss their approach to ethical conflicts that arise in day-to-day dealings with clients. KPMG's German office, for example, refused to comment on any issues related to tax evasion and the Liechtenstein affair.

One tactic may be to avoid the issue entirely when offering tax advice. "Ethics don't enter into it," says John Whiting of PricewaterhouseCoopers in London. Rather, decisions on whether or not certain mitigation strategies are advisable or not are based on an assessment of the legality

and risk of a given strategy, both in terms of government scrutiny and the risk for public relations fallout.

If client and adviser agree that the risk of a given mitigation tactic is higher than the likely returns from such mitigation, the strategy will not be recommended, says Whiting.

But while an assessment of risk may help tax advisers keep themselves and their clients in the “safe” zone, avoiding legal grey areas remains a challenge. “Laws are inherently ambiguous,” says Coleclough, who notes that the law allows for “all kinds of arrangements not to get taxed”.

Meanwhile, “governments are muddying the waters” between legal mitigation and illegal evasion, says John Plender, the Financial Times columnist and co-author of “All You Need to Know about Ethics and Finance”. Plender says more open borders, economic integration and increased professional mobility are putting governments under greater pressure to crack down on tax evaders, especially as public expenditure as a percentage of GDP increases.

Critics fear that in such an environment, tax advisers may increasingly find themselves in the dilemma of having to compete on the basis of their ability to lower a client’s tax burden without breaking laws.

## **2.16 An European Dilemma**

While open borders mean increased trade flows and economic opportunities, they also mean that individual states are subject to increasing tax competition with their neighbors. Key members of the European Union such as France, Germany, Luxembourg and Italy have, unlike the UK, eliminated border posts to control what goes in and out of their countries, as part of the famous Schengen Agreement.

Meanwhile, tax havens such as Monaco and Liechtenstein, which border EU member states, have been more than willing to help the wealthy evade governments’ quests to bring in more revenues, silently depositing huge sums of foreign nationals’ money in their banks in exchange for strict banking secrecy.

While precise figures are unknown, European Union governments may be losing up to €100 billion annually to tax evasion, with Germany and the UK's annual losses estimated at about €30 billion each.

Attempts are being made to address the situation. Berlin's recent decision to pay €5 million to a Liechtenstein informant in order to gain access to a list of wealthy German tax evaders was a watershed, a clear break with previous policy.

Broad support for the move from other European governments may also be an indication that political will is growing to bring Europe's tax systems more in line, to provide clarity and reduce contradictions between free trade and non-harmonized tax structures. However, in the short term, tax advisers, companies and individuals will probably continue to operate in an environment of legal uncertainty, with greater potential not only for risks, but also for tax-dodging opportunities.

### **2.17 China's Measures to Combat Tax Evasion**

The Chinese State Administration of Taxation has removed tax privileges afforded under various double taxation treaties to foreign investors who misuse the system of 'special purpose vehicles' as a means of reducing their tax liabilities or circumventing exchange controls.

Since the issue of Tax Notice 81 of February 20, 2009 there have been a number of cases where the non-resident status of these entities has been disregarded for tax purposes.

The Special Purpose Vehicle (SPV) allows foreign investors, who create business ventures with local partners in China, two main tax advantages - to apply withholding tax on dividends remitted abroad at a lower rate where this applies under an applicable double taxation treaty and exemption from Chinese capital gains tax on sale of their holdings.

At present tax on dividends in China is at the rate of 10% but Singapore and Hong Kong double taxation treaties allow this to be reduced to 5%. Lower treaty rates also apply for Mauritius, Barbados and Ireland.

The tax authorities are now empowered to scrutinise not, just the form but also the substance of the ownership structures of SPVs to satisfy themselves that the investors have bona fide residence in the tax havens and that the SPVs are not merely established for the purpose of avoiding tax or remitting funds out of China.

Many Chinese expatriates, who form the largest group of foreign investors, still maintain close family ties within China, and the actual tax domicile of many such people and their businesses can get clouded. The most often cited cases of intervention to remove SPV tax privileges have involved Chinese expatriates deemed to be de facto PRC resident.

The deemed abuses came to the attention of the authorities in processing exchange control and other reporting formalities. However treaty abuse, using tax havens such as the Bahamas where none of the parties had any obvious connections in terms of actual residence or economic presence, has played a role too.

Notice 81 imposes certain conditions for remitting dividends overseas at preferential withholding tax rates, namely:

- The recipient must be properly tax resident of the respective treaty country and be the beneficial owner of the dividend.
- The dividend must qualify as a dividend under Chinese tax law.

The SAT has the right to set further conditions. Since the implementation of anti-tax avoidance measures has only started recently with regard to SPVs, it remains to be seen how strictly the requirements will be interpreted.

## **2.18 Combating Tax Flight: Ending Evasion and Reducing Tax Avoidance**

Though this is in the Monterrey consensus, it hasn't been a major focus since. But it has recently gained momentum, in both developed and developing countries.



Tax evasion undermines developing countries efforts to raise resources, and developed countries' aid. Loss is around \$500bn per year. Instead of being used to meet MDGs, the money goes to tax havens. This injustice must end. We must make this a major issue: it's a common agenda for developed and developing countries. Developed countries are losing a similar amount.

Donors need to help developing countries establish transparent and efficient tax systems to (a) make tax evasion impossible and (b) to close loopholes to stop tax avoidance.

Developing countries often lack the resources to keep up with complex international capital transactions. This links to the credit crisis - we have global movements of capital, but no real rules or regulations. The question is how can international agreements help developing country's tax authorities and how can we use forums to strengthen best practices? This also creates a new relationship between governments and tax payers; helps to create responsible and accountable governance. Germany wishes to take action on tax evasion, and would like to discuss an international tax compact, and to develop new cooperation at national, regional and international levels. The credit crisis gives us new opportunities; now everyone is in favour of better regulation.

## **2.19 Uganda Fights Tax Evasion**

The parliamentary committee on trade is currently considering a petition filed by Kampala City Traders Association against the increase of trade license fees.

The association, through the Central Division MP, Erias Lukwago, petitioned Parliament against Kampala City Council's (KCC) move to increase the fees. They are questioning the legality of the increment.

City traders were paying between sh100,000 and sh200,000 annually for the licenses, but last year, city authorities increased the fees to between sh360,000 and sh950,000. KCC last reviewed the license fees 11 years ago. Appearing before the committee, trade Minister Major General Kahinda Otaflire, argued that the fees increase was realistic in view of the prevailing economic situation. He argued that people working or running businesses in the city should be prepared to pay taxes if they are to get services from the city authorities.

Otaflire is right on the issue and the traders are not justified to resist the increment. Over the past 11 years, the economic situation has remarkably changed. Prices of most goods and services have more than doubled. The cost of service delivery has equally increased. Under the circumstances, KCC is also justified to review the taxes.

MPs on the trade committee must avoid the temptation of acting in a populist manner. They must consider the issue objectively. One of the serious problems the country is experiencing is the high rate of tax evasion. Companies owned by tycoons have been named among notorious tax defaulters, yet salaried employees are subjected to a big tax burden. Some business tycoons are granted generous and undeserved tax waivers. This is unfair.

Politicians should stop meddling in tax administration. Instead, they should sensitise citizens about paying taxes and then demand accountability in terms of services. All Ugandans should equitably share the tax burden.

## **2.20 2009 Target Revenue for Internal Revenue**

The Internal Revenue Service (IRS) is targeting revenue collection of over GH¢2 billion for this year 2009. The Service collected GH¢1 .2 billion last year, Major (Rtd) Daniel I Sowah Ablorh-Quarcoo, Commissioner of IRS who spoke to B&FT in an exclusive I interview in Accra, said the target is quite ambitious but was hopeful that it could be met.

He explained that to improve upon efficiency, the IRS has begun developing a tax management system to computerize the major business processes of registration, assessment, collection and accounts and network the whole of Greater Accra on Wide Area Network by the end of the third quarter of the year. The data centre, which is about 95 percent complete, is being built with a recovery centre in Kumasi. With the completion of the automation system, efficiency in tax administration will improve.

This will trigger the ability to access information, release staff from desk-work to increase field audit capacity, increase in-house communication, and — with tax clients- eliminate duplication

and offer transparency, improve data availability for efficient revenue forecast, impose standards across the service, intensify and make taxpayer education easy and accessible. The system, which will be web-based, will make provision for a clients' portal to encourage online filing and increase the level of voluntary compliance.

“The importance of ICT innovation as an efficient and effective tool for revenue mobilization for national development cannot be overemphasized,” he said. He indicated that the national revenue agency has failed to achieve success in its revenue mobilization efforts due to its manual system of operation. Available checks at the Registrar General

Department, show that there are 226, 760 self-employed registered in the informal sector, but it is sad to note that only 53, 352 are registered with the IRS and are being assessed to tax. Data management in a manual system is not only difficult but cumbersome and slow, and as a result many potential taxpayers are able to dodge the tax-net.

Major Ablorh-Quarcoo said the mandate of the IRS to identify and register taxpayers, establish a liability or assess them for tax, as well as efficient collection of tax and payment into the consolidated fund, has been faced with numerous challenges due to operation of the manual system. He explained the cumbersome manual system of revenue mobilization has created dissatisfaction and led to increased costs to tax clients, tax administration and the government.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter gives the general overview of the research methodology adopted for the study. This area covers the research design, research population, sampling techniques, data collection methods and the data analysis.

#### **3.1 Research Design**

Research designs are concerned with turning the research question into a testing project. The best design depends on the research questions. Every design has its positive and negative sides. Research design has been considered as a “blueprint” for research, dealing with at least four problems: what questions to study, what data are relevant, what data to collect, and how to analyze the results. (Westgard et al. 1998)

The research type and approach adopted for this study is exploratory, analytical and qualitative analysis. This is adopted because of the already existing facts. Existing information will make the work easy for analysis.

The research instruments used as a data collection tool for the study includes; self administered questionnaires and interviews. With regards to the questionnaires, both structured and unstructured types were used for the study.

The design of the questionnaires was mixed with both open and closed ended types of questions. This is so because, some of the questions required the respondents to give additional information and others demanded specific answers. Apart from the questionnaires used, interviews were also conducted as a collection tool to obtain information. Both structured and semi structured interview questionnaires was designed for the study.

### **3.2 Population**

According to Buame, S.C.K. (2006), the term population refers to the entire group of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested in studying. Thus population does not necessarily refer to people.

The staff of Ghana Revenue Authority – the Domestic Tax Revenue Division and the working populace in the Kumasi metropolis made up of traders and monthly salary workers constituted the population size for the study. This population was selected because, that was the only place where accurate information could be sought.

### **3.3 Sampling Techniques**

Sampling is that part of statistical practice concerned with the selection of a subset of individuals from within a population to yield some knowledge about the whole population, especially for the purposes of making predictions based on statistical inference. (Buame, S.C.K. 2006)

The sample size chosen for the study was 60. Out of this number, 45 individual workers were sampled and 15 employees of the Ghana Revenue Authority were also sampled. The purposive sampling technique was adopted since it allow qualified respondents to be specifically contacted to participate in the survey.

### **3.4 Data Collection Methods**

According to Saunders, et al (2003), it is better to use two methods of data collections within a study in order to project appropriately what the researcher's opinion are in relation to what the respondents are telling him. To this end, two types of questionnaires were designed for the study. Primary data was obtained using questionnaires and interviews. Two forms of questionnaires was administered; one for the staff of the Ghana Revenue Authority –DTRD and another for the general public. Both closed and open ended types was be used.

### **3.4.1 Questionnaires**

The questionnaire was designed to include both open and close ended types of questions. Two different sets of questionnaires were prepared. One set was done for the employees of the Ghana Revenue Authority -DTRD and the other set for the working public. The design was flexible with questions which were very easy to understand. In all, a total of 60 questionnaires were administered and 55 of them were retrieved. Enough written space was provided with regards to the open ended questionnaires to help respondents give adequate information on the question asked.

### **3.4.2 Face-to-face Interview**

An interview section was used when some of the employees of the Ghana Revenue Authority were busy and could not answer the questionnaires. Again, some of the workers in the informal sector were illiterate and therefore were unable to read and write, so an interview was conducted for them. Both Structured and semi structured interview questionnaires was designed for this purpose.

### **3.5 Methods of Data Analysis**

Analysis of data is a process of inspecting, cleaning, transforming, and modeling with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. (Bowerman and O'Connell, 2003)

The data/feedback obtained from the administration of the questionnaires and the interviews conducted was comprehensively analyzed. The self administered questionnaires were analyzed sequentially according to the arrangement of the questions that was provided in the questionnaires. The responses to the questionnaires and the interviews were analyzed using a three (3) step approach.

First, the primary data was put together and edited to remove all material errors and omissions by respondents. The data was then arranged in groups in relation to their commonalities as the next

step in the analysis process. The groups were then given codes to separate them by the use of alphabets and then tabulated. The data was analyzed by the use of descriptive statistic such frequencies and percentages.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.0 Introduction**

In order to verify the main points of the study, the views of individual workers and employees of Ghana Revenue Service - Domestic Tax Revenue Division (DTRD) were solicited through the use of self administered questionnaires and interviews. This chapter presents the findings and results of the study.

#### **4.1 Presentation of Findings**

The interviews conducted revealed information which was related to the study. Among them were the following;

#### **4.2 RESPONSE TO QUESTIONNAIRE FOR THE STAFF OF GHANA REVENUE SERVICE - DTRD**



**4.2.1, Table 4.1: Ranks of Officials and years of experience of the staff of Ghana Revenue Authority -DTRD**

Ranks	Number of Respondents	Years of Experience	Percentages (%) for no. of respondents
Principal Revenue Officers	3	6 and over	20
Senior Revenue Officers	2	6 and over	14
Revenue Officers	3	4 and over	20
Chief Inspector of Taxes	2	5 and over	13
Principal Inspector of Taxes	3	4 and over	20
Assistant Collector	2	5 and over	13
<b>TOTAL</b>	<b>15</b>	<b>30</b>	<b>100</b>

Table 4.1 shows that, out of the 15 respondents from the domestic tax revenue agency who answered the questionnaires, three of them are principal revenue officers with over six years work experience, two senior revenue officers with over six years experience, three revenue officers with over four years experience, two chief inspector of taxes with over five years of experience, three principal inspector of taxes with over four years of experience and two assistant collector of taxes with over five years of experience each were the respondents for the study. This means that information generated was accurate since most of the respondents have been with the service for more than 4 years.

**4.2.2** The researcher again wanted to know what class of tax is usually administered by the agency, either direct or indirect tax. The response is presented on table 4.2

Table 4.2: Taxes Administered By the Agency

Ranks	Number of Respondents	Percentage (%)
Direct Tax	5	33
Indirect Tax	10	67
Total	15	100

Source: field survey data

According to table 4.2, out of the 15 respondents contacted from the Ghana Revenue Authority-DTRD, five of the respondents representing 33% indicated direct tax as the main class of taxes collected by the agency whereas ten of them representing 67% indicated indirect tax as the main tax administered.

TABLE 4.3: Response to the question, what form of education do you give to tax payers concerning consequences of evading tax?

Ranks	Number of Respondents	Percentage (%)
Formal only	-	-
Informal only	-	-
Both	15	100
Total	15	100

Source: field survey data

In all, 15 respondents which represented 100% said both formal and informal forms of tax education are used. This signifies that indeed the various attempts by the tax agencies in educating the general public on tax evasion are having a positive impact on them.

#### **4.2.3 Response to the question “what are some of the reasons why people evade tax?”**

From the study conducted, it was revealed that people evade tax due to certain reasons being identified by the revenue institutions in the sub-sector of the Ghanaian economy. The following are the reasons why people evade tax in the Ghanaian economy. Most of the Ghanaian citizens find it unpleasant in paying tax because they think that there are loopholes in the tax system.

- Inability of paying tax as a result of the high imposition of tax rates.
- Insufficient profit by earned from day to day business.

- Lack of knowledge or illiteracy
- Tax payers are skeptical about the good use of taxes collected
- Wrong classification of goods
- Concealments of certain imports.
- Undervaluing of goods
- Not declaring the right quantity of goods
- Submitting Accounts which understates the profit of the business or individual.
- Refusing to register with the tax authorities.
- Failing to file vat returns and issuing tax invoices.
- Improper record keeping.
- Giving false information to tax officials.
- Logistic constraints.
- Inability of tax authorities to monitor the tax system.

#### **4.2.4 Response to the question “what problems do you encounter when collecting revenues for national development?”**

The following were the problems identified from the study by the Ghana Revenue Authority-DTRD

- Lack of logistics.
- Political interference
- Concealment of profit
- Unwillingness on the part of taxpayers to pay the revenue tax

- Difficulty in tracing and identifying traders
- Lack of personnel
- Inadequate periodic training
- Illiteracy on the part of traders
- Improper record keeping
- Inadequate motivation to tax officials

#### **4.2.5 Response to the question “what mechanism has been put in place to identify people who evade taxes?”**

The research conducted revealed that the domestic tax revenue agency has measures in place to combat tax evaders. Among the five officers contacted from the agency, the mechanisms are:

- Collectors move from shop to shop identifying filers and non-filers.
- Critical examination of returns to identify areas where evasion is tempted.
- Regular monitoring of operations of tax.
- Monitoring of imports and exports
- The use of vehicles and general goods tax force
- Post clearance audit
- Regular inspection of premises and warehouses.

#### **4.2.6 Response to the question “what measures have you put in place to increase compliance and creating awareness on the penalties associated with tax evasion?”**

The research revealed that the domestic tax revenue division use points listed below to enhance tax compliance and also increase the awareness on the penalties associated with tax evasion. The measures are:

- Intensive tax education
- Public seminars held periodically to sensitize the general public
- Stakeholders forum
- Awards to deserving trader
- Issuing of demand notices to tax payers

### 4.3 RESPONSE TO THE QUESTIONNAIRE FOR THE WORKING PUBLIC

#### 4.3.1, Table 4.4 Profile of Respondents

Level of Education	Number of Respondents	Total
Middle School Level	16	45
Tertiary	14	
Professional	8	
None	7	
Retirees	9	45
Public Worker	17	
Private Sector	19	
Males	21	45
Females	24	

Table 4.4 presents the profile respondents from the working population showing their level of education and gender. From the table, 21 males and 24 females responded to the questions. 9

retirees with tertiary education, 17 public workers with both tertiary education and middle school education and 19 private workers with professional education, no education at all and middle school level education responded to the research questions which shows a fair representation of all the groups this research.

#### **4.3.2 Response to the question “are you aware of tax evasion?”**

Table 4.5 Awareness of tax evasion and the willingness to declare income for assessment

Questions	In Favour (%)	Not In Favour (%)
Are you aware of tax evasion?	71.5	28.5
Are you willing to declare your income for an assessment?	78	22

Table 4.5 shows that 71.5% of the respondents are aware of tax evasion and 28.5% are not aware and 78% of the working group is willing to declare their income for an assessment whilst 22% will not.



#### **4.3.3 Response to the question “Do you agree that tax contributes to national development?”**

Table 4.5: Contribution of Tax to National Development

Tax Contribution	Number of Respondents	Percentage (%)
Yes	40	100
No	-	-
Total	40	100

Source: field survey data

Table 4.5 shows that, all forty respondents contacted representing 100% were of the view that taxes are essential ingredients for national development.

#### **4.3.4 Response to the question “do you pay tax frequently?”**

Table 4.6 Consistency in Paying Taxes

Consistency	Number of Respondents	Percentage (%)
Recently	35	87
Long time ago	5	13
Total	40	100

Source: field survey data

According to table 4.6, thirty five (35) respondents representing 87% had paid their tax recently whereas five (5) of them representing 13% could not even recollect the last time they paid tax

#### **4.3.5 Response to the question “Is revenue from tax effectively utilized?”**

Table 4.7 Effective Utilization of Tax

Utilization	Number of Respondents	Percentage (%)
Yes	10	25
No	30	75
Total	40	100

Source: field survey data

Ten respondents representing 25% were of the view that the utilization of tax in the country is effective. Thirty (30) of the respondents representing 75% said taxes collected are not effectively utilized. They were of the view that improvement on social amenities cannot be felt in each part of Ghana but rather restricted to some few areas.

#### **4.3.6 Response to the question “Do you have knowledge on tax evasion?”**

Table 4.7: Knowledge on Tax Evasion

Knowledge	Number of Respondents	Percentage (%)
Yes	40	100
No	-	-
Total	40	100

Source: field survey data

Table 4.7 shows that, out of the forty (40) respondents administered with questionnaire, all the respondents constituting 100% said they had knowledge on tax evasion and its effect on national development.

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This chapter repeat in less detail the major findings of the study, summarizes the main points of the study and recommendation made on the basis of the results of the findings.

#### **5.2Summary**

The study was undertaken to explore the effect of tax evasion on the Ghanaian economy. In Ghana, tax plays a very important role in the development of the country. The government of Ghana obtains 75% of its revenue from taxes to finance her numerous expenditure (Ambala 2008). The Domestic Tax Revenue Division is responsible for the collection of direct tax in Ghana which falls directly on incomes of persons and companies.

The study identified both formal and informal means of education used by the division to educate tax payers on the effects of tax evasion and the penalties associated with it. Even though most of the respondents are not consistent in their payment of taxes and also do not agree that taxes are effectively utilized in Ghana, all of them were in agreement to the fact that taxes are essential tools for national development. All the respondents had fair knowledge about tax evasion and its effect on national development even though most citizens evade tax in various forms.

The study revealed the challenges encountered by the domestic tax revenue division in their quest to increase government revenue through taxes as lack of logistics, political influence, difficulty in tracing and identifying traders, lack of personnel, inadequate training, illiteracy on the part of traders and political interference as challenges which are faced by the division.

Self administered questionnaires and interviews were the tools used to collect data from the respondents from the staff of Domestic Tax Revenue Division (DTRD) and individual workers. In all 65 questionnaires was sent out and 55 was retrieved representing 85% of the respondents. This means the research is fairly represented. SPSS version 17 was used for the data analysis.

### **5.3 Conclusion**

Taxation is an effective tool for national development as confirmed by all the respondents but tax evasion is still rampant in both developed and developing countries. Tax evasion undermines developing countries efforts to acquire capital resources.

The research revealed the various reasons why people evade tax even though they believe taxes are linked with economic growth and development. The research revealed that an intensive educational campaign by the Ghana Revenue Authority in the form of both formal and informal means should be used. Again it was noted that tax evasion was aided by corrupt tax officials at the domestic tax revenue division of the Ghana Revenue Authority.

Further research will focus on developing mechanisms that will expose potential tax payers and tax evaders from time to time.

### **5.4 Recommendations:**

The findings of the research revealed that tax evasion has a negative effect on economic growth and development. Based on the findings and conclusions drawn from the findings, we recommend the following to the public, individual workers and the Domestic Tax Revenue Division (DTRD).

#### **5.4.1 Qualified Staff**

The DTRD should employ enough staff with the requisite qualification and offer them good remuneration to serve as motivation for efficient performance.

#### **5.4.2 Education**

The Domestic Tax Revenue Division (DTRD) should embark on massive public education to sensitize the populace on the need to file their returns for tax through the print and electronic media. Since the public is made up of individual workers and prospective ones, understanding why they should not evade tax.

#### **5.4.3 Logistics**

The offices should be adequately resourced to help them perform their work effectively. Logistics like vans and motor bikes to transport the tax officials around, computers to input data, enough budgetary allocation and all other logistics necessary to support the work should be made available to tax officials.

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## **APPENDIX [A]**

### **CHRISTIAN SERVICE UNIVERSITY COLLEGE KUMASI DEPARTMENT OF BUSINESS ADMINISTRATION**

The researcher is a student of Christian Service University College, Kumasi. This research deals with the exploratory study of tax evasion and the resulting impact on the economic development of Ghana. Please respond to the question below by ticking the appropriate answer among the alternatives provided or provide brief answers where necessary. You are assured that the information provided is for academic purpose and would be treated confidently.

1. What is your rank?

---

2. What is your area of specialization?

---

3. Which branch?

---

4. How long have you been working at your present position?

---

5. What class of tax is usually administered by your agency?

Direct tax (    )              Indirect tax (    )

6. What are some of the reasons why people evade tax?

i. 

---

ii. 

---

iii. 

---

iv. 

---



7. What ways do people evade tax?

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

iv. \_\_\_\_\_

8. What form of education do you give to tax payers concerning consequences of evading tax?

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

iv. \_\_\_\_\_

9. What problems do you encounter when collecting revenue for national development?

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

iv. \_\_\_\_\_

10. What mechanism has been put in place to identify people who evade taxes?

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

iv. \_\_\_\_\_

11. What measures have been put in place to increase compliance and creating awareness on the penalties associated with tax evasion?

i. \_\_\_\_\_

ii. \_\_\_\_\_

iii. \_\_\_\_\_

iv. \_\_\_\_\_

## APPENDIX B

### QUESTIONNAIRE FOR THE WORKING PUBLIC

1. Age; 18-30 ( ) 3 1-45 ( ) 46 and above ( )
2. Gender; male ( ) female ( )
3. What is your level of education?  
A) Middle school leaver ( ) B) Tertiary ( ) C) Professional ( ) D) None ( )
4. Are you  
  
A) retired ( )      B) public worker ( )      C) private sector ( )
5. Are you aware of tax evasion?  
A) Yes( )    B)No( )
6. Are you salary earn worker?  
A) Yes ( )    B) No( )
7. Do you pay tax?  
YES ( )      NO ( )
8. Will you willingly declare your income for an assessment?  
A) Yes ( )      B) No ( )
9. If the answer to question 12 is no. Why?

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10. Do you agree that tax contributes to national development?  
  
YES ( )      NO ( )

11. Do you pay tax frequently?

YES ( )      NO ( )      SOMETIMES ( )

12. Is revenue from tax effectively utilized?

YES ( )      NO ( )

13. Do you have knowledge on tax evasion?

YES ( )      NO ( )

14. When was the last time you paid tax?

RECENTLY ( )      A LONG TIME AGO ( )

