EFFECTS OF TAX EVASION ON THE GHANAIAN ECONOMY

(A STUDY ON SECOND HAND SHOE SELLERS IN THE KEJETIA RAILWAY IN

THE KUMASI METROPLIS)

BY

ALFRED KOFI BOATENG

KWASI A. PREMPEH EMMANUEL

MARFO STEPHEN

NANA OSEI ABIRI KOTOKO

OSEI BANAHENE

"A DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS

STUDIES, CHRISTIAN SERVICE UNIVERSITY COLLEGE IN PARTIAL

FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE

OF BACHELOR OF BUSINESS ADMINISTRATION" (ACCOUNTING OPTION)

JUNE, 2012

.

STATEMENT OF AUTHENTICITY

We have read the University Regulation relating to plagiarism and certify that this report is all our work and do not contain any unacknowledged work from any other source. We also declare that we have been under Supervision for this report herein submitted

Name	Index Number	Signature	Date
Alfred Kofi Boateng	10136131	…………………..	……………………
Kwasi A. Prempeh Emmanuel	10135215	…………………..	………………….
Marfo Stephen	10140758	…………………..	………………….
Nana Osei Abiri Kotoko	10136127	…………………..	………………….
Osei Banahene	10140762	…………………..	………………….

Supervisor's Declaration

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

Supervisor's Name

Ben Agyei Mensah(Dr.)   ………………………   ….………………..

Head of Department's Name

 Kwaku Ahenkora (Dr.)   …………………..   ….………………..

ABSTRACT

The revenue from taxation is what literally sustains the existence of the state, providing the funding for everything from social programs to infrastructure investment. However, taxing certain kinds of activities, sectors, or individuals- the so – called informal sector" – is an additional challenge for tax administrations in both developing and developed countries, and the "fiscal gap" that arises from the failure to tax this sector can be quite large.

The primary sources of data for this study were obtained from secondhand shoe dealers at Kejetia-Kumasi, by the using a set of questionnaires. Some of the major findings of the research proved that calculation of tax returns was complex and difficult for tax payers and tax agents who collect taxes on behalf of the GRA over-state tax rates and tax payers do not see the need to pay tax due to the fact that revenue accrued from taxes are not used meaningfully by the government.

DEDICATION

This project is dedicated to our great loving and caring parents and guardians who committed their resources and support towards our education to this level.

ACKNOWLEDGEMENT

TABLE OF CONTENTS

Contents   **Page**

CHAPTER ONE

INTRODUCTION

CHAPTER TWO

REVIEW OF RELATED LITERATURE

CHAPTER THREE

METHODOLOGY

CHAPTER FOUR

RESULT OF STUDY

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

1.1   INTRODUCTION

Tax avoidance is the utilization of the legal of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are with the law. By contrast tax evasion is the general term for effort to not to pay tax by illegal means. According to the former British chancellor of the Exchequer Denies Healey, the difference between tax avoidance and tax evasion is the thickness of a prison wall.

Tax evasion is a phenomenon that is present in all societies using Government expenditures. There is a huge body of literature on the estimate of its extent to give an impression of its magnitude: the Ghanaian tax agency GRA (Ghana Revenue Authority) estimates that Ghana tax gap amounts to 17% ($95.3bn) of taxes owed for 1992(GRA 1996).

Tax evasion through avoidance of the inflation tax cause the growth rate to decrease the inflation rate rise, and to decrease a decreasing rate, Gillm and Kejak (2005 a, b). Evidence tends to support such a nonlinear profile, shoeing a more negative marginal growth effect the lower is the inflation rise. As the tax rate raises and the shadow price of consumption rises, the consumer becomes increasingly sensitive to money use, and so increasingly uses credit as a means of tax avoidance to substitute away from the taxed good. Set within endogenous growth, the tax avoidance via credit causes the negative growth effect of the tax to be less.

Margaret Wilkinson (1992) defines tax as confined to compulsory unrequited payment to the Government. It has again been defined by Wernet Sichee (1974) as a system of payment that the individual and the firms are legally required to pay to the government.

1

Also, Hardwick Khan (1994) defined tax as the compulsory transfer of money from private individuals and groups of institutions to the government. In effect, taxes are compulsory payment made by individuals, companies and business organizations under force without regard to the specific benefits that the tax payer may receive but rather used towards the improvement of the common good of the citizens and the Nation as a whole.

As a matter of fact, taxation plays tremendous role in every country. It helps the government to raise revenue to be able to fund projects for development. The original purpose for raising taxes was to finance public expenditure, Bill and David Murphy (1988-1989). Whilst this obvious remains the main tools used by the economy. Apart from serving a monetary policy to further certain economic aims of the government balance of payment, fighting inflation and engender economic growth.

In most developing countries, tax administration has been relegated to the background whilst tax policy (choice of tax) has rather attracted much attention.

For example, in Ghana, one of the greatest problems that have come to force so far as tax administration is concerned is that of tax evasion. Tax evasion refers to the willful or deliberate refusal of the tax payer towards his/her tax obligation. It is the deliberate distortion of facts and figures relating to an assessment after tax liability has been incurred with the intention of reducing the liability. Deliberate refusal to disclose one's tax sources of income to the tax authorities with the intention of paying nothing or something less in terms of one's tax liability is an attempt to evade tax. Tax evasion is an offense as described by the law and so the sanctions are very severe. According to the tax law, every person chargeable with tax for any year of assessment shall deliver to the commissioner a return disclosing all sources of

income available to him or her and that the returns should contain a declaration that it contains true and accurate statements of the amount of income and that the particulars given in such a return are true and accurate.

This means that, where a small-scale businessman/woman pays tax but he/she has been engaging in other income generation activities, that other sources of income should be made known to the commissioner. Failure to do this will amount to tax evasion.

1.2 BACKGROUND OF THE STUDY

Tax is a system of payment that individuals and firms are legally required to pay to the government. It is a compulsory transfer of money from private individuals and groups of institutions to the government. Alm and Martinez-Vasquez (2007) have made it known that most people do not like to pay taxes, and, because of this fundamental reason, it is hard for tax administrations to levy and collect taxes anywhere and anytime. However, taxing certain kinds of activities, sectors, or individuals – the so-called informal sector" – is an additional challenge for tax administrations in both developing and developed countries, and the "fiscal gap" that arises from the failure to tax this sector can be quite large.

Tax evasion refers to a deliberate refusal of a taxpayer towards his/her tax obligation. Deliberate refusal to disclose one's sources of income to the tax authority with the intention of paying nothing or something lesser in terms of one's tax liability is an attempt to evade tax. Thus, according to Gërxhani and Schram (2001), literature provides various definitions of tax evasion, there is a common idea underlying them. The term tax evasion simply refers to the underreporting of taxable money income with the intention to escape taxes.

Tax evasion is a phenomenon that is present in all societies using taxes to finance government expenditures. This is due to certain factors which include ignorance and non-compliance on the part of taxpayers, poor standard of record keeping and incorrect returns made by small scale businesses. Hence drastic measures should be set and implemented to be able to fund development projects. As Chen (2003) posit, the provision of public services offers a rationale for taxation. Hitherto, taxation and tax evasion, in turn, influence public expenditure and capital accumulation, which affect output and economic growth.

It has been noted that tax evasion is directly linked to large budget deficits and hence to lower investments in public goods. Besides being of general interest from an economic point of view, this means that the effects may differ significantly depending on the level of development of a country, Gërxhani and Schram (2001). There is therefore no denying the fact that tax evasion is inimical to a country's economic development with references from the above assertions.

1.3 PROBLEM STATEMENT

The incidence of taxation and the prevalence of tax evasion are vast and cannot be underestimated. Since centuries past, tax evasion, by its very nature, is difficult to observe Fisman and Wei, (2001). This is evident in the fact that 'during the third century, many wealthy Romans buried their jewelry or stocks of gold coin to evade the luxury tax, and homeowners in eighteenth-century England temporarily bricked up their fireplaces to escape notice of the hearth tax collector, Webber and Wildavsky, (1986) in Slemrod, (2007). Thus, they went further to state the history of taxation is replete with episodes of evasion, often notable for their inventiveness.

Our present generation is not left out of the prevalence of tax evasion. Tax evasion affects the distribution of the tax burden as well as the resource cost of raising taxes. The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses, Franzoni (1999). It has been shown by Gemmell and Morrissey (2003) that, in seeking to identify how much tax each person pays, it is important to distinguish between the 'statutory incidence' (the legal liability to pay the tax) and the economic incidence, which in practice is often the belief regarding who ultimately bears the burden of the tax. Tax evasion affect the ability of those legally liable for various taxes to shift these as traditionally assumed. Tax evasion does affect incidence but is difficult to incorporate.

Related to the above, Soos (1991) stated that as well as leading to revenue losses, a tax system characterized by widespread noncompliance places an unfair burden on honest taxpayers. Hence, tax evasion by some may lead to tax evasion by others, causing a further loss of revenue. If the government compensates for the loss by raising rates, tax evasion becomes even more attractive. The higher rates in effect penalize honest taxpayers, who comply either because they want to or because they have no opportunities for evasion. If the government, however, takes effective steps to prevent or combat non-compliance, it can raise revenue without increasing taxes or reducing spending.

Therefore, knowing tax evasion is not enough but also identifying the causes and the effects it has on the economy of Ghana. More importantly the informal sector, which is sometimes, termed the 'underground economy' by some writers. This sector is beset with a lot of tax malpractices such as deliberate under-casting of figures, substandard recording methods, etc, which creates a vacuum for tax administers to identify the exact to be paid by an individual or

businesses. And this must be fulfilled and solutions found to help to forestall or minimize tax evasion.

1.4 OBJECTIVES

The aim of the study is to investigate and identify the effects of tax evasion on the Ghanaian economy. The objectives are:

1. To investigate how taxes are evaded in Ghana.

2. To examine the effects of tax evasion.

3. To identify the determinants of tax evasion.

4. To identify how to control that can help curb tax evasion.

1.5 RESEARCH QUESTIONS

The study sets out to answer the following questions:

1. How do traders and businesses evade tax?

2. What are some of the reasons why traders and businesses evade tax?

3. What are the economic costs of tax evasion in Ghana?

4. What measures can be put in place to reduce tax evasion?

1.6 ASSUMPTIONS

1. Traders and businesses evade tax due to loophole in the tax net

2. Traders evade tax because of ignorance and non compliance

3. Traders evade tax because of poor standards of records keeping and incorrect returns

4. Reduction in amount to be paid as tax would help avoid tax evasion

1.7 JUSTIFICATION

The study is reasonable on the basis that it would serve as good grounds for theory development which would give insight that would be useful in relation to other interventions for tax administration in Ghana and to add to knowledge by eliciting views on the effects of tax evasion on the Ghanaian economy. This would be a useful resource which would be beneficial to individual tax administrators, the government and the academia.

Additionally, this paper is justified on the grounds that it will provide recommendation for further studies on the effects of tax evasion on the Ghanaian economy due to the fact that, there is no research that is exhaustive enough to cover the problem to be studied.

Last but not the least, this study is also justified once again on the premise that it would serve as very useful reference for students, government, institutions and individuals.

1.8 METHODOLOGY

The researcher will adopt a case study as the type of research design for the study, in which simple random sampling survey technique with questionnaires will be used to investigate the key effects of tax evasion on the Ghanaian economy in perspective.

The primary data will be collected using a set of questionnaires. The secondary data, on the other hand will be drawn from existing related literature, articles, journals, information from the internet, etc.

The research design combined primary and secondary research as already stated, where the primary research consists of a set of questionnaires. The questionnaires will provide good insight relevant to this research.

Based on time constraint, a selected number of 50 secondhand shoe dealers will be selected from a population of about 415 secondhand shoe sellers, to which the set of questionnaires will be administered.

1.9 SCOPE AND AREA OF THE STUDY

The scope of the study is the Kumasi-Kejetia secondhand shoe dealers section. The profile of the area will be focused on as the perspective of the study. Kumasi's population was 1.9 million according to Ghana Statistical Service: (2000). Kejetia is the hub and nerve-centre of buying and selling in the Kumasi metropolis. Found in the middle belt of the country, Kejetia attracts people who come from all the corners of the country to buy and sell.

1.10 LIMITATIONS OF THE STUDY

The finding of the study is limited because the research is focused on the operations secondhand shoe dealers at the Kumasi Central Market, popularly called Kejetia. However, it is noted that not all the secondhand shoe dealers at the Kumasi Central Market have formal classroom education. And those of them who are, are semi-literates and drop outs. Thus, the respondents are unable to read and give in-depth information on the topic. This limits response rate of some questions which are geared toward eliciting technical information from respondents. And also, secondhand shoe dealers will usually unwilling to disclose some vital information that will make it vulnerable for tax compliance. Therefore, not all the required information will be given.

1.11 ORGANIZATION OF THE STUDY

This research thesis is organized into five (5) chapters as follows:

Chapter one includes the general introduction which provides a background overview of the study. It discusses the problem statement, the objectives of the study and its assumptions, the scope of the study, justification of the study. It also looks at the methodology adopted for the study and the limitations of the study.

Chapter two examines some related literature on previous works done on the topic from a global perspective. It looks at the thematic areas stated in the objectives sought achieve.

Chapter three includes the methodology where the profile of the area under studies as per population and economic activities carried out. The research design and the sampling procedure for data collection are also under this chapter.

Chapter four involves a presentation, data analysis findings and discussion of the study. It presents findings of the study based on the information gathered from the field. It attempts to look at the research objectives by first describing the academic level of respondents.

Chapter five present a summary of the findings of the study. This chapter also presents conclusions drawn based on the findings of the study, and recommendations made for consideration.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 INTRODUCTION

The purpose of the study was to find out what could be done to reduce the problem of ignorance and non-compliance of tax evasion on the part of small scale business men/women in the Kumasi metropolis. This chapter examines some related literature on previous works done on the topic from a global perspective. It looks at the thematic areas stated in the objective.

2.1 THEORETICAL FRAMEWORK OF THE STUDY

There is no denying the fact that there is the need for provision of basic infrastructure which is necessary for development and growth of any society. This perhaps explains why governments all over the world show great concern for a means through which funds can be made available to achieve their set goals for the society. Governments evidently, need funds to be able to carry out their social obligations to the citizenry. These social obligations are necessary but are not restricted to the provision of infrastructure and social services, Fagbemi et al, (2010). As a matter of fact, meeting the needs of the society call for huge funds which an individual or society could not contribute alone. It becomes the responsibility of government to source for the funds to enable her provide these basic amenities to the citizenry who are the beneficiaries. One of the medium through which fund is derived is through taxation. Therefore, the citizens are expected to discharge their civic responsibility by paying their taxes as these contribute to the development and administration of the society at large Murkur, (2001); Fagbemi et al, (2010). This makes the payment of taxes a moral obligation.

In a ministerial meeting and roundtable of NEPAD-OECD on fiscal affairs, it was stated that, taxation is central to the current economic development agenda. It provides a stable flow of revenue to finance development priorities, such as strengthening physical infrastructure, and is interwoven with numerous other policy areas, from good governance and formalizing the economy, to spurring growth, NEPAD-OECD, (2009). The paper went further to emphasize that, taxation is an integral part of countries' development policies, interwoven with numerous other areas, from good governance and formalizing the economy, to spurring growth through, for example, promoting small and medium sized enterprises (SMEs) and stimulating export activities.

Taxation as Ogundele (1999) posits, it is the process or machinery by which communities or groups of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society. In a similar description, Soyode and Kajola (2006) explained tax as a compulsory exaction of money by a public authority for public purposes. Nightingale (1997) described tax as a compulsory contribution imposed by the government. And Kohonen and Alemayehu, (2011) defined tax is a compulsory levy on privately held assets, work, transactions and other activities and flows as designated by the parliament and enacted by the government. These various authors concluded that it is possible for tax payers not to receive anything identifiable for their contribution but that they have the benefit of living in a relatively educated, healthy and safe society, Fagbemi et al, (2010). The parliament designates taxes according to its understanding of equity, while following the prevailing constitution, which also prescribes the purpose of taxation and confirms that the rightful ownership of tax receipts ultimately lies with the citizens Kohonen and Alemayehu, (2011).

In many ways the raising of tax revenues is the most central activity of any state. Most essentially, revenue from taxation is what literally sustains the existence of the state, providing the funding for everything from social programs to infrastructure investment, Prichard and Bentum, (2009). Of all the powers of government, other than its authority to declare war, none bears so incisively upon the welfare of citizens, both privately and in their economic enterprise, as does its power to tax. The effect of taxation is that subjects are forced to give up hard earned earnings or possessions, or, in the early days, also payments in kind, without receiving visible benefits in return, Coetzee, (1993); Theron, (1994); Lamont, (1992). Thus, of all the needs and the benefits accrued from tax, people evade tax.

Manuel (1999) has stated that the obligation to pay one's fair share of taxes as and when they fall due is part of the new morality which is in democratic governance. He stated that tax evasion and fraud are among the most insidious forms of criminality that plague… society and that million are diverted everyday by tax criminals. Tax evasion activities according to Bosco and Mittone (1997) are risky because there is a certain probability that tax evasion will be discovered and punished. As suggested by the portfolio theory, the taxpayer's choice will be affected by her/his preferences, - mainly by her/his attitude towards risk-taking - and by the return on the risky asset determined by the tax structure, which includes both the tax rate and the penalties in the case of evasion.

Tax evasion, by its very nature, as Fisman and Wei (2001) has revealed, is difficult to observe. Presenting a case study of tax evasion in China, they discovered a much disaggregated level of individual products that measured evasion relatively precisely, by comparing the values that China reports as imports from Hong Kong, with what Hong Kong reports as exports to China. They were able to match up this 'evasion gap' with the tariff (and

VAT tax) schedule at the product level. Taxing certain kinds of activities, sectors, or individuals – the so-called "informal sector" – is an additional challenge for tax administrations in both developing and developed countries, and the "fiscal gap" that arises from the failure to tax this sector can be quite large. Even aside from the collection of tax revenues from taxing those in the informal sector, there are other important tangible effects that arise from taxing the informal sector Alm and Martinez-Vazquez, (2007).

The global public revenue level of numerous African countries, according to Araujo-Bonjean and Chambas (2003) is low and the tax burden is highly concentrated on modern sector firms. One of the most recent justifications for the low level of public revenue is the under-taxation of the urban unrecorded activities. This condition has made many countries in sub-Saharan Africa experience considerable difficulties in mobilizing public revenues. During the nineties, in order to alleviate these difficulties, the tax systems were simplified, modernized and adapted to the specific context of these countries. At the same time, particular importance was attached to improving tax administration. The results obtained are substantial as, despite the difficulties encountered in African countries, average public revenues in relation to the GDP remain similar to those of other groups of developing countries, Brun, Chambas, Combes, (2003); Araujo-Bonjean and Chambas, (2003).

2.2 THE EMPIRICAL BASIS OF THE STUDY
The existing literature also seeks to explain why some individuals may evade tax and its effects and consequences on the economy.

2.3 EFFECTS OF TAX EVASION

In seeking to identify how much tax each person pays, it is important to distinguish between the 'statutory incidence' (the legal liability to pay the tax) and the economic incidence, which in practice is often the belief regarding who ultimately bears the burden of the tax. Tax evasion affect the ability of those legally liable for various taxes to shift these as traditionally assumed. Tax evasion does affect incidence but is difficult to incorporate, Gemmell and Morrissey **(**2003).

 If the government compensates for the loss by raising rates, tax evasion becomes even more attractive. The higher rates in effect penalize honest taxpayers, who comply either because they want to or because they have no opportunities for evasion. If the government, however, takes effective steps to prevent or combat non-compliance, it can raise revenue without increasing taxes or reducing spending.

The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses, Franzoni, (1999). Provision of public services offers a rationale for taxation. Hitherto, taxation and tax evasion, in turn, influence public expenditure and capital accumulation, which affect output and economic growth Chen, (2003).

Some of transactions that are part of our daily routine are, either deliberately or accidentally, concealed from the tax authority Russo, (2010). Tax evasion and fiscal corruption have been universal and persistent problems throughout history with many-sided important economic consequences Fjeldstad, (1996). Hence, Gillman and Kejak (2006) argued that tax evasion is produced in a competitive decentralized corruption services sector. The consumer pays a

competitive market price for the service and as representative agent, owns shares in the corruption sector and receives its dividend profits (kickbacks).

Tax evasion has had a variety of fiscal effects and there are at least three reasons for concern. According to Fjeldstad (1996), in the first place, revenue losses from non-compliance and corruption become particularly significant at a time of substantial budget deficit. Second, horizontal and vertical equity suffer because the effective tax rates faced by individuals may differ because of different opportunities for tax evasion, Alm et al., (1991). Again, Shome (2005) stress that, an important adverse effect of tax evasion is perhaps on equity. There is horizontal and vertical inequity where in both forms of inequity, the higher-taxed person pays for the lower-taxed person since, had there been no tax evasion; the tax rates would have been lower under the premise of revenue neutrality.

Third, there is a growing concern about the expanding underground economic activities, and how these activities affect economic policies, Tanzi and Shome, (1993). Acts of corruption by tax collectors often play a role in promoting or sustaining underground economic activities and in facilitating tax evasion, Tanzi, (1994) : Tanzi, (1995). Tax evasion and fiscal corruption thus contribute to undermining the legitimacy of government. Furthermore, citizens' disrespect for the tax laws may expand disrespect for other laws.

Russo (2010) reported that, in Italy, one of the effects of tax evasion is loss of revenue to the government. Estimates from the Ministry of Finance indicate that roughly 20% of the income earned within the national border is not reported, resulting in a loss of more than 300 million euros every year in forgone tax revenue. This example is not an exception because it is prevalent across the globe. Marion and Muehlegger (2008) have added that lack of

compliance with tax laws are likely to alter the distortionary costs of raising a given level of government revenue and may affect the distributional consequences of a given tax policy. Furthermore, resources spent evading taxes represent a deadweight loss to the economy.

Another effect of tax evasion is discussed by Matsaganis and Flevotomou (2010) stressing that tax evasion raises significant issues from the point of view of efficiency. Shome (2005) added that tax evasion distorts economic efficiency. In sectors that are less subject to the administrator's scrutiny as in the informal economy, there will be more investment. Inefficiency lead to lower revenue intake for government, its functional capacity, efficiency and effectiveness suffer because of tax evasion. Capacity suffers due to lower availability of resources. Efficiency declines since important functions may have to be given less priority than others. And effectiveness declines as compliant taxpayers realize that government is unable or unwilling to take corrective action and, therefore, feel increasingly comfortable in joining the rest in the act of tax evasion (Ibid).

Lower tax revenues may ultimately lead to higher tax burdens on those who do pay. On the other hand, tax evasion has profound implications for distributional analysis. In terms of vertical equity, "if the poor had more opportunity of evading taxes than the rich, or were better at it, then the egalitarian policy maker might have good reason to smile indulgently on evasion: up to a point anyway" Cowell, (1987) in Matsaganis and Flevotomou (2010). However, tax evasion may soften rather than strengthen the redistributive impact intended by the tax schedule. Either way, ignoring tax evasion is likely to cause decision makers and policy analysts seriously to misjudge the distributive and fiscal effect of changes in social benefits and the tax system. It also leads to higher income inequality and poverty, as well as

lower progressivity (i.e. advancement toward better conditions, policies or methods) of the income tax system (Ibid).

Similarly, the unorganized sector may evade taxes much more easily than the organized sector. It is no wonder that, in the VAT where there is usually a threshold level below which taxpayers are not expected to keep detailed accounts, allowing them to pay a small percentage of their turnover as tax. Small taxpayers have remained very difficult to tax and maintain a constant presence in the list of administrative concerns, Shome, (2004) in Shome, (2005).

The result according to Shome (2005) could very well be an increase in tax rates, or the imposition of distortive taxes, thereby initiating a vicious cycle of inequity and inefficiency. Clearly, the escalation in tax rates or the imposition of entry taxes by many municipalities, turnover taxes in addition to the sales tax at the level of states or provinces.

2.4 DETERMINANTS OR CAUSES OF TAX EVASION

All modern contemporary societies are grounded on the compulsory payment of taxes. Hence, enforcement efforts are made everywhere to encourage tax compliance, Lago-Peñas and Lago-Peñas, (2010). Cummings et al., (2009) in their research discovered that, one of the more vexing problems for policy makers in developing and transition economies is encouraging high levels of tax compliance. Tax revenue as a proportion of GDP is typically much lower in developing countries than in rich countries. The difference in tax revenues between the poorest and the richest nations of the world is entirely explained by the weakness of direct taxation in developing countries. For instance, direct taxation represents 7% of GDP in sub-Saharan Africa and 22% in industrial countries. In comparison, indirect taxation in

developing countries is roughly 10% of GDP, which is the same level as in industrialized countries Auriola and Warlters, (2005). This clearly shows a low level of tax compliance in developing countries.

In his study on tax evasion in developed and developing countries, Herschel (1978) in Sookram and Watson (2005), pointed out that in developing countries,… tax evasion tends to be more widespread, since these economies are based on a few large enterprises, less wealthy people, low tax morale, reduced opportunities to resort to tax avoidance schemes and less use of tax practitioners. Schneider et al. (2001) define tax evasion as "an illegal reduction of tax payment (underreporting income or stating higher deduction rates)". Therefore, theoretical and empirical studies on tax evasion have shown that the factors that determine tax evasion are extremely diverse and include economic and sociological factors, psychological attitudes and administrative and legal issues, Sookram and Watson, (2005). Additionally, Jiménez et al. (2010) in their research have noted that, the causes of evasion identified by the case studies involve certain characteristics of the countries in the region, such as the large underground economy, the financial limitations of taxpayers and the high concentration of income.

The question that is asked is, 'Why do taxpayers evade paying taxes frequently despite the effects and consequences? One major tax evasion literature reviewed by Jackson and Milliron (1986) established fourteen (14) key determinants of tax evasion. These include: age, gender, education and occupation status (i.e. 'demographic' determinants), income level, income source, marginal tax rates, sanctions and probability of detection (i.e. 'economic' determinants), and complexity, fairness, revenue authority initiated contact, compliant peers and ethics or tax morale (i.e. 'behavioral' determinants). Richardson (2006) noted other

significant determinants of tax evasion which are denoted by education, income source, fairness and tax morale.

The question asked can be answered by considering the major determinants of tax evasion previously identified in the literature by Jackson and Milliron (1986) and also in Richardson (2006) where he provided the first detailed review on the topic. This study considered the effect of ten (10) of Jackson and Milliron's (1986) key variables: age, gender, education, income level, income source, marginal tax rates, fairness, complexity, and revenue authority initiated contact and tax morale.

In the first place, the literature revealed that, the chronological age of taxpayers is one of the most important determinants of tax evasion, Jackson and Milliron, (1986). Studies find that older taxpayers are generally more compliant than younger taxpayers, Tittle, (1980) in Richardson, (2006); Feinstein, (1991). Tittle (1980) in Richardson,(2006) explains the relationship between age and tax deviance as attributable to lifecycle variations and generational differences. Younger taxpayers are more risk-seeking, less sensitive to penalties (a lifecycle variation), and reflect the social and psychological differences related to the period in which they are raised (a generational difference).

Secondly, the gender of the taxpayers has been revealed to be important in earlier studies. For instance, Richardson (2006) shows that the compliance levels of female taxpayers are normally higher than for male taxpayers. Jackson and Milliron (1986,) argue that the compliance gap between females and males is decreasing over time as new generations of liberated women are emerging. However, studies of gender and tax evasion since Jackson and

Milliron (1986) tend to show that the compliance gap among females and males has been maintained.

Literature has revealed once again that educational attainment is another important determinant of tax evasion. It is more often than not, related to a taxpayer's capacity to understand and comply or not comply with income tax laws (Ibid). It has been argued by Jackson and Milliron (1986) that education has two elements: the general degree of fiscal knowledge and the specific degree of knowledge regarding tax evasion opportunities. They assert that by enhancing the level of general financial knowledge of tax compliance improves because of more positive perceptions about taxation.

Further, it has been noted that an increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance. On the other hand, the vast majority of studies examining the impact of education on tax evasion use a taxpayer's general education level as the approach to measure education, Richardson, (2006). Another research by Wallschutzky (1984) has discovered a negative relationship between the general education level of taxpayers and tax evasion.

Another key determinant of tax evasion according to Jackson and Milliron (1986) is income levels. It typically refers to the adjusted gross income or total positive income of a taxpayer. Witte and Woodbury (1983) in Richardson (2006) found that middle income taxpayers are usually compliant with tax laws, while low income level taxpayers and high income level taxpayers are relatively non-compliant with tax laws.

Income source usually refers to the type or nature of the taxpayer's income, Jackson and Milliron, (1986). Schmolder's (1970) in Richardson (2006) shows that when a large part of a country's labor force is engaged in agriculture and small trading, income and profit taxation is unsuccessful. Wallschutzky's (1984) survey research of tax evaders and non-tax evaders finds that the greatest opportunity to evade income tax exists from those who derive their income from agriculture, independent trades or self-employment. The least opportunity exists for those taxpayers whose source of income is dependent on wages or salaries subject to withholding, such as from the services sector.

Clotfelter (1983) researching on the topic "Tax evasion and tax rates: An analysis of individual returns" discovered that, marginal tax rates are another significant tax evasion determinant, but empirical results are mixed. In his findings, it was reported that there is a positive association between marginal tax rates and tax evasion, while Feinstein (1991) show a negative association between them. Richardson (2006) argued that not controlling for the correlation between marginal tax rates and income level may cause this variation.

Barth et al (2006) and Jackson and Milliron (1986) has noted that it is generally accepted that perceptions about fairness and tax evasion are associated. The importance of taxpayers 'perceptions' of fairness should not be underestimated. Richardson (2006) Richardson (2006) finds a significant negative association between fairness and tax evasion generally. Song and Yarbrough (1978) in Richardson (2006) also detect a significant negative association between these variables, with 75% of taxpayer subjects stating that the fairness concept of 'ability to pay' is more significant for tax evasion than is the 'benefits' concept. Moreover, it was discovered that fairness is considerably associated with perceptions of an improved tax system, and that fairness and tax evasion are negatively related.

Moreover, Richardson (2006) has argued that revenue authority initiated contact is another important determinant of tax evasion. In a major study of European tax structures, it was observed that while southern European countries have a long history of trying to improve tax compliance by strengthening enforcement, these same countries have the lowest tax compliance rates in Europe Jackson and Milliron, (1986). Research by Wallschutzky (1984) also supports this view.

Cummings et al (2009) has argued that tax morale affects tax compliance, while Jackson and Milliron (1986) stressed that tax morale is a rather vague concept because it describes the moral principles or values individuals hold about paying taxes. Early survey research by Tittle (1980) finds that the tax morale of individuals has a negative association with tax evasion. More recently, shows that tax morale and tax evasion are negatively correlated.

2.5 CONTROLLING TAX EVASION

The role of tax administration in maximizing revenue generation and minimizing tax evasion cannot be over-emphasized. These remain challenging tasks at every stage of development of a tax administration. This is because it is not just a matter of maximization or minimization but, rather, one of optimization, Shome, (2005).

The strategies which could be utilised by governments to address the problem of tax evasion, can be categorised into those which define and criminalise tax evasion (for example, anti-avoidance legislation), those which punish evasion (revenue powers), those which forgive tax evaders and allow them to re-enter the formal economy (settlements and amnesties), and those which appeal to, or seek to, create group norms of compliant behaviour (naming and shaming) Oberholzer, (2007). Shome (2005) also stated that, there has to be a genuine threat

and actual carrying out of audit, scrutiny, investigation, penalty and punishment for an errant taxpayer. However, regarding this issue, Lewis (1982) cited in Oberholzer, (2007) is of the opinion that two major policy initiatives remain: increasing the deterrence capabilities of tax authorities and seeking an improvement in taxpayers' attitudes and perceptions vis-à-vis the government and tax authorities. He believes that what is required is compliance to rules prompted by conscience, rather than fear of punishment.

Further, Shome (2005) summed up modalities in order to keep tax evasion in check, the tax administration must: *(i)* incorporate genuine threat of penalty but ensure due process; in order to do this, of course the tax administration should be adequately financed and structured; *(ii)* computerize as many administrative processes as possible to minimize the interface between taxpayer and tax official; and *(iii)* not remain aloof from tax policy but assist in every way possible to help design, in reflection of its field experience, a simple tax structure and its commensurate tax law.

Green (2009) also simplified the how to control tax evasion in his research on the topic 'What Is Wrong with Tax Evasion?' stating that, there are presumably many potential fixes for the state of affairs and they are:

1. Simplify the tax code, making clearer the distinction between lawful and unlawful behavior (though we should recognize how difficult this would be, particularly in the context of taxes paid by large businesses); and distinguish more clearly between what constitute criminal and civil violations of the code;

2. change our political rhetoric, attempting to educate people about the importance of tax revenues; and modify priorities for government spending;

3. Make the Code more equitable, from both a vertical and horizontal perspective; and distinguish more clearly between choate and inchoate violations;

4. Rethink the requirements of *mens rea* (criminal intent; the thoughts and intentions behind a wrongful act (including knowledge that the act is illegal); and increase enforcement and make the level of enforcement more uniform.

Chiumya (2006) has therefore stated that, counteracting tax evasion is one of the most complex activities in tax Administration. This is because tax evasion takes many forms and facets. One of the major keys to successfully carry out such activities is to first and foremost understand the behavior of taxpayers and the reasons that cause such specific behavior. Thus, taking into consideration the emphasis by Vogel (1974) cited in Oberholzer, (2007), on the importance of education and information in the process of opinion formation. A deeper understanding of the benefits provided for by taxes, as well as the technical reasons for tax laws and regulations are necessary preconditions to both positive attitudes about the tax system and appropriate fiscal behaviour.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

The purpose of the study was to find out what could be done to reduce the problem of ignorance and non-compliance of tax evasion on the part of small scale business men/women in the Kumasi metropolis

This chapter discusses how the research is carried out. It comprises the following sub-headings; the research design, population, sample and sampling technique, data collection instruments, validity and reliability of the instrument, research procedure and data analysis.

3.1 RESEARCH DESIGN

The researcher adopted a case study as the type of research design for the study in which a survey technique and a questionnaire is being used to establish the tax evasion and its effects on the Ghanaian economy. The argument for better construct validity is based on the fact that case studies can use more and more diverse indicators for representing a theoretical concept and for securing the internal validity of causal inferences and/or theoretical interpretations for these cases.

This was based on the theoretical perspective which focused on the Cognitive Theory. The use of the Cognitive Theory here is to explain the activities of secondhand shoe dealers as well as how their environment affects their perception of fulfilling tax obligations. According to Fritscher (2009) the cognitive theory stipulates that, people perceive and interpret stimuli in their environment rather than reacting passively to those stimuli. Also it is a learning theory of psychology that attempts to explain human behaviour by understanding the thought

processes. "The assumption is that humans are logical beings making choices that make the most sense to them" Fritscher, (2009).

In the study therefore, the argument was that traders and businesses evade tax due to loopholes in the tax net; because of ignorance and non compliance; because of poor standards of records keeping and incorrect returns; and high rate of taxes causes tax evasion leading to serious effects on the Ghanaian economy. Tax payers consider their business (environment) and sales returns, and their social status and the benefits they derive from paying tax and the opportunity for evasion, to make the choice of paying tax Jackson and Milliron, (1986); Richardson, (2006). Consequently, tax payers use the perception of the people in their environment to adopt strategies to fulfill or evade tax obligations.

3.2 POPULATION AND SAMPLING

For the purpose of this study the researcher employed the use of the simple random technique of sampling respondents and purposive sampling as per the location of the second hand shoe dealers at the Kumasi railway section of the Kumasi Central Market. In random sampling, every data source in the population has an equal chance of being included in the sample, Morgan D.L, (2008), and …purposive sampling signifies that one sees sampling as a series of strategic choices about with whom, where, and how one does one's research. Purposive sampling is virtually synonymous with qualitative research, Palys, (2008). Palys (2008), further stated that, in *Critical Case Sampling:* 'the researcher might be looking for a decisive case that would help make a decision about which of several different explanations is most plausible, or is one that is identified by experts as being a particularly useful choice because of the generalizations it allows'. Thus, the decision is informed by the nature and purpose of the study as well as making sure that respondents have equal chance of being selected.

A total of 50 shoe sellers were selected from about 415 shoe dealers, Kumasi Metropolitan Assembly Records Division, (2010). This is being sampled by means of random sampling and purposive sampling techniques to ensure that each person used as in the sampling frame has an equal chance of being selected.

3.3 DATA COLLECTION INSTRUMENTS

Three-Point Likert-type scale close-ended questionnaire and an open-ended questionnaire are the main instruments being used for data collection. Sections B and C of the questionnaire contain questions and statements which addressed tax evasion and its effects on the Ghanaian economy. The items on the questionnaire has options from which respondents have options that is best suited to the extent to which they agree with the statements (1 = agree, 2 = disagree, 3 = no opinion).

Reliability, in the field of research, is broadly described as the dependability, consistency, and/or repeatability of a project's data collection, interpretation, and/or analysis. And in the field of research, validity refers broadly to the "goodness" or "soundness" of a study, Miller, (2008) in Sage Encyclopedia of Qualitative Research Methods. Validity and reliability are key to robust content analysis. In qualitative terms, the researcher doing a qualitative content analysis seeks trustworthiness and credibility by conducting iterative analyses, seeking negative or contradictory examples, seeking confirmatory data through methodological triangulation, and providing supporting examples for conclusions drawn. Therefore, to ensure that the data collection instruments were actually measuring intended metrics (i.e. validity) initial queries and consultations were made with stakeholders (GRA and secondhand shoe dealers) and research supervisor.

3.4 METHODS OF DATA COLLECTION

For the purpose of this study, both primary and secondary data collection were employed. By using primary data, a survey of the study area was conducted to collect and collate information on the tax evasion and its effects on the Ghanaian economy. A primary source of data involved first hand information from the field or the study population through the use of structured questionnaires.

Secondary sources are primarily the works of other researcher and authors which are in the form of books, articles from journals and newspapers, in addition to the use of electronic information especially from the internet, where related articles to the topic is being accessed for the purposes of the study.

3.5 DATA ANALYSIS AND PRESENTATION

Data collected from the field will analyzed by means of descriptive statistical tools. This provides a more graphical representation for data analysis. Bar graphs, pie charts and frequency tables will be used for pictorial representation. Data collected will be quantified and analysed thematically in relation to the objectives of the study. After the frequency tables are derived and interpreted, they will be analyzed with reference to the literature that was reviewed. Attempts are made to draw relations as to whether a particular finding is supported or not by the reviewed literature.

CHAPTER FOUR

RESULTS OF THE STUDY

4.0 INTRODUCTION

The purpose of the study was to find out what could be done to reduce the problem of ignorance and non-compliance of tax evasion on the part of the small scale business men/women in the Kumasi metropolis.

The purpose of this chapter is to present, analyze and discuss the findings of the study based on the information gathered from the field. It looks at the research objectives and gives a summary of the survey results that are presented by the tables and figures of the data in the subsequent pages. It attempts to answer the proposed research questions by presenting the general idea on how taxes are evaded.

Lastly, the process of controlling or reducing tax evasion is analyzed.

4.1 DEMOGRAPHIC CHARACTERISTICS/SOCIAL PROFILE OF RESPONDENTS

This part presents and discusses the demographic characteristics and social profile of respondents. It looks at variables such as age, marital status, number of stalls, number of employees, level of educational, amount of sales made daily and registered tax payers. The presentation examines and analyzes data on how these variables are represented and distributed among the secondhand shoe sellers and how it influence tax evasion. This is essential for analyzing how these variables correlate with each other in the study and also providing depth of understanding for the discussion of the study.

4.1.1 Ages of Respondents

The age of respondents was sought. This was to provide an overall view on whether age has a role to play in an individual's perception of evading tax. The data from the field report revealed that majority of the respondents representing 28% were between the ages of 30years and 39years as displayed in Fig. 4.1 below; 24% of the respondents were found to be between the ages of 40years to 49years, 18% were found to be between ages 50years to 59years, 16% were between 20years to 29years, and lastly, 14% were also found to be from ages 60years and above respectively.

**Figure 4.1 Ages of Respondents**
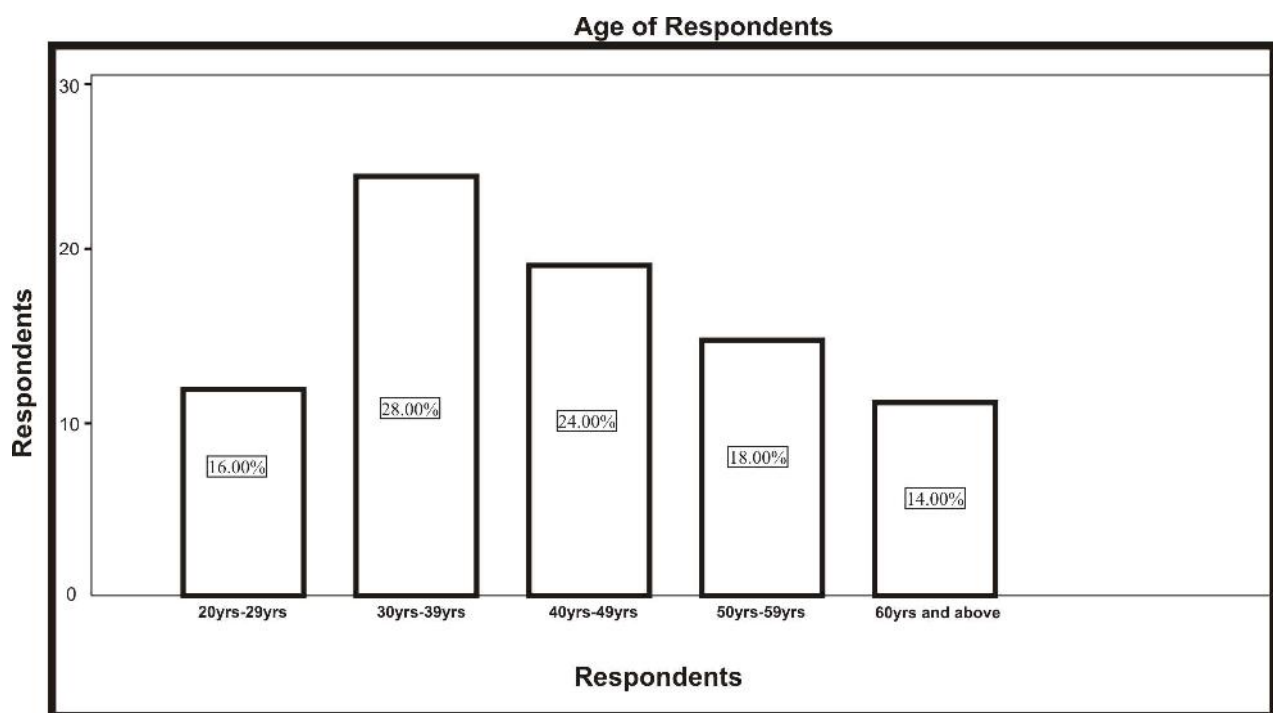
Source: Fieldwork, 2012.

In building up on what the data has revealed above in Fig 4.1, Jackson and Milliron (1986), reviewed tax compliance literature from 1970 to 1985. Their study considered the impact of fourteen variables (age, gender, education, income level, withheld income source, occupation,

30

compliant peers, ethics, fairness, complexity, sanctions, probability of detection, tax rates) that had been linked to compliance behavior of individuals and also highlighted the unresolved issues. They found that, older taxpayers are normally more compliant than younger taxpayers.

4.1.2 Marital Status of Respondents

The marital status of respondents was also sought. This was done to ascertain the level of responsibility that respondents have apart from the management of their stalls and its effects on the payments of tax. The data displayed in Fig. 4.2 revealed that 28% of the respondents representing those who have been widowed, 26% of respondents which represents secondhand shoe dealers who are divorced, 24% of the respondents are separated while 12% are married and 10% are single.

Figure 4.2 Respondents Marital Status
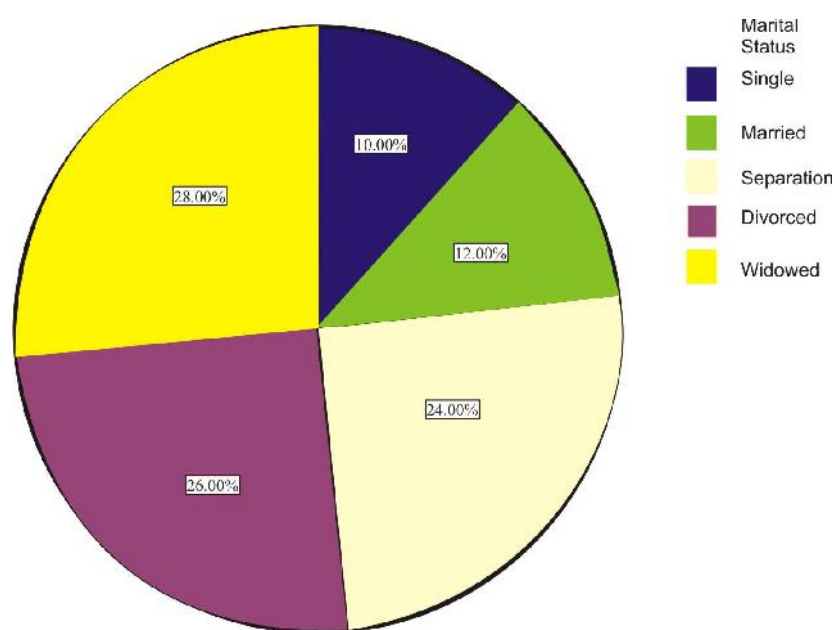
Source: Fieldwork, 2012

4.1.3 Number of Stalls

The number of stalls owned by respondents was investigated. This was done to find how the size of business affects the evasion of taxes. The data revealed that majority of the respondents representing 38% have four stalls, 28% have five stalls, 18% have three stalls while 12% have two stalls and 4% have one stall respectively.

Figure 4.3 Number of Stalls owned by Respondents

Number of stalls
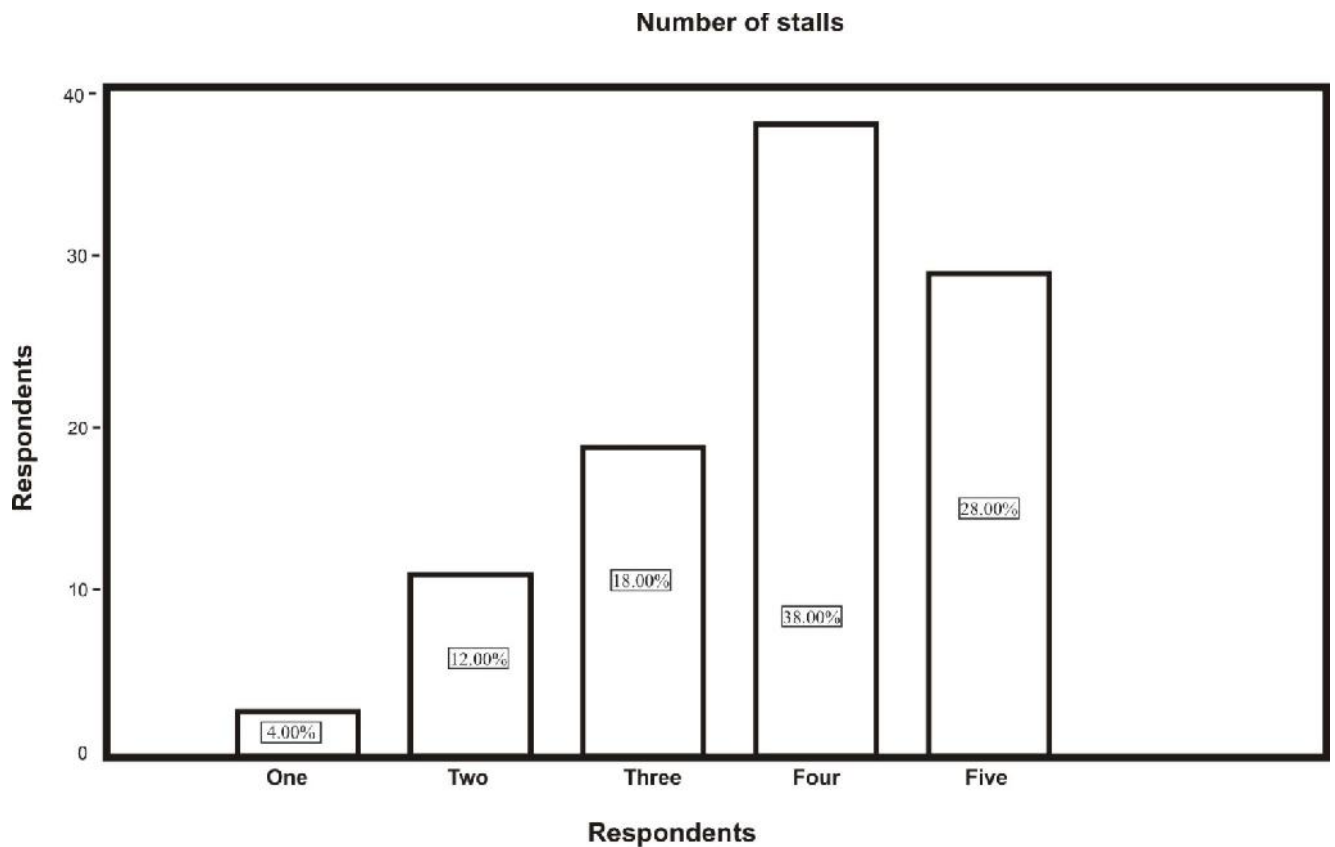
Source: Fieldwork, 2012

The above data as displayed in Fig. 4.3 seems to suggest that the size of a business has an effect on one's ability to evade tax. This is due to the fact that the bigger the business, the greater it provides the owner loopholes to duplicate and be dishonest about tax obligations.

Thus, this increases the propensity to evade tax rather than small businesses. This is made evident according to Karlinsky and Bankman (2002) when they noted in their United States field study, that small business owners were remarkably open and honest about their tax evasion behavior in regard to the non-reporting of cash income. One potential reason for this openness is that taxpayers may view tax evasion as a relatively minor offence.

4.1.4 Level of Educational Attainment

The level of respondents' educational attainment was sought. This was investigated to ascertain the respondent level of understanding government policies as per their tax obligations and their duties as citizens in paying taxes.

Figure 4.4 Respondents educational level
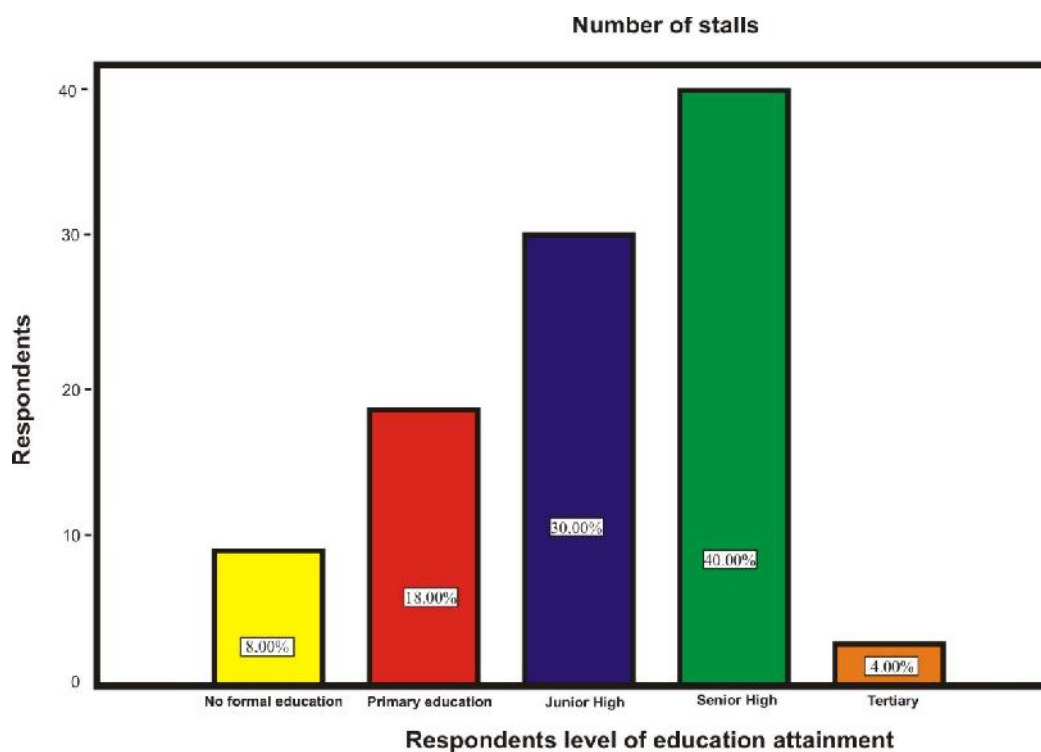
Source: Fieldwork, 2012

The data revealed that majority of the respondents representing 40% completed Senior High School, 30% completed Junior High School, 18% have primary education, 8% have no formal education while only 4% have tertiary education.

Inferring from the data displayed above in Fig. 4.4, it can be concluded that most of the respondents are not highly educated. This seem to support the fact according to Kriz et al (2005) higher level of education lower the probability to be an evader, also women's probability to be an evader is lower. Because with less ability to read and write, people would not fulfill their tax obligations due to sheer ignorance and inability to calculate tax returns. This therefore confirms the literature that educational attainment is another important determinant of tax evasion. It is more often than not, related to a taxpayer's capacity to understand and comply or not comply with income tax laws Jackson and Milliron, (1986). It has been argued by Jackson and Milliron (1986) that education has two elements: the general degree of fiscal knowledge and the specific degree of knowledge regarding tax evasion opportunities. They assert that by enhancing the level of general financial knowledge of tax compliance improves because of more positive perceptions about taxation.

4.1.5 Amount of Sales Recorded Daily

The daily income of the respondents was sought. The amount of sales recorded daily by respondents was to determine their level of income and how it affects their ability to pay taxes. The data as displayed in Fig. 4.5 below showed that 36% of the respondents make a daily sales between GH¢ 201.00 and GH¢ 400.00, 30% make between GH¢ 100.00 and GH¢ 200.00, 18% make between GH¢ 401.00 and GH¢ 600.00, 10% make between GH¢ 601.00 and GH¢ 800.00 and 6% make GH¢801.00 and more respectively.

The data seem to suggest that majority of the respondents record daily sales not more than GH¢ 500.00 and considering the number of levies to be paid to the district and the metropolitan assembly before the payment of taxes and the rates at which they pay all serve as disincentive to fulfill their obligation. Thus as the tax burden increases, the probability to evade becomes higher. Therefore, the field data lends credence to the seminal empirical paper presented by Alexander and Feinstein (1987) building on the US Taxpayer Compliance Measurement Program (TCMP) dataset of 1982 concluded that level of income influences the decision of evasion and its detection rates depend also on the skills of GRA examiners. And in addition, Kriz et al (2005) argued in their research on tax evasion in Estonia that, in average, the higher the income, the lower the probability to be an evader.

Figure 4.5 Respondent daily sales

Daily sale of the Respondent
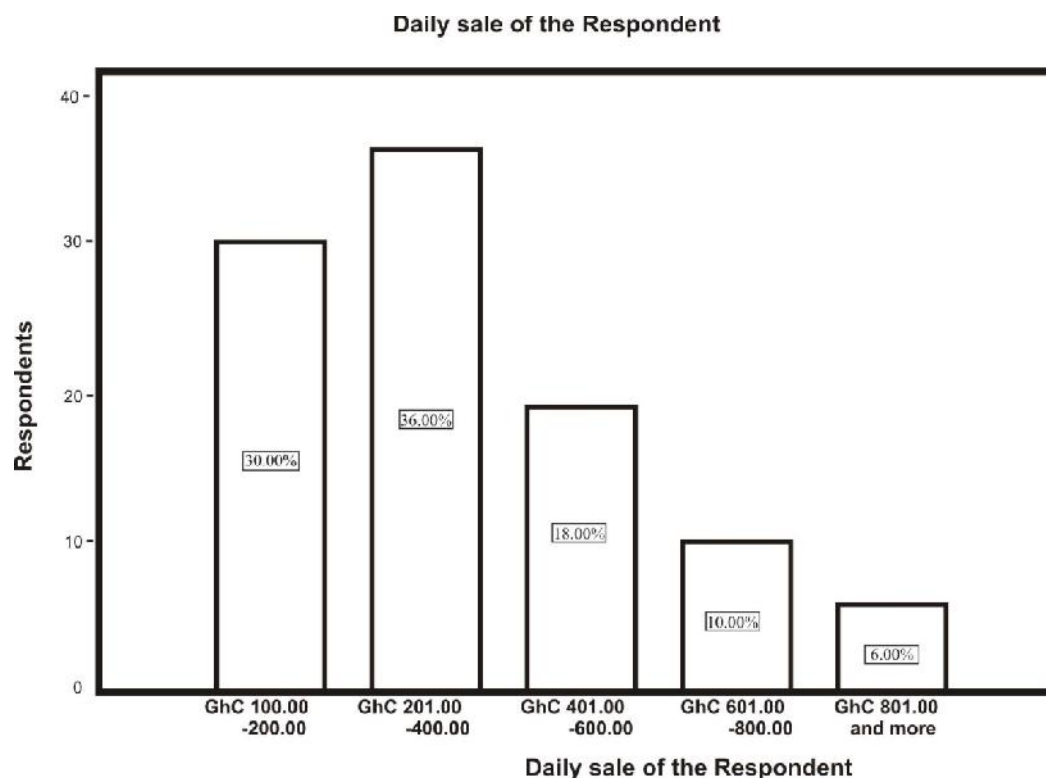
Source: Fieldwork, 2012

4.2 CAUSES AND EFFECTS OF TAX EVASION

This section discusses statements that were put across to find out respondents views and to indicate whether they agree, disagree or declare if they have no opinion, with the statements dealing with general issues relating to how these variables influence tax evasion.

4.2.1 The Usage of Taxes

The statement: 'large proportion of taxes is used by the government for meaningless purposes' was put across to find out people knowledge on the uses of government funds. The field data revealed that 70% of the respondents agree with the statement and 20% disagree, while 10% have no opinion on whether monies are used purposefully as displayed in Table 4.1 below.

Table 4.1 Respondents views on tax uses

Respondents views	Frequency	Percent (%)
Agree	35	70.0
Disagree	10	20.0
No opinion	5	10.0
Total	50	100.0

Data presented above in seem to suggest that of the respondents think that taxes are not used meaningfully but Tahseen and Eatzaz (2009) have noted that, the primary function of a tax system is to raise enough revenue to finance essential expenditures on the goods and services provided by government. This notwithstanding, Gupta (2007) explains that corruption has a significantly negative effect on revenue performance. Therefore, people would be motivated to evade tax because they think the system is corrupt and taxes collected are not used properly.

4.2.2 Tax Rate

The statement on the tax rate being made the same across board regardless of the business one is doing was ascertained. It is assumed that this would help know respondents views on the fairness of taxes. The data revealed that 36% of the respondents agree with the statement that the tax rate should be made the same irrespective of the size ones business and 48% disagree with the statement while 16% had no opinion on the statement.

Table 4.2 Respondents view on fairness of tax rate

Respondents views	Frequency	Percent (%)
Agree	35	36.0
Disagree	24	48.0
No opinion	8	16.0
Total	50	100.0

It seem clear from the data displayed in Fig. 4.2 above that taxes cannot be made the same irrespective of the size of ones' business. This would lead to those with small businesses being cheated by paying more than those with larger businesses. It is under of these circumstances where Tahseen and Eatzaz (2009) identified that, one important factor that fosters *evasion*….. is high tax rates, it increases the incentive for tax payer to evade tax and subsequently, higher tax rate leads to smaller net revenues.

4.2.3 Tax Calculation

The statement on tax calculation being complicated and respondents finding it difficult to calculate their returns was put across. This was to ascertain respondent's ability to calculate tax rates and file their returns accurately. The data revealed from the field revealed that majority of the respondents representing 70% who agree with the statement that the method of calculation is complicated and difficult thus causing non-compliance of tax obligation. 24% disagree while 6% have no opinion of the statement.

Figure 4.6 Respondents view on complexity of tax calculation
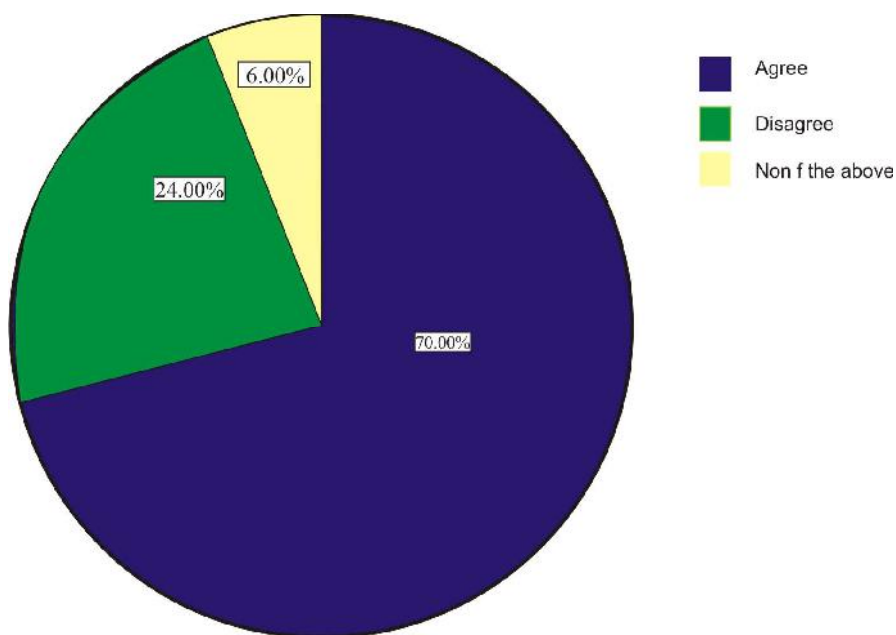
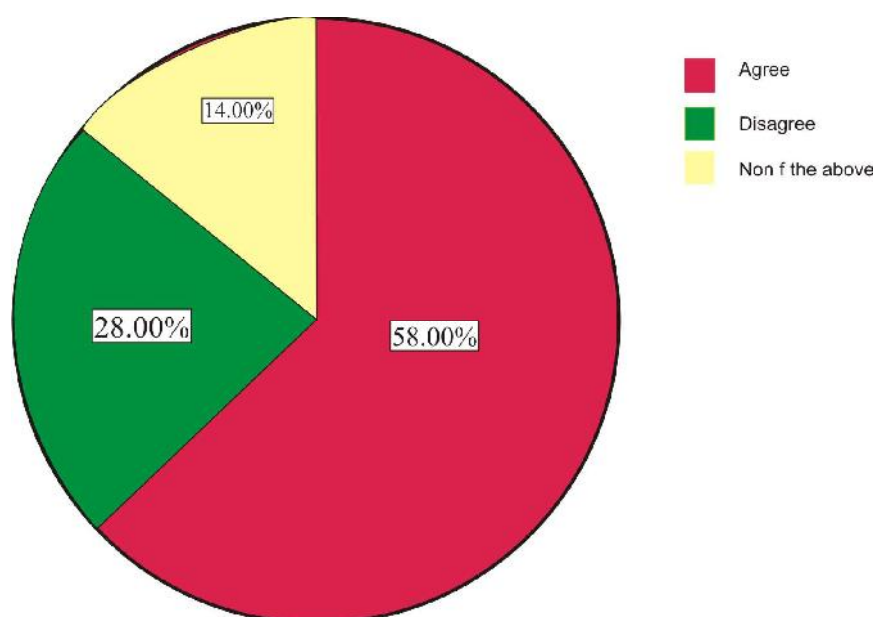
Source: Fieldwork, 2012

Comparing the data revealed above, it can be contrasted with the level of education of the second-hand shoe dealers, where most of them are SHS and JHS leavers; it would be difficult for them to do complex calculations and also this causes them to under-invoice to avoid be charged the due rate of tax to be paid. This confirms empirical evidence noted by Richardson,

(2006), that an increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance. On the other hand, the vast majority of studies examining the impact of education on tax evasion use a taxpayer's general education level as the approach to measure education. This seems to suggest that as tax payers are faced with complexities in calculation, they tend to find ways to evade tax.

4.2.4 Tax Collection Agents over- Charging

The statement: Tax agents do not collect the right amount of tax from us, meaning they over-charge tax payer was sought. This was to ascertain the trust that the tax payers have in the tax collector in order not to be motivated to evade tax. The data proved that a staggering majority of the respondents representing 58% agree with the statement and 28% disagree while 14% responded they had no opinion on the statement as displayed in Fig. 4.7 below.

Figure 4.7 Respondents views on tax collection agents over-charging

Source: Fieldwork, 2011

The fact that the informal sector is large and much of its contribution is not accounted for, and improper accounting systems being applied, the system would therefore breed 'limited capacities within the Tax Administration leading *to ambiguity in interpretation of the law and estimation of the tax base*, as a result of which tax-paying businesses often end up paying fines because they were unable to appropriately estimate their tax liabilities. Moreover, the ambiguity in implementation costs businesses time and increases the scope for corruption' (Briefing Papers, 2011). And Tahseen and Eatzaz (2009) argued that low wages of tax administrator... foster corruption. Shome (2005) could very well be an increase in tax rates, or the imposition of distortive taxes, thereby initiating a vicious cycle of inequity and inefficiency.

4.2.5 Education on Tax

The respondents view on the level of tax education was sought. The statement: 'there is not much education on tax', and this was to ascertain the amount of publicity and information that is put out for tax payers to have access to their tax responsibilities. The data as displayed in Fig. 4.8 below revealed that 68% of the respondents agree with the statement, 24% disagree and 8% have no opinion on the statement.

Figure 4.8 Respondent views on tax education
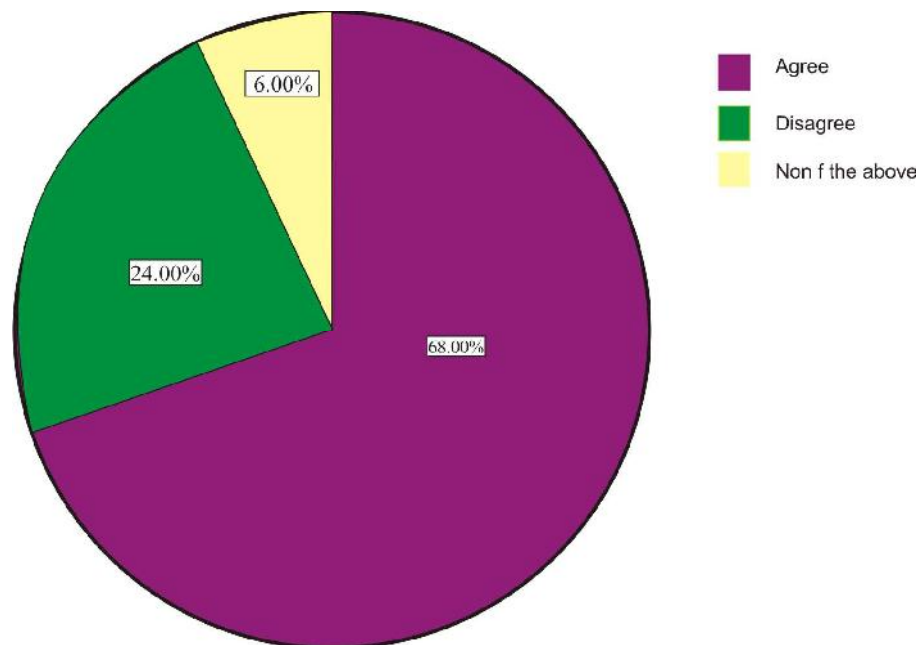
Source: Fieldwork, 2012

4.3 CONTROLLING TAX EVASION

This section discusses statements that were put in the Likert Scale to find out respondents views and to indicate whether they agree, disagree or have no opinion, with the statements dealing with how to control tax evasion.

4.3.1 Enforcement of Penalties

The statement: 'enforcement of penalties for tax default should be made clearer and public' was sought. This was to ascertain one of the measures to deter tax payers from evading tax. The data from the field revealed that 48% agreed with the statement and 36% of the respondents disagreed while 16% had no opinion as displayed in the diagram below.

Table 4.3 Penalties for tax default

Respondent views	Frequency	Percent (%)
Agree	24	48.0
Disagree	18	36.0
No opinion	8	16.0
Total	50	100.0

Source: Fieldwork, 2012

The findings above seem to suggest that when laws on defaulting in tax obligations are well publicized and enforced to the letter, tax payers would not find means of evasion. Therefore, this seem to confirm Shome (2005) as stated that, there has to be a genuine threat and actual carrying out of audit, scrutiny, investigation, penalty and punishment for an errant taxpayer.

4.3.2 Priority on Tax Education

The statement: 'Priority should be placed on tax education' was sought. This was to find out how important tax education is for tax payers. The data revealed that majority of the respondents representing 60% agree with the statement and 30% disagree while 10% have no opinion as displayed in the diagram below.

Table 4.5 Priority on Tax education

Respondent views	Frequency	Percent (%)
Agree	30	60.0
Disagree	15	30.0
No opinion	5	10.0
Total	50	100.0

Source: Fieldwork, 2012

The findings seem to imply that more emphasis should be put into education and the provision of information on tax. Thus, as Vogel (1974 cited in Oberholzer, 2007), puts it on the importance of education and information in the process of opinion formation. 'A deeper understanding of the benefits provided for by taxes, as well as the technical reasons for tax laws and regulations are necessary preconditions to both positive attitudes about the tax system and appropriate fiscal behaviour'.

4.3.3 Computerisation of Tax Administration

Respondents views on the computerization of tax administration were sought through the statement: 'The tax administration structure should be computerized to eliminate corruption'. The data revealed that 36% of the respondents agreed with the statement and 56% disagreed while 8% had no opinion on the statement respectively.

Table 4.6 Tax administration should be computerized

| Respondent views	Frequency	Percent (%)
Agree	18	36.0
Disagree	28	56.0
No opinion	4	8.0
Total	50	100.0

Source: Fieldwork, 2012

The finding seem to suggest that tax payers would not appreciate computerization of tax administration in order to reduce corruption though this is in sharp contrast with Shome (2005) where it was indicated that it is important to computerize as many administrative processes as possible to minimize the interface between taxpayer and tax official.

4.3.4 Respondents Comments

Respondents' comments were sought to find out their suggestions on general measures of controlling tax evasion and also to provide information on anything that was not covered in the process eliciting their views.

The data displayed in Fig.4.9 below revealed that 32% of the respondents suggested that tax officials should be rotated to avoid corruption, 28% think that the Ghana Revenue Authority should organize workshops to teach tax payers to calculate tax, 20% suggest that brochures and pamphlets should be made available to educate tax payers, 10% think the publicity on penalties for non-payment should be increased and another 10% also suggest that government should make known the uses of tax revenue respectively.

Figure 4.9 Respondents Comments

Respondents Comments
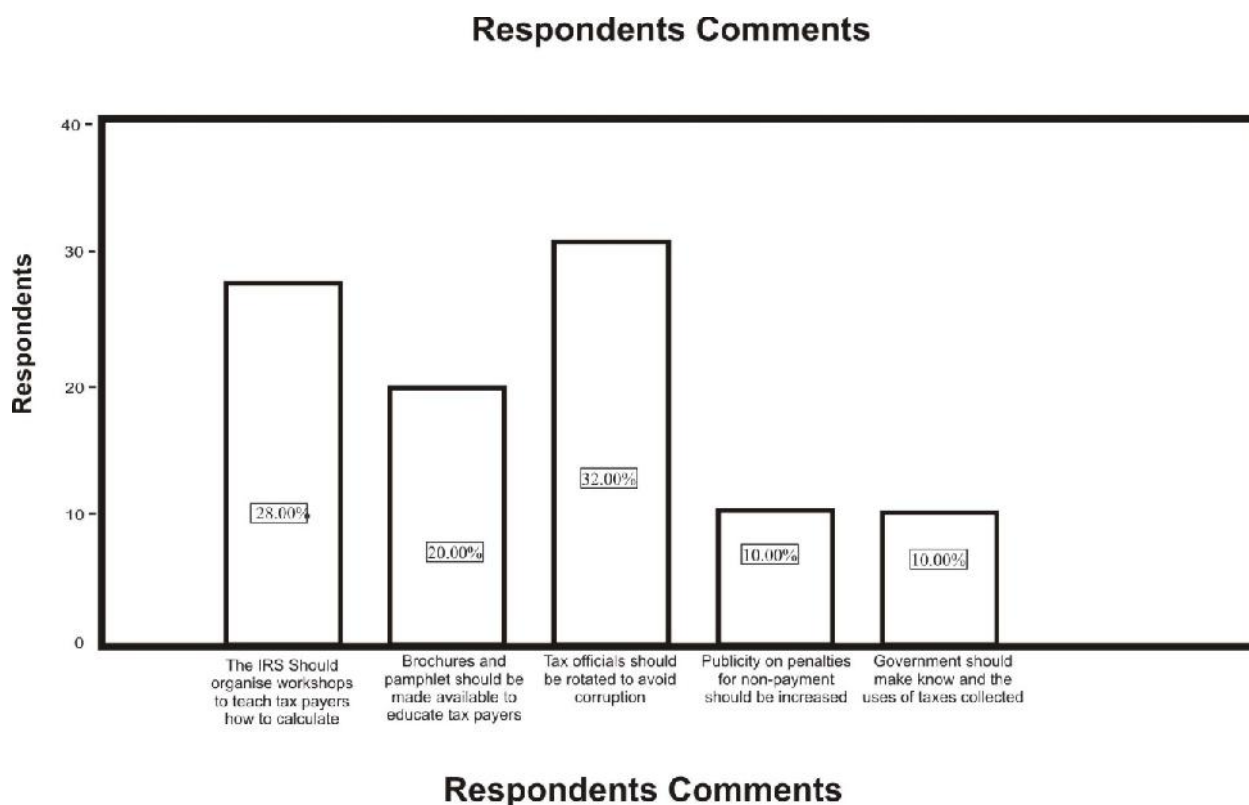
Source: Fieldwork, 2012

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

The purpose of the study was to find out what could be done to reduce the problem of ignorance and non-compliance of tax evasion on the part of the small scale business men/women in the Kumasi metropolis. This chapter is to present a summary of the findings of the study, the conclusions drawn based on the findings of the study and recommendations made for consideration.

5.1 SUMMARY OF FINDINGS

Based on the analysis, it was indicated that the study was centered on four factors such as reasons for evasion, determinants and' measures of controlling evasion. In order to achieve objectives set for the study, the demographic/ social profile of the respondents were sought. This provided amongst other things the number of stall, number of employees, and educational levels of the respondents.

- It was discovered that most of the second-hand shoe dealers were SHS and JHS graduates thus their inability to do calculations beyond their intellect, therefore leading to wrong calculation and under-invoicing.

- The study on the other hand also found that most the tax payer do not see the need to pay tax due to the fact that revenue accrued through taxes are not used meaningfully by the government but rather for corrupt practices thus serving as a motivator for evasion.

- Further, it was realized that calculation of tax returns was complex and difficult for tax payers, therefore, it is suggested that the GRA should organize workshops to educate tax payers on the calculation of tax.

- The study again revealed those tax agents who collect taxes on behalf of the GRA over- state tax rates and the amount paid by tax payers and helping in corrupt practices in evading taxes.

- However, it was realized that majority of the respondents do not agree that taxes are to be rationalized and be made the same, and also they are not in agreement with computerization of the tax system.

5.2 CONCLUSION

Tax evasion is extensive, always has been, and almost certainly always will be. Differences in educational level and the capacity to calculate tax returns can explain some of the across-individual and, perhaps, across-country heterogeneity of evasion. But the stark differences in compliance rates is an individual's knowledge of the uses of tax revenue by the government, publicity and the education of the general public on their tax obligation and its effects on the national economy and the penalties on the default on non-compliance.

Using the cognitive theory as a basis where the assumption is that humans are logical beings making choices that make the most sense to them, tax payers would make decisions on fulfilling their tax obligation based on what make sense to them. Thus, if tax payers agree that taxes are used for meaningless ventures by government and the system of tax collection is fraught corruption, they would devise innovative ways of evading tax. And secondly, if tax payers lack the necessary information and the capacity to compute tax appropriately, there would be reluctance to comply and motivate evasion.

Finally, the study characterized the importance of publicizing penalties on defaulting tax payment and enforcing punishment, tax defaulter would be inclined to fulfill their obligations to avert punishment and shame.

5.3 RECOMMENDATIONS

The study after the findings seeks to recommend that the Ghana Revenue Authority (GRA) should ensure an enforcement of penalties for tax default, and these penalties should be made clearer and public. This will create real threat and actual carrying out of audit, inspection, inquiry, penalty and punishment for an errant taxpayer.

The government should resource Ghana Revenue Authority to prioritize tax education for the informal sector by organizing periodic workshops on the calculation and deductions on taxes. And during these workshops, the Information Service Department of the government can also be made to give a presentation on the importance of taxes and what the revenues accrued are used for. This bring about a deeper understanding of the benefits provided for by taxes, as well as the technical reasons for tax laws and regulations are necessary preconditions to both positive attitudes about the tax system and appropriate fiscal behavior.

The tax system should be computerized ensure efficiency and quality delivery, and also, tax agents or collectors must be rotated in order to avoid corrupt practices that comes about due to familiarity.

REFERENCES

Alm, J and Martinez-Vazquez, J (2007). Tax Morale and Tax Evasion in Latin America. International Studies Program Working Paper 07-04

Alm, J. McClelland G.H. and Schulze, W.D. (1992). Why do people pay taxes? *Journal of Public Economics* **48**, 21-38

Barth, E. Cappelen, A. W. and Ognedal, T (2006) Fair Tax Evasion Discussion Paper Coetzee, H. (1993). Reluctance to pay tax: what do people expect from a tax system in the new South Africa? *Accountancy* SA November-December, 5-7.

Chen, B.-L (2003), Tax Evasion In A Model Of Endogenous Growth. Review of *Economic Dynamics* 6,381-403, The Institute of Economics, Academia Sinica

Fisman, R and Wei, S-J (2001), Tax Rates and Tax Evasion: Evidence from "Missing Imports" In China. *National Bureau of Economic Research.* Working Paper 8551 http://www .nber. orglpapers/w85 51

Franzoni, L. A (1999), Tax Evasion and Tax Compliance. University of Bologna, Italy Gerxhani, K and Schram, A (2001) *A Tax Evasion and the Source of Income: An Experimental Study in Albania and the Netherlands* CREED, Department of Economics and Econometrics, University of Amsterdam

Ghana Statistical Service (2000) Population and Housing Census, Special Report on Urban Localities.

Gemmell, Nand 0 Morrissey, 0 (2003) *Tax Structure and the Incidence on the Poor in Developing Countries.* Centre for Research in Economic Development and International Trade, University of Nottingham. www.nottingham.ac.uk/economics/researchlcredit

Gupta, S.A (2007), "Determinants of Tax Revenue Efforts in Developing Countries" IMF Working Paper No.07/184 Washington, DC: The International Monetary Fund

Jackson, B. R.,&MiHiron, V. C. (1986).Tax compliance research: Findings, problems and prospects. *Journal of Accounting Literature,* 5, 125-165.

Kiabel, B D. and N. Nwokah, N. G (2009) *Curbing Tax Evasion and Avoidance in Personal Income Tax Administration: A Study of the South-South States of Nigeria. European Journal of Economics, Finance and Administrative Sciences.*

http://www.euroiourna1s.comlEJEFAS.htm

Lamont, M. (1992). The economics of a land tax. In: Franzsen, R.C.D. and Heyns, C.H. (eds.) *A land tax for the new South Africa?* Pretoria: University of Pretoria Centre for Human Rights.

Manuel, T. (1999). Time to show zero tolerance to tax fraud. *Financial Mail* 155(5), 58.

Mukur, G.A., 2001. "Design of Tax Systems and Corruption", Conference Paper on "Fighting Corruption: Common Challenges and Shared Experiences". *Konard Adenauer Stiftung, and the Institute of International AffaGRA (SIIA),* Singapore. May 10-11, pp. 1-9

Ogundele, A.B., 1999. "Elements of Taxation". 1st Edition: Libri Service, Lagos.

Soos, P (1991), Self-Employed Evasion and Tax withholding: A Comparative Study and Analysis of the Issues. HeinOnline -- 24 D.C. Davis L. Rev. 107

Slemrod, J (2007) Cheating Ourselves: The Economics of Tax Evasion. *Journal of Economic Perspectives*. Vol. 21, P 25-48

Schneider, F., V. Braithwaite, and M. Reinhart (2001) Individual behaviour in Australia's Shadow Economy: Facts, Empirical Findings and Some Mysteries. *Working Paper No.* 19, Centre for Tax System Integrity, the Australian National University, Australia Taxation Office.

Tittle, C. (1980). *Sanctions and social deviance: The question of deterrence.* New York: Praeger.

Wallschutzky,1. G. (1984). Possible causes of tax evasion. *Journal of Economic Psychology,* 5, 371-384.

THIS QUESTIONNAIRE IS FOR AN ACADEMIC PURPOSE, WHICH IS PART OF A FINAL YEAR PROJECT ON THE RESEARCH TOPIC "TAX EVASION AND ITS EFFECTS ON THE GHANAIAN ECONOMY" - A CASE STUDY OF SECOND HAND SHOE SELLER'S

AT CENTRAL MARKET IN THE KUMASI METROPOLIS.

THIS IS TO ELICIT VIEWS ON THE ABOVE TOPIC RESPONSES TO THIS SURVEY ARE CONFIDENTIAL. PLEASE DO NOT INCLUDE YOUR NAME ON THIS SURVEY.

Please tick [ ] the appropriate box and where necessary supply an answer.

SECTION A: PERSONAL INFORMATION

1. Please indicate your age group.

   (A) 20yrs-29yrs [ ] (B) 30yrs-39yrs [ ] (C) 40yrs-49yrs [ ] (D) 5Oyrs-59yrs [ ] (E) 60yrs

   and above [ ]

2. Please indicate your sex:

   (A) Male [ ] (B) Female [ ]

3. What is your marital status?

   (A) Single [ ] (B) Married [   ] (C) Separated [   ] (D) Divorced [ ] (E) Widowed

4. How many stalls do you own?

   (A) One [ ] (B) Two [ ] (C) Three [ ] (D) Four [ ] (E) Five [ ]

5. How many employee(s) do you have?

   (A) One [ ] (B) Two [ ] (C) Three [ ] (D) Four [ ] (E) Five [ ]

6. Please indicate your dwelling:

   (A) Single room [ ] (B) Chamber and Hall [ ] (C) Flat [ ] (D) Semi-detached house

7. Please indicate your educational background:

(A) No formal education [ ] (B) Primary education [ ] (C) Junior High [ ]

(D) Senior High (E) Tertiary

8.   Please indicate your daily sales before deductions:

(A) GH¢ 100.00 - 200.00 [ ] (B) GH¢ 201.00 - 400.00 [ ] (C) GH¢ 401.00 - 600.00

(D) GH¢ 601.00 - 800.00 (E) GH¢ 801.00 and more.

9.   Are you registered as a taxpayer with the Ghana Revenue Service's (GRS)?

(A) Yes [ ] (B) No []

SECTION B: CAUSES AND EFFECTS OF TAX EVASION

Please indicate whether you agree/ disagree with the statement below dealing with general issues relating to tax.

Statement	Agree	Disagree	No Opinion
10. A large proportion of taxes is used by the government for meaningless purposes			
11. It is unfair to pay tax			
12. The sales tax rate (%) should be the same regardless of the business one is doing			
14. I do not know why I have to pay Tax			
15. Waste and corruption in government is high			
16. Rich people should pay tax at a higher rate			
17. Tax is very complicated – I do know how to calculate my own tax liability			
18. The amount of tax I have to pay is reasonable considering the benefits received			
19. The government does not provide enough information about how they use taxpayers' money			
20. Tax agents do not collect the right amount of Tax from us			
21. There is not much education on tax			
22. A lot of people do not pay tax that is why I do			

not pay Tax			
23. Government receives enough tax so it does not matter if some people evade tax			
24. The burden of tax is so heavy that many people are forced to evade it in order to survive			
25. Wealthy people evade tax more often than poor people.			
26. If we do not pay taxes government would not be able to carry out development projects.			
27. If we do not pay taxes government would not be able to pay its workers			
28. If we do not pay taxes government would not be able to provide infrastructure			
29. Tax evasion would decrease government revenue			
30. Tax evasion causes inequality and increase the tax burden on others.			

SECTION C: SOLUTION TO THE CAUSES TAX EVASION

Please indicate whether you agree/ disagree with the statements below dealing with general issued relating to Tax.

31. Tax rates should be reduced to enable everybody to pay			
32. Enforcement of penalties for tax default should be made clearer and public			
33. Priority should be placed on tax education			
34. Government spending should be development oriented to encourage to tax prayers			
35. Information on taxes should be made available to the public			
36. The tax administration structure should be computerized to eliminate corruption			

37. Do you have any further comments with regard to tax in Ghana (for example, would you like to more informed about tax by receiving brochures, pamphlets, etc)

....

....

....

....

....

Thank you for participating in the survey. We appreciate your assistance