

CHRISTIAN SERVICE UNIVERSITY COLLEGE



SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

**CHALLENGES ASSOCIATED WITH VALUE ADDED TAX (VAT) COLLECTION
WITH RETAILERS AT ADUM SMALL TAXPAYERS OFFICE (STO) -GHANA
REVENUE**

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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND
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DECLARATION

We declare this study is entirely the outcome of our own research. References and other citations were duly acknowledged. We therefore accept responsibility for any mistakes contain therein. No part of this research work has been submitted to any other institution.

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Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision laid down by Christian Service University College.

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ABSTRACT

Tax leakage in developing countries is often worsened by poor functioning tax authorities due to variety of reasons; under-resourced or under-trained administrators, poor tax collection systems, failure of legal enforcement mechanism for tax collection among others. These factors create opportunities for entities to abuse the system since tax official frequently lack the required resources to carry out their work. The main objective of this study is to assess challenges associated with the collections of VAT and how they could be addressed.

In this paper, questionnaire administration and interviews were used for the study. The questionnaire was administered to forty (40) retailers under the Adum STO and the Interview Conducted on twenty (20) tax collectors. The questionnaire covered awareness, compliance and challenges retailers encounter that affect their compliance level whereas the interview focused on the challenges the tax collector encounter both in the office and with retailers.

It was found out that majority of taxpayers have not heard of VAT hence a high level of non-compliance on their part. Also, data gathered from respondents revealed that the compliance level of retailers is very low and that majority associated that to among other problems as; long queues they have to join to pay their VAT and low knowledge on how to compute VAT correctly. Tax collectors on the other hand complained of late filing of returns by retailers within the Adum STO, some of the retailers they said are located in inaccessible areas. The research also revealed that tax collectors were barely motivated to perform their duties and logistics were inadequate for their purposes. This study recommends that more education of the public using the media like radio and televisions among other mediums should be carried out regularly.

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DEDICATION

ABUGRE, DANSTAND ATUBGA

This work is dedicated to my lovely parents Mr. Donatus Abugre Atubga and Mrs Felicia Atubga. You are always there with me and so grateful.

OPOKU, HANNA

I dedicate this work to my dear husband and my three children Yaa, Kwaku and Kwadwo.

ADDO, DORIS ANTWIWAA

I dedicate this work to my lovely husband and my children (Nhyira Papa and Adom Aboagye).

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I dedicate this work to my parents Mr. and Mrs. Addo and my late brother Michael Nana Baffour Addo, may he rest in peace

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The government of Ghana has two main avenues of generating revenue: external borrowing and internal generating of revenue through taxes and levies. The former comes with an albatross of debt payment that for long hangs around the neck of the state to settle. The latter option comes with facing the displeasure of citizens and residents who pay taxes and levies with a lot of resentment (Obawana, 1996).

Taxes consist of direct tax and indirect tax. Taxes in Ghana are collected by the Ghana Revenue Authority (GRA). The GRA is the merger of the Internal Revenue Service (IRS), Customs Excise and Preventive service (CEPS) and the Value Added Tax (VAT) Services. The bulk of Ghana's central government revenue is administered by GRA. Policy makers from the advent of income tax have recognized the need to widen the tax base to cover most business transactions involving purchase of goods or service whether in cash or on credit bases.

The Ghana Revenue Authority obtains its taxes from both the formal and informal sectors.

The formal sector is defined as a sector which encompasses all jobs with normal hours and regular wages, and is recognized as income sources on which income taxes must be paid. (businessdictionary.com)

The Law dictionary defines the formal sector as 'a group of people, usually employees, that includes recognized income sources for paying income taxes based on all 40-hour, regular wage jobs. (thelawdictionary.org)

The focus of this study is on the informal sector since this the sector that VAT is collected from.

There are many definitions that scholars defined the informal sector, among them are:

Informal sector refers to ‘all economic activities that contribute to the officially calculated gross national product but currently unregistered’. (Feige, 1989). ‘Market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of the gross domestic product’ (Smith, 1994). According to Hart informal sector refers to ‘Unregulated economic enterprises or activities (Hart, 1973).

According to the World Bank, the informal sector covers a wide range of labour market activities that combine two groups of different nature. On the one hand, the informal sector is formed by the coping behaviour of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behaviour of entrepreneurs that desire to escape state regulations (World Bank).

Currently there are two approaches to defining informal sector activity: the definitional and behavioural (Farrell et al, 2000) According to the definitional approach, ‘Informal sector is economic activity unrecorded in the official statistics such as the gross domestic product or the national income accounts’. Behavioural approach, on the other hand, maintains that ‘informal sector is based on whether or not activity complies with the established judicial, regulatory, and institutional framework’ (Farrell et al, 2000)

The concept of the informal sector was introduced into international usage in 1972 by the International Labour Organization (ILO) in its Kenya Mission Report, which defined informality as a “way of doing things characterized by (a) ease of entry; (b) reliance on indigenous resources; (c) family ownership; (d) small scale operations; (e) labour intensive and adaptive

technology; (e) skills acquired outside of the formal sector; (g) unregulated and competitive markets. Source (Employment Paper 200/9, ILO and the informal sector: An institutional history)

The origin of the informal sector in Ghana's economy can be traced back to the very beginnings of colonial capitalism in the then Gold Coast. Even at such an early stage an essential feature of labour in the informal sector was its heterogeneous character that provided for varieties of peasant proprietors and agricultural labourers, distribution agents, buyers, transport owners and employees, porters, repairers, etc. (Ninsin, 1991). The size of Ghana's informal sector is placed at 80 percent of the total labour force (Hormeku, 1998).

Value Added Tax (VAT) was introduced in Ghana in 1998 to replace the sales tax which was abolished. It was first introduced in Ghana on 1st March, 1995 by the Value Added Tax act, 1994 (Act 486) as part of the Tax Reform Program which began in 1993. It was however repealed by the government on 14th June, 1995 in response to a general public outcry, including demonstrations, against a steady increase in the prices of goods (including food items) which was blamed mainly on the introduction of VAT. VAT was reintroduced in 1998 with the passage of the Value Added tax act, 1998 (Act 546) and the Value Added Tax Regulations, 1998 (L. I. 1646).

This was meant to widen the tax base by bringing all suppliers of goods and services under the tax net so as to increase tax revenue. Under the Value Added Tax (VAT) Act 1998, Act 546, VAT is a general tax on consumption expenditure. It is a consumption tax that taxes the value added by businesses at each point in the production chain and applicable to both manufactured goods and services. Value Added Tax revenue is one of the most promising incomes that the government depends largely on for its budgets.

VAT rate is 17.5 percent according to the new vat Act 2013 (870) which was passed on December 30, 2013. It is made of 15 percent Value Added tax and 2.5 percent National Health Insurance Levy (NHIL). VAT Flat Rate Scheme (VFRS) is a special method for collecting and accounting for VAT/NHIL at a marginal rate of 3% on the value of each taxable item sold, (GRA diary, 2014).

The Adum GRA STO applies the flat rate (3%) and that is what this research is based on.

Revenue generated through tax collection (VAT inclusive) is used by the state and her functional equivalents to carry out many functions. Among these are expenditure on war (example the Bawku tribal conflict), the enforcement of law and public order, and protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, and the operation of government itself.

1.2 STATEMENT OF THE PROBLEM

The collection of Value Added Tax revenue from retailers within the Adum Small Taxpayers Office (STO) has become a worry not only to the officials and Government but to the nation as a whole. Various techniques such as the use of incentives prompt and regular filing and punishments for evasion and late filing have been employed to the collection of Value Added Tax revenue in order to meet the target set yearly of revenue to be generated in the VAT sector. The GRA Adum STO for the past two years has not met its VAT target. As it stands, Government cannot ascertain the true volume of revenue generated in the VAT sector within a given period, (Lewis & Eric, 2012).

It is therefore imperative to assess the challenges associated with its collection. It has undoubtedly become important to put forth some quantitative arrangements or measures that would help to assess the efficient and prudent way of collection of VAT revenue.

Rapid economic growth results in windfall increases in state tax revenues, while recession leads to corresponding slowdowns in the growth of revenue. In the midst of economic slowdowns, most governments are making program choices and policies regarding spending reductions and or tax increases so as to keep their economies on track. For instance, the Ghanaian economy has been going through financial sector reforms since 1984 as part of a comprehensive macroeconomic adjustment program and also the expansion of the scope of VAT to cover services rendered at the bank and this is expected to have its impact on tax revenue. However, despite the several reforms, there has not been any significant rise in revenue generated from VAT.

An interview with one of the GRA officials at Adum STO revealed that in 2014, Body Series Ltd located at Ahodwo, Kumasi was locked down for owing VAT to the tune of GH¢9,000.

According to Ghana News of 7th July 2011, the Ghana Revenue Authority had to lock the premises of Western Castings, a steel company in Takoradi which owed taxes to the tune of GH¢566,000.

The research work therefore seeks to assess Challenges Associated with the Collection of Value Added Tax (VAT) From Retailers within Adum STOs (Ghana Revenue Authority-Small Tax Payers Office, Adum) and make recommendations. This research is conducted at the Adum STO but is applicable to other GRA offices in the nation.

1.3 OBJECTIVE OF THE STUDY

This research is intended to assess challenges associated with the collection of VAT from retailers within the Adum STO and suggest practical ways of overcoming or reducing it and for the Adum STO to meet its' target.

Specifically, the main objectives of this research are to:

1. To find out the level of awareness of retailers within the Adum STO of VAT.
2. To find out the retailers' compliance to the payment of VAT
3. To identify the problems GRA faces in collecting VAT
4. What problems do retailers encounter in the payment of VAT?

1.4 RESEARCH QUESTIONS

The research questions that guided the study were as follows:

1. Are the retailers under the Adum STO aware of VAT?
2. Are the retailers under the Adum STO complying with the payment of VAT?
3. What are the problems retailers encounter in the payment of VAT?
4. What problems do VAT officers' face in VAT administration and collection in the Adum District?

1.5 RESEARCH METHOD

The research work is both qualitative and quantitative and is a case study which could be generalised to other Small tax payer's offices (STO's), MTOs (medium taxpayer's offices) and LTOs (large taxpayer's office) all over the country. The researcher would make use of both primary and secondary sources in collecting data. Questionnaires will be designed to gather data

from the retailers and the VAT officials and the use of interviews, and literature on taxation will be gathered from the media, school library, journals, and the VAT acts.

1.7 SIGNIFICANCE OF THE STUDY

The research is intended to add to existing knowledge on VAT administration in the Adum STO, Ghana and seek to provide an insight into some challenges of VAT Mobilization from retailers within the district and how they can be tackled to improve government revenue.

Also, planning an economy requires that a forecast be made as accurately as possible of the income to be mobilised within the projected period, in order to have an idea of how much revenue will be available to spend. Hence, the study will help to identify challenges that impede higher VAT targets from being achieved and possible solutions recommended to help curtail or reduce to the barest minimum if not completely.

This work would also make the retailers be aware of the serious effects that their failure to execute their tax obligation has on the socio-economic development of the District and the nation as a whole.

The study would show GRA the need to further educate the general public on the need to pay tax and also the collection of the VAT and the need for organizations, companies and individuals to register VAT in the Adum STO.

Also, the study will let the GRA realize the need of equipping its staff, educate and motivate them effectively for efficient working mind-set. Moreover the study will help GRA build up and have the appropriate mechanism in the collection of VAT so that their relationship with the taxpayers will enhance effective VAT system in the Adum STO and to increase revenue mobilization in the district and Ghana as a whole.

1.6 LIMITATIONS

The data for this research is limited to the extent to which those given questionnaire were willing to disclose information which they deemed to be less sensitive as most of the people viewed the exercise as one intended to seek ways of increasing the tax liability. Also, there were virtually no proper books of accounts being prepared by most of the identifiable groups from which tax liability could be assessed. Time and resources were also a limitation to the study making it impossible to exhaust all the facts.

1.7 DELIMITATIONS

The collection of data was restricted to the Adum STO, hence the findings of the study was generalized to cover all the tax activities in the country.

The outcome of this study could be extended to other categories of tax revenue collectors in the country with similar characteristics. This should however, be done with great caution and further analysis.

1.8 ORGANISATION OF THE STUDY

The study is structured into five chapters. The first chapter is an overview of the study comprising a background of the study and the nature of the problem, the objectives and significance of the study. Research questions were proposed and finally discussed the scope and limitations of the study. In chapter two, a review of the related and relevant literature on VAT is provided. Chapter three explains the methodological framework upon which this study is conducted. The data collection and analysis techniques and how the data was analysed are discussed in this chapter. In chapter four, the researcher discusses the opinions of interviewees (retailers and tax officials) on what they considered as the challenges of VAT collection in Adum, Ghana. The researcher then integrates in the analysis the literature and documents that connect with participants' opinions. Chapter 5 discusses the summary, recommendations and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

In this chapter, the writers try to review previous written literatures concerning VAT and Tax in general. It looks at the History of Taxation and VAT, the definition and administration of VAT. This chapter also highlights on the purpose of VAT, its nature, principles, the reasons for tax evasion/avoidance and VAT reduction and avoiding to register as VAT, and the problems of VAT administration.

2.2 OVERVIEW OF TAXATION

The primary economic goal of developing countries is to increase the rate of economic growth, in order to bring them to levels of per capita real income comparable to those of developed countries. Attaining this goal depends on the developing government's ability to provide additional basic government services, particularly in education, public health, and transport, and on achieving higher rates of capital formation in production facilities, whether undertaken in governmental or private sectors (Taylor, 1970). The key to economic growth is, of course, the transfer and better utilization of resources, not merely the shift in the location of money.

Taxation is a primary instrument for the transfer of funds to the government in order to facilitate transfer of resources (Ibid). Complicating this process in developing countries is the difficulty of mobilizing sufficient revenue to satisfy overall revenue objectives while taking into consideration the unique conditions in each country. Ghana is one of the developing countries in the world, and the many challenges it faces have made it much more difficult for it to increase its tax revenue even at the pace of other countries in Sub-Saharan Africa, which on average collect

revenues equal to about 23% of GDP (Taylor, 1970). The GRA collected GH¢1,778,200,390 against a projected GH¢1,554,542,500 as taxes in 2009. This represents about 14% of GDP.

Ghana has a working population of about 7 million but only 1.5 million people are income tax payers, (Egyin, 2011). Hence, the need for the government to review its tax policies and come up with strategies to increase tax revenue is crucial.

Fundamentally, the challenges make it difficult to solve Ghana's revenue problems by simply implementing classical developed-country revenue-increasing strategies such as broadening tax bases, raising tax rates, and tightening up the enforcement systems. These specific problems are exacerbated, from a revenue-generation perspective, by the size of the large and growing informal sector.

In the face of such a combination of circumstances, simply increasing tax rates or tightening up penalties for tax evasion creates the risk of driving productive workers and enterprises further into the unreported economy.

2.2 HISTORY OF TAXATION AND VAT

Taxation was first started in Ghana, then Gold Coast, in September 1943 by the British colonial government at the time when World War II was raging. Before this, several attempts had been made, for example, in April 1852, under the then Governor Major Hill, the poll tax ordinance was passed to raise money to finance the increased cost of British administration. Source (Abdallah, 2006). The first Tax Law was the Income Tax Ordinance (No.27), 1943. This Ordinance was modelled to a large extent on the general principles underlying the Income Tax Act, then enforce in the United Kingdom. It imposed the tax generally on incomes having its sources in Ghana so that foreign source incomes was not liable unless it was remitted in Ghana. One characteristic feature of this ordinance was the numerous personal reliefs and deductions that it contained. Since then the Income Tax Law has seen several amendments culminating in the current Internal Revenue Act 2000 (Act 592) (GRA News, 2010)

Value Added Tax (VAT) was first introduced in Ghana on 1st March, 1995 by VAT Act of 1994 (Act 486) as part of the Tax Reform Programme which began in 1993. It was however repealed by government on 14th June, 1995 in response to a general public outcry, including

demonstrations, against a steady increase in the prices of goods (including food items) which was blamed mainly on the introduction of VAT. VAT was reintroduced in 1998 with the passage of the Value Added Tax Act, 1998 (Act 546). VAT replaced the sales tax in order to improve revenue administration. Sales taxation on domestic production was limited to the manufacturing sector, which put a disproportionate tax burden on their operations. Hence it was suggested that instead of relying on a system which taxes some forms of consumer spending but not others, it would be better to replace them with a general consumption tax that falls more evenly on a much wider range of consumer spending in the domestic economy, because low income people pay disproportionately high taxes under the current scheme.

The VAT has provided a valuable alternative tax source, especially because of its buoyant revenue base. A recent IMF study has concluded that the VAT can be a good way to increase tax revenues and modernize the overall tax system (Ebrill et al, 2002).

2.3 ADMINISTRATION OF VAT

The administration of taxes in Ghana was the responsibility of the Income Tax Department in 1943; the name was change to Central Revenue Department in 1961. In May 1986, the name was again change to the Internal Revenue Service under PNDC Law 143. In 1998, the Revenue Agencies Governing Board (RAGB) Act 558 was passed to manage the revenue agencies. It is the governing body for the Internal Revenue Service (IRS), the Custom, Excise and Preventive Service (CEPS) and the Value Added Tax Service (VATS), (GRA News, 2010).

In 2009, the three agencies were merged to form Ghana Revenue Authority (GRA). GRA has three main divisions responsible for administering Tax and they are:

Custom Division (CD)

Domestic Tax Revenue Division (DTRD) and

Support Service Division (SSD), (GRA Diary, 2014).

VAT is a broad tax imposed on the expenditure of consumers when they purchase goods and services. It is collected by businesses which are registered to charge in stages on the 'value added' from the manufacturing to retail level. The businesses then account for the tax collected at the end of every month. The current standard rate is 15 percent. A zero (0) rate is also applied to all exports, (GRA diary, 2014).

National Health Insurance Levy (NHIL) is a levy imposed on goods and services supplied in or imported into the country. All goods and services are subject to the levy unless they are otherwise exempted. The levy is charge at a rate of 2 ½ on VAT exclusive selling price of goods supplied or services rendered. The NHIL is collected by registered businesses in the same way as VAT is collected

VAT Flat Rate Scheme (VFRS) is a special method for collecting and accounting for VAT/NHIL at a marginal rate of 3% on the value of each taxable item sold, (GRA diary, 2014)

2.4 DEFINITION OF VAT

Value Added Tax (VAT) is a tax applied on the value added to goods and services at each stage in the production and distribution chain. It forms part of the final price the consumer pays for goods and services. In some countries it is called 'Goods and Services Tax' or GST (www.gra.gov.gh).

According to the Value Added Tax Act, 2013 Act 870, '(1) there is imposed by this Act a tax to be known as the value added tax which is to be charged on the (a) supply of goods or services made in the country other than exempt goods or services; and (b) import of goods or import of services other than exempt import. (2) Unless otherwise provided in this Act, the tax is charged

on the supply of goods or services where the supply is (a) a taxable supply; and (b) made by a taxable person in the course of the taxable activity of that person. (3) The tax is chargeable and payable on the importation of goods and for that purpose, the laws and regulations applicable to collection of customs duties and other taxes on imports of goods, including the submission of an import declaration apply with the modifications specified in this Act and the Regulations. (4) The tax is chargeable on the value of a supply of goods by (a) a diplomatic mission, (b) international agency, (c) an organisation, (d) a government agency, or (e) other person who has obtained a relief from or a refund from the tax on the importation or domestic acquisition of the goods’.

Persons liable to pay tax: (1) except as otherwise provided in this Act, the tax shall be paid (a) in the case of a taxable supply, by the taxable person making the supply; (b) in the case of an import of goods, by the importer; or (c) in the case of an import of services, by the recipient of the service. (2) In the case of a non-resident person required to register under section 16, the non-resident is liable for the payment of the tax, (VALUE ADDED TAX ACT, 2013 Act 870).

2.5 PURPOSE OF VAT

Under the VAT all the goods and services taxes will be administered under one regime. Moreover, to ensure fairness to all tax payers, a number of goods and services which were not previously covered by the sales or services will be brought together under the VAT regime.

It’s only fair that one citizen pays a tax on his or her expenses, and then other citizens must also pay the same on their expenses.

The only exceptions are those goods and services which are exempted under VAT law. It’s also important to note that by extending the tax to cover all services and the retail sector the base of

the tax system will be widened. At the moment the tax system depends on only a few goods like cocoa, beer, cigarette and petroleum for a large amount of revenue accruing to the state. This makes the tax system rather unstable and unfair because it's over dependent on these goods (Ofori, et al, 2012).

Advantages of the VAT

The VAT is generally believed to be non-distortionary, provided there are few exemptions and little zero-rating. However, it is increasingly accepted that zero-rating is necessary to achieve social justice and security in harsh economic conditions (Bird and Gendron, 2006) When the VAT on investment is fully credited, it is an improvement over older taxes on capital goods. The VAT generally replaces inefficient, distortionary, and badly administered taxes that cascade liabilities, use many tax rates, tax capital goods and exports, favour imported goods, reduce the base, and frequently involve an antiquated and corrupt administration.

With the introduction of the VAT, the economic costs and risks of collecting revenue will decline as the entire production and distribution chain becomes involved in collecting this tax, because this spreads the costs and risks of collection over a much larger number of transactions (Bird, 2005). The VAT has also helped to facilitate trade by exempting exports, removing hidden subsidies, and placing the taxation of imports and domestic production on the same level playing field.

Studies of the impact of the VAT in developing countries are still few, but there is growing evidence that the VAT is not an especially regressive tax. For example, studies conducted by Ebril in 2002 in Cote d'Ivoire, Guinea, Madagascar, and Tanzania all show that the poor pay less than their share of total VAT revenues, when measured against their share of consumption. Hence he concluded that VAT has proved to be more progressive than the trade taxes it often

replaced (Ebrill, 2002). In terms of simplicity, the VAT can facilitate substantial improvements in overall tax administration, particularly the establishment of more integrated tax administrative systems and the development of modern procedures based on voluntary compliance. In many countries, activities taking place in the informal sector of the economy generally escape the direct tax system. However, an indirect tax such as the VAT can be used to tax invisible taxpayers such as non-reporting plumbers and other home repair enterprises that buy supplies from registered taxpayers (Bird and Gendron, 2006).

Limitations of the VAT

As in many developing countries, VAT has become the workhorse of the revenue system in Ghana because direct taxation continues to be relatively ineffective. VAT is often thought to be an intrinsically complicated tax, cumbersome for both taxpayers and authorities. In developing countries, where even basic record-keeping abilities may be limited, it can be especially difficult to implement a VAT (Ebrill, 2002). The effectiveness of the VAT is further undermined by the difficulty of implementing workable self-assessment systems, under which taxpayers declare and pay taxes on the basis of their own calculations, subject to the possibility of later audit by tax authorities (Bird, 2005). Government's inability to give prompt refunds of excess credits to certain taxpayers, particularly exporters, reduces the effectiveness of VAT because exports are zero-rated, exporters have no output tax liability, and are entitled to a refund of the tax paid on their purchases. Failure to provide prompt refunds detracts from the merits of the tax (Ebrill, 2002).

Bird in 2005 suggest that in the presence of a substantial informal sector, a tax like the VAT that falls on the informal sector impedes economic growth and development. According to Bird, 2005, a recent study concludes that increasing consumption taxes definitely fosters the expansion

of the hidden economy if the labour intensity of the production in that sector is greater than in the formal sector. The right way to implement VAT is through self-assessment. This has resulted in the erosion of the base of the VAT through concessions at many levels as well as through general administrative weakness (Bird, 2005).

A uniform VAT is likely to be regressive because it will necessarily increase the price of many goods essential to the poor, even though the poor will consume relatively small amounts of such products and much of the benefit of special exemptions or low rates may go to the non-poor (Bird and Gendron, 2006)

Despite these criticisms of the VAT, the VAT is still the best form of general consumption tax for developing countries such as Ghana.

2.6 NATURE OF VAT

VAT and NHIL are combined into one account to simplify record keeping. This account should be treated in the same way as the previous VAT Account which it replaces, (www.gra.gov.gh).

VAT is a broad tax imposed on the expenditure of consumers when they purchase goods and services. It is collected by businesses which are registered to charge in stages on the 'value added' from the manufacturing to retail level. The businesses then account for the tax so collected at the end of every month. VAT rate is 17.5 percent according to the new vat Act 2013 (870) which was passed on December 30, 2013. It is made of 15 percent Value Added tax and 2.5 percent National Health Insurance Levy (NHIL)

'Rate of the tax: Except as otherwise provided in this Act, the rate of the tax is fifteen percent and is calculated on the value of the taxable supply of the goods or services or on the value of the import'. (Value_Added Tax Act, 2013 Act 870). A zero (0) rate is also applied to all exports, (GRA diary, 2014).

National Health Insurance Levy (NHIL) is a levy imposed on goods and services supplied in or imported into the country. All goods and services are subject to the levy unless they are otherwise exempted. The levy is charge at a rate of 2 ½ on VAT exclusive selling price of goods supplied or services rendered. The NHIL is collected by registered businesses in the same way as VAT is collected, (GRA diary, 2014).

VAT registered persons are expected to submit a monthly VAT and NHIL return on the modified VAT return on the same basis as the previous VAT return was being submitted.

Taxable person: (1) a taxable person is a person who is registered for purposes of this Act or is required to register under section 6 to 16. (2) Subject to sections 6 to 8 and 10 to 16, the effective date of registration of a person as a taxable person is the date specified in the certificate of registration issued by the Commissioner-General under section, (Value_Added Tax Act, 2013 Act 870)

Taxable activity: (1) For the purposes of this Act (Value_Added Tax Act, 2013 Act 870)

, a “taxable activity” means an activity which is carried on by a person (a) in the country, or (b) partly in the country, whether or not for a pecuniary profit, that involves or is intended to involve, in whole or in part, the supply of goods or services to another person for consideration. (2) Without limiting subsection (1), a taxable activity includes (a) an activity of a local authority or unincorporated association or body that involves, in whole or in part, the supply of goods or services to another person for consideration; (b) the processing of data or supply of information or similar service; (c) the supply of staff; (d) the acceptance of a wager or stake in any form of betting or gaming, including lotteries and gaming machines; (e) the making of gifts or loans of goods; (f) the leasing or letting of goods on hire; (g) the appropriation of goods or services for personal use or consumption by the taxable person or by any other person; (h) the sale, transfer,

assignment or licensing of patents, copyrights, trademarks, computer software and other proprietary information; and (i) the export of non-traditional products. (3) A supply is considered to be a supply for consideration where the supplier is directly or indirectly entitled to receive payment wholly or partly in money or in kind from the person to whom the supply is made or from any other person, and includes (a) a supply made between related persons for no consideration; (b) a supply of goods for use only as trade samples; or (c) a supply referred to in section 21 to 23. (4) A supply is part of a taxable activity of a person if the supply is made by that person as part of or incidental to any economic activity the person conducts. (5) Where an owner of goods enters into a contract with another person to process or treat the goods of the owner, the delivery of the goods to the owner or the agent of the owner shall be treated as a supply of goods by the person processing or treating the goods.

Registration requirement: (1) except as otherwise provided in this Act, a person who is engaged in a taxable activity and is not registered for tax purposes shall register if

(a) at the end of any period of twelve or less months, the person made, during that period, taxable supplies exceeding one hundred and twenty thousand Ghana Cedis; or (b) at the end of any month, there are reasonable grounds to expect that that person will make taxable supplies in the next twelve or less months exceeding one hundred and twenty thousand Ghana Cedis. (2)

Despite subsection (1), a person shall register if (a) at the end of any period of three months, the person made, during that period, taxable supplies exceeding thirty thousand Ghana Cedis; and (b) there are reasonable grounds to expect that the total value of taxable supplies made by that person during that period and to be made during the next consecutive nine months will exceed one hundred and twenty thousand Ghana Cedis. (3) For the purpose of determining the thresholds under subsections (1) and (2), the Commissioner-General may have regard to the

value of taxable supplies made by another person, if that other person is a related person or the taxable person and that other person are acting in concert in making the taxable supplies. (4) A person who is required to register under this Act shall apply for Value Added Tax registration in the form and manner prescribed by the Commissioner-General. (5) A person required to register under subsection (1) shall file the application for registration within thirty days after the end of (a) the period under paragraph (a) of subsection (1); or (b) the month under paragraph (b) of subsection (1). (6) A person required to register under paragraph (a) of subsection (2) shall file the application for registration within thirty days after the three-month period, (Value Added Tax Act, 2013 Act 870).

The fraction for the extraction of VAT and NHIL from the VAT and NHIL inclusive price is $\frac{2}{23}$. Where the trader has established the practice of VAT inclusive pricing, prices must include both VAT and the levy. The fraction of $\frac{2}{23}$ must be used to work out the VAT and NHIL included in the price.

To separate NHIL from the total of VAT and NHIL, the combined VAT and levy amount must be divided by 6.

To obtain the VAT from NHIL, the levy must be multiplied by 5, (www.gra.gov.gh).

2.7 PRINCIPLES OF TAXATION

A famous British economist captions the attributes as canons of taxation and stated four canons of taxation in his book “The Wealth of Nations”. These principles are very significant, and they are as true today as they were in his days. They are: A good tax system is one, which is designed on the basis of an appropriate set of principles (rules). The tax system should strike a balance between the interest of the taxpayer and that of tax authorities, (Adam Smith, 1778). These canons are still regarded as characteristics or features of a good tax system.

Equity: This principle aims at providing economic and social justice to the people. According to this principle, every person should pay to the government depending upon his ability to pay. The taxes should be proportional to income, i.e., citizens should pay the taxes in proportion to the revenue which they respectively enjoy under the protection of the state.

Certainty: The tax which an individual has to pay should be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax is to be paid to the government. At the same time, a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax.

Convenience: The mode and timing of tax payment should be as far as possible, convenient to the tax payers. For example, land revenue is collected at time of harvest income tax is deducted at source. Convenient tax system will encourage people to pay tax and will increase tax revenue.

Economy: This principle states that there should be economy in tax administration. The cost of tax collection should be lower than the amount of tax collected. It may not serve any purpose, if the taxes imposed are widespread but are difficult to administer. Therefore, it would make no sense to impose certain taxes, if it is difficult to administer.

Additional Canons of Taxation: Activities and functions of the government have increased significantly since Adam Smith's time. Governments are expected to maintain economic stability, full employment, reduce income inequality and promote growth and development. Tax system should be such that it meets the requirements of growing state activities. Accordingly, modern economists gave the following additional canons of taxation (Egyin, 2011)

Productivity: It is also known as the canon of fiscal adequacy. According to this principle, the tax system should be able to yield enough revenue for the treasury and the government should

have no need to resort to deficit financing. This is a good principle to follow in a developing economy.

Elasticity: According to this canon, every tax imposed by the government should be elastic in nature. In other words, the income from tax should be capable of increasing or decreasing according to the requirement of the country. For example, if the government needs more income at time of crisis, the tax should be capable of yielding more income through increase in its rate.

Flexibility: It should be easily possible for the authorities to revise the tax structure both with respect to its coverage and rates, to suit the changing requirements of the economy.

Simplicity: The tax system should not be complicated. That makes it difficult to understand and administer and results in problems of interpretation and disputes.

Diversity: This principle states that the government should collect taxes from different sources rather than concentrating on a single source of tax. If the tax revenue comes from diversified source, then any reduction in tax revenue on account of any one cause is bound to be small.

Translating these general principles of development economics and governance into concrete tax and spending proposals for Ghana is complicated by the factors outlined in this thesis.

2.8 REASONS FOR TAX EVASION / AVOIDANCE AND VAT REDUCTION AND AVOIDING TO REGISTER AS VAT

Tax avoidance is the legal utilization of tax regime to one's own advantage to reduce the amount of tax that is payable by means that are within the law whereas tax evasion refers to efforts not to pay tax by illegal means (Elliot, 2009)

Many retailers in the Kumasi Metro try to avoid or evade tax. In an article written by Mrs. Duah, a GRA Commissioner in Ghana on 29th April, 2009, said 'and our personal experience showed

that most sellers in the Kumasi Central market were reluctant to pay their taxes to the extent that some even abandoned their goods on learning of the arrival of the tax officials.

The same thing applies to VAT officers, most of the shop owners runaway or pretend to be store assistance when VAT officers come to register them to collect VAT for the government. They tell them that the shop owners have travelled’.

Moreover, most of the registered VAT collectors also understate sales. According to (Elliot 2009) citizens evade tax because of no trust in the government. The public, most especially Kumasi Metropolis, often does not have a clear idea about the role and functions of the government and see no sense in paying taxes, since they believe that “state only take away their money and does nothing for their families and businesses”. Some point to the ineffectiveness of governmental agencies stating that government only wastes money instead of producing public goods and services.

Sardan (1999) believes that high tax rates charged can lead to tax evasion. She wrote “Economic agents may be regarding tax rates as very high and their paying decisions may be based on this. Many developing countries like Ghana have high tax rates, complex or ever-changing tax legislation that is often an obstacle for economic growth.”

“This temptation to cheat is strong if individual thinks that everyone is doing so. In other words, evasion imposes an externality on others. This results in large scale evasion epidermis and gradually ends up in tax evasion being part of the culture of the country and society. Separating an individual evader becomes difficult and insensible. If evasion is common, it begins to hamper the development of the economy, the simple need to get things done calls for a serious approach to improve tax collection” (the Chronicle, 2001).

According to Pak (2008), many large firms consequently complain that they are unfairly targeted by tax administrations that are eager to reach revenue targets and are more inclined to pursue readily available large firms that make the efforts to tax many smaller firms. These reasons have led to the significant tax abuses undertaken by larger firms. Some of these abuses occur through the systems of tax incentives that exist. The other potential source of abuse is the use of false invoicing and transfer mispricing to shift profits out of the country and thus lower tax liabilities. False invoicing occurs when local firms report higher prices paid for imports and or lower prices received for exports, both in an effort to reduce reported profits and thus tax liabilities. Transfer mispricing occurs when subsidiaries of multinational firms misprice the exchange of goods and services with the parent company or other subsidiaries of the +same company allowing them to illegally shift profits to low tax jurisdictions.

Modern Ghana.com on 7 June, 2006 published an article which indicated that in this part of the world issues relating to taxes are perceived as something for the government and tax collection agencies. Members of the public shy away from their responsibility of paying taxes because of the wrong notion that taxes are punitive and a burden on them, lack of education on the tax systems and administration party accounts for this.

It is stated in the book 'Growth and Poverty Reduction Strategy (GPRS II)' that Ghanaians are generally critical and careful about taxation. In pre independence days they paid tax as subjects to the colonial government to foot the bill of the colonial enterprise. After independence the lifestyles of our leaders have not inspired the general public to live up to their tax responsibilities. They have seen a history of over corruption and opulence by politicians, presumably living off tax payers monies. As a result, they seek to either evade or avoid tax payments as much as they can.

2.9 PROBLEMS OF VAT ADMINISTRATION

Over the past two decades many developing countries have implemented comprehensive reforms of their tax administrations in order to increase revenue and curb corruption (Ackerman e'tal, 2006)

Despite dramatic improvements in tax collection and the success of Ghanaian tax collection relative to its neighbours, there is little doubt that taxation remains subject to very large leakages. These leakages are more a question of administration than of policy, which is a reflection of the oft-cited claim that in developing countries “tax administration in tax policy”.

Mr. David Adom, former Commissioner of VAT, reported that the rapid growth in the size and form of business conducted over the internet and other communication networks, has raised a number of concerns for the formulation of tax policy and effectiveness of existing administrative procedures and techniques. This is the direct result of the nature of electronic – commerce transactions, which blur frontiers, change the character of income and result in the loss of audit trail. “These reduce the taxman’s ability to check the accuracy of profits reported by taxpayers and narrow the tax base”. He added. (Ghana News Agency, 1998)

Mr. Adum mentioned schemes for tax avoidance, irregular flow of resources taxation of the informal sector and the inability to establish the ‘tax court’, as other challenges to increased revenue collection. He expressed regret that some self-employed persons, including professionals and affluent in the society, belong to a category of taxpayers, who contributed only 5.2 per cent of total revenue collection in 1998 while employees contributed 29.8 per cent during the same

period. “This poor performance by this difficult to tax group is due to problems with taxpayer identification, illiteracy and poor record keeping and sometimes, intention of these potential taxpayers to evade tax”.

Lack of VAT paying culture among VAT payers was partly caused by a VAT system perceived as unfair. Relatively high rates and a complex and partly incoherent set of rules, especially for customs and corporate taxes, resulted in large potential rewards for VAT payers willing to bribe to cut their own tax burden and or speed up customs clearance of their goods (Terpker, 1999).

Again, Poor working conditions and little encouragement for staff to exercise initiative. Working conditions were generally characterized by a lack of technical equipment and poor office facilities. Moreover, the criteria for recruitment, promotion, and rewards of staff and management are unclear and subject to substantial discretion (Besley and McLaren, 1993).

Low probability of detection and punishment for corruption: internal auditing and monitoring functions had become for the most part non-operative and ineffective due to weak management and poor information. In practice, the probability of being detected and punished for corruption was virtually non-existent. (Barber, 1997)

One glaring administrative challenge is effective collaboration with other relevant branches of government. Experience in other countries suggests that one of the most effective means to improve the equitable and efficient collection of revenue is improve information sharing between agencies (Terkper, 1998).

At a more general level, the challenge of tax collection is fundamentally about information, and the ability to draw on multiple information sources to identify taxpayers and their actual tax liability. Thus, being able to draw on information from, among others, the Registrar General, the Department of Vehicle Licensing and Administration (DVLA) and the Ministry of Lands,

Forestry and Mines, holds huge potential for improving tax collection through greater knowledge of the assets and activities of taxpayers. Yet these forms of information sharing remain far too limited, owing to bureaucratic infighting, and an overall absence of the political will to bring the assets of high net worth individuals more clearly into the public eye.

The most dramatic illustration of the inertia affecting efforts to improve administration is the failure to implement an effective IT system within the GRA. Discussion of the need for improved use of IT has been ongoing for more than a decade and has involved major external pressure as well as important internal voices.

Also, lack of appropriate equipment to work with has resulted in a situation where information on potential taxpayers is not even captured. In some circumstances officers collude with taxpayers to cheat the system through quoting Lower figures than the state deserves as tax. Some even exploit the ignorance/illiteracy of taxpayers to rob them. Still others do not exhibit high levels of professionalism in treating the tax payers. The concept of customer service is alien to our work culture” (Kagina, 2004).

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

Research methods are rules and procedures and can be seen as tools or ways of proceeding to solve problems. Research methods play several roles such as:

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

This chapter deals with the methodology used by the researcher to investigate the challenges of the tax collector in the revenue mobilization for economic development. The methods used include the following:

3.2 RESEARCH DESIGN

This is the arrangement of conditions for collecting and analyzing data which will be relevant to the study in the most efficient and economic manner. It serves as a guide to the researcher in the process of collecting, analysing and interpreting observation. It also defines the domain of generalization; that is, it indicates the extent to which the obtained interpretation could be generalized to different situation or not (Amoani, 2005).

The research is both quantitative and qualitative, the research design used in this study is descriptive survey, which allows both implicit and explicit hypothesis to be tested. According to Avoke (2005), descriptive surveys are designed to portray accurately the characteristics of particular individuals, situations or groups. It is used as a needs assessment tool to provide

information on which to base sound decisions and to prepare the background for more constructive programme of educational research.

It also serves as a foundation for more vigorous and precise investigation. The data gathered in a survey are usually responses to predetermined questions that are asked of respondents (Alhassan, 2006).

3.4 POPULATION

Population for the study consists of the self-employed including shopkeepers, stores operators, and Restaurants among others and VAT officials of GRA at Adum STO in the Kumasi Metropolis.

3.5 SAMPLE SIZE AND SAMPLE FRAME

To test the theoretical expectations of any relationship, a wide range of different groups are needed to include all the various categories of people as far as possible (Warr, 1990). The sample forms a good representation of the population since it was impossible to interview everybody to solicit their views for the study.

Here forty-(40) retailers were selected to answer the questionnaire and twenty (20) staff members of GRA VAT officials were interviewed. In all sixty (60) people were used for the data collection in the study.

3.6 SAMPLING TECHNIQUE

Rubin and Rubin (2005), emphasized that to ensure credibility of research, the researcher should interview people who understand and have deeper information about the issue. This is because

the credibility of the interviews depends on the knowledgeability of the interviewees or participants of the study.

The main method adopted was stratified random sampling where the population was sub-divided into smaller groups called strata to select those who satisfied the description. The choice of this method was considered most appropriate due to the homogeneity of the targeted groups. According to Yolanda (study.com) stratified random sampling is a random sampling in which members of the population are first divided into smaller groups strata then are randomly selected to be part of the sample.

Sampling technique is the provision of a range of methods that enable a researcher to reduce the amount of data he/she needs to collect by considering only data from a subgroup rather than engaging the entire population (Poku, 2010).

3.7 SOURCE OF DATA COLLECTION

Data was obtained from both secondary and primary sources. Secondary data are subsequent publication of primary data. Examples are books, journals and newspapers. Primary data are the first occurrence of a piece of work (Poku, 2010). Documents and reports on the activities of the GRA were source for the purpose of the work. Questionnaires were administered as well as interview conducted to obtain data for the study. Questionnaire and interview were the major instruments used for the collection of data. Unique set of questions were designed for each of the major cluster in the population. Twenty six closed-ended questions were contained in the questionnaires designed for the retailers and eight guided interview questions for the VAT officials. It is hoped that responses obtained from the administration of the questionnaires and the interview were with minimum number of errors.

In sourcing for the secondary data, documents, reports and journals of the operations of the GRA were used.

3.8 DATA ANALYSIS TECHNIQUE

As a means of arriving at meaningful conclusions from the survey, a descriptive Analysis was used with a combination of frequency tables, charts and graphs as the specific tools for the analysis. Frequency distributions are tables constructed to examine the pattern of responses to each of the variables under investigation. Frequency table is a table that shows the occurrence of observation in each category of the variable. Charts (Graphs) are drawings (pictures) that show information on how two or more sets of measurement are related.

3.9 VALIDITY AND RELIABILITY

The data collected are valid and reliable since the information was gathered from authentic source, which is from the staff of the GRA, Adum STO and numerous taxpayers by the researcher. Information from Documentary Reports was also from concrete source since the work was done personally. This work is therefore commendable for future academic or any other purpose.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

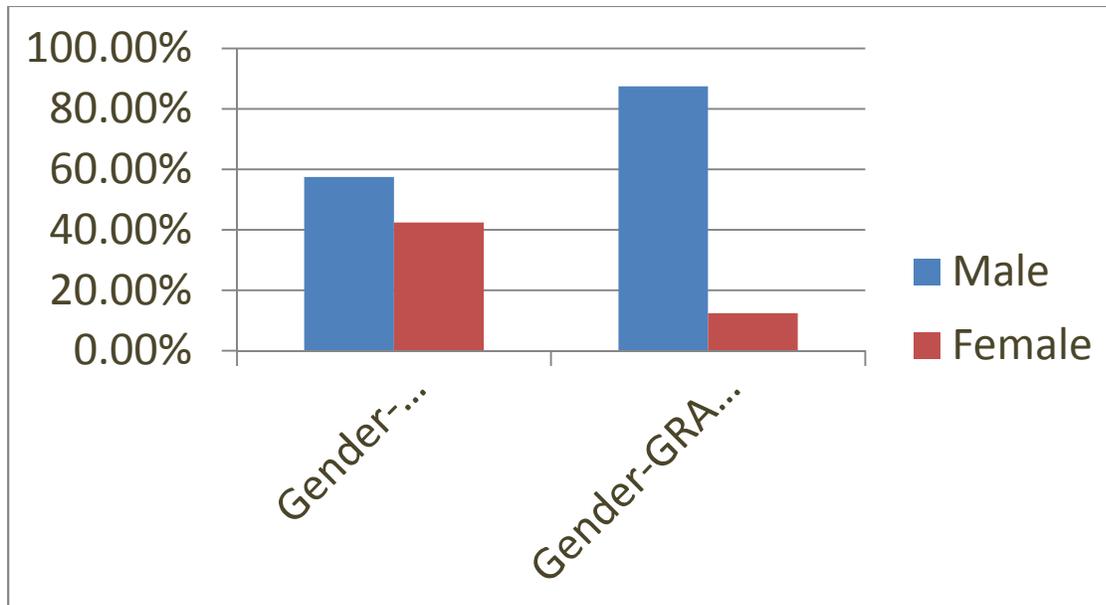
This chapter deals with the analysis and interpretation of the responses from questionnaires and interviews administered for the study. The chapter therefore gives detailed information of the textual data collected and the results obtained from the study.

4.2 PRESENTATION AND ANALYSIS

Responses to major questions are presented in tabular form and in pie charts. Further explanations are offered to avoid ambiguities for clearer understanding.

4.2.1 DEMOGRAPHIC DATA

Fig 4.1 Sex Distributions of Respondents

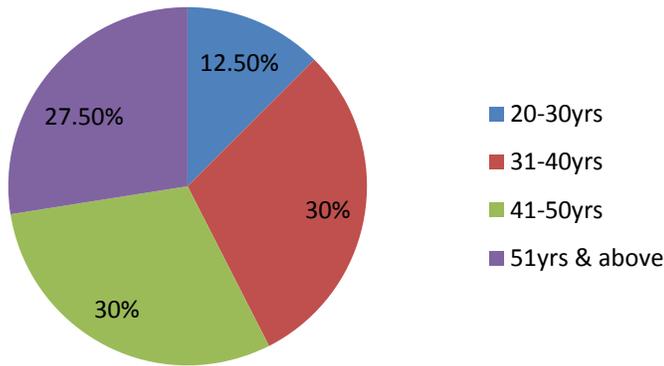


Source: Field Survey Data: 2015

From the above fig 1, there are fewer females in both the officials and the retailers by 12.5% and 42.5% respectively. However, there are 57.5% of men in the retail business and 87.5% of the VAT officials interviewed is made up of men. This is so because most of the respondents from the retailers and the GRA officials were all men. This shows that there are more males in the informal sector than females.

4.4 AGE OF RESPONDENTS

FIG.4.2 AGE DISTRIBUTION OF RESPONDENTS (RETAILERS)

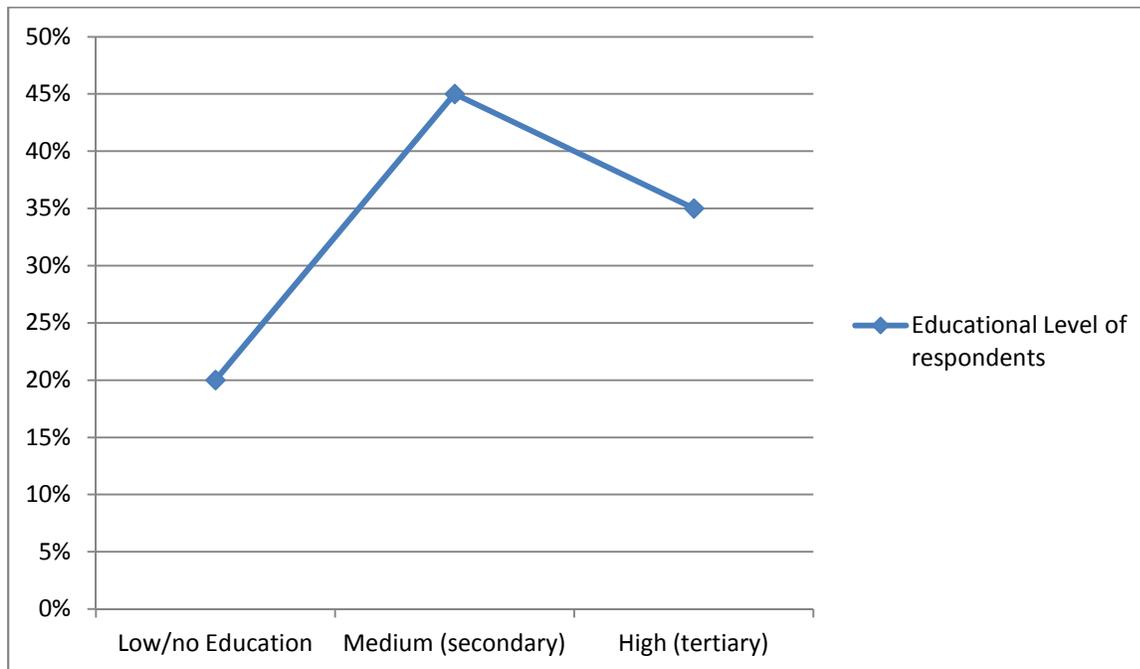


Source: Field Survey Data: 2015

According to the above chart, 60% (30% and 30%) of the taxpayers (retailers) are between the ages of 31 and 50 years old while 12.5% fall within the ages of 20-30 and 27.5% of the retailers are above 50 years. This indicates that the adult class (those above 30 years) forms the majority of the working class and is thus an important sector of the economy and was well represented in the study.

4.5 EDUCATIONAL LEVEL OF RESPONDENTS

Fig 4.3 Educational level of respondents



Field study, 2015

The results of our research on the educational level of the retailers showed that majority of the retailers fall within medium level of education (45%) which is made up of secondary school levers and “O” or “A” levers, followed by those with higher education (35%) that is those who had tertiary education. Twenty (20%) of the respondents are having low level of education or no formal education at all.

4.5 AWARENESS OF VAT

From the table below, it is clear that majority of retailers in the Adum metropolis are not aware or have not heard about VAT. 55% of retailers randomly picked (25% and 30%) disagreed and strongly disagreed of being aware of VAT which clearly indicates the resistance some retailers

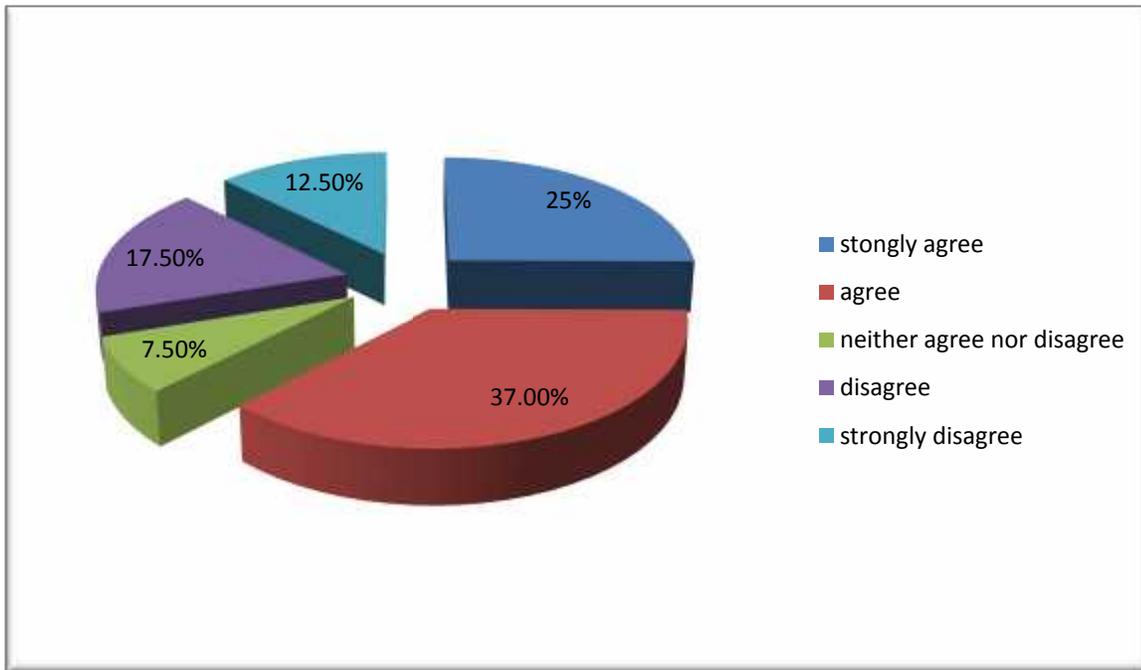
will have in paying for something they are not aware of. 10% of the population when given the questionnaire ticked neither agree nor disagree and 35% (17.5% strongly agreed and 17% agreed) of the population answered that they are aware, representing total low awareness. A study conducted by Graphic Business revealed that Meanwhile, checks by the paper has revealed that there are some service providers and traders, in particular, who are still not charging the 17.5% VAT, citing various reasons among which they said they are not aware (Graphic Business, 21 January, 2014). This goes to confirm Hence the need for Ghana Revenue Authority to intensify or put measures to ensure they create mass awareness of the VAT system

Table 4.1 Level of Awareness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	17.5	17.5	17.5
	Agree	7	17.5	17.5	35.0
	Neither agree nor disagree	4	10.0	10.0	45.0
	Disagree	10	25.0	25.0	70.0
	Strongly disagree	12	30.0	30.0	100.0
	Total	40	100.0	100.0	

Source: Field study, 2015

Fig 4.4 Registered Vat payers

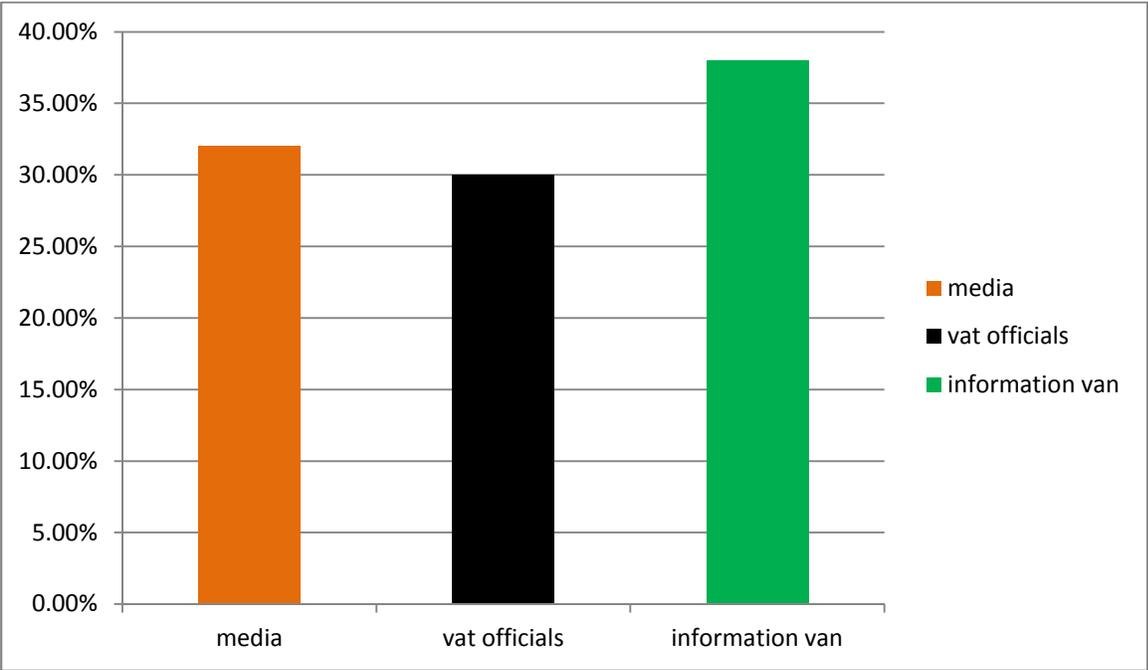


Source: Field study, 2015

Responses gathered from the retailers using questionnaire showed that even those who are aware few are registered VAT payers and this goes to confirm the statement of the problem that government have difficulties meeting annual tax or VAT targets since low revenues are collected as a result of few registered VAT payers. The research conducted showed that about 63% (25% strongly agreed and 35.5% agree) of retailers randomly selected are not registered VAT payers, 7.5% were not sure if they are registered or not, leaving only 30% retailers as registered VAT payers. This is very small and not fair for the registered retailers as they compete with others in the same market who sells their products at a lower price since they do not pay VAT. The VAT Act (2013 Act 870) explained that: (1) except as otherwise provided in this Act, a person who is engaged in a taxable activity and is not registered for tax purposes shall register if (a) at the end of any period of twelve or less months, the person made, during that period, taxable supplies exceeding one hundred and twenty thousand Ghana Cedis; or (b) at the end of any month, there

are reasonable grounds to expect that that person will make taxable supplies in the next twelve or less months exceeding one hundred and twenty thousand Ghana Cedis. (2) Despite subsection (1), a person shall register if (a) at the end of any period of three months, the person made, during that period, taxable supplies exceeding thirty thousand Ghana Cedis; and (b) there are reasonable grounds to expect that the total value of taxable supplies made by that person during that period and to be made during the next consecutive nine months will exceed one hundred and twenty thousand Ghana Cedis.

Fig 4.5 the Medium Of Educating Vat Payers



Source: Field study, 2015

From the chart above, 38% of retailers heard of VAT or had their VAT education through the information van, 30% heard of VAT from VAT officials educating them and 32% had theirs through the media like radio, television, and other social media. All agreed that employing all modes of communication would ensure that none is left out. This result is contrary to that of the findings of EGYIN, (2011) which showed taxpayers on the other hand favoured the use of radio

(53%), 12% preferred television, 24% preferred mobile vans and 10% preferred other mediums. However, all agreed that employing all modes of communication would ensure that none is left out.

4.6 REASONS FOR RETAILERS NON-COMPLIANCE TO VAT PAYMENT

Table 4.2 Compliance Level

Activity	percentage
Proper book keeping	30%
Collect receipt after payment	35%
Comply every month	40%
Early filing of returns	45%

Source: Field study, 2015

From the above table chart, it is shown that 40% regularly pay their VAT, 45% of retailers file their returns early, 35% do collect receipt after filing their VAT and 30% practice proper book keeping. This results show complete low compliance level of taxpayers leading to low revenue mobilization. VAT act 870 section 29, explains that “every taxable person shall keep such records and books of accounts as the minister may by regulations prescribe and as the commissioner may direct and shall produce at such place and time as the commissioner may by general notice published in the Gazette or any national newspaper or in writing to a taxable person, require. This is not the case with taxpayers within the Adum STO. With only 20% keeping proper book keeping is not good for mobilization of revenue for the nation. Tax

avoidance is high as many do not keep proper records of their financial matters and therefore are not either paying their VAT at all by under paying.

4.7 CHALLENGES VAT OFFICIALS FACE IN THE OFFICE AND COLLECTING VAT

VAT officials at Adum STO of the Ghana Revenue Authority did not mince words in telling us the challenges they face at the worksite. About 90% percent of them complained of inadequate VAT forms available to them and Shortage of VAT registration forms and wished that something is done about this.

One officer when asked said inadequate VAT certificates to be given to taxpayers is a worry to him. The officer among others also complaint of logistics like computers, stationery and information van seriously affect their work.

All officials interviewed said there is little motivation for workers to put up their best and explained that workers will bring out the best in them if only well motivated.

Bureaucracies at work among others were also highlighted by respondents.

One of official's responded that most retailers are not accessible and this makes the collection of VAT very difficult.

Another officer also said that one major challenge was late submission of VAT returns by retailers thereby putting pressure on them at the late working of the month.

One officer during the interview said that most of the taxpayers underpay their VAT due to improper book keeping. He also said that most traders do not know how to calculate for the

percentage they have to pay. One of the respondent also said that the retailers always come to pay the same amount every month.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

This chapter discusses the summary of findings from the study and offers some recommendations on how the challenges can be mitigated to improve on the mobilization of VAT by VAT officials. It ends with a conclusion on the study.

5.2 SUMMARY OF FINDINGS

The study sought to assess the challenges associated with value added tax (VAT) collection for the development of the nation.

The Data collected and analysed indicated that, majority of retailers in the Adum metropolis are not aware or have not heard about VAT. From the analysis 55% of retailers were not aware of VAT.

From the data, collected 55% of the retailers were not complying with VAT Act 2013 Act 870. They attributed this non-compliance to the fact that they join long queues to file their returns. Others said they have difficulty in calculating their VAT and need more education on how to calculate their VAT. Some also were not keeping proper financial record.

Based on the interview conducted, VAT officials encounter lots of challenges in collecting VAT from the retailers among which are difficulty in locating retailers and late submission of VAT returns. Inadequate logistics such as mobile vans are needed for mass education, networked computers to facilitate inter-connectivity for information sharing and a data base for tax payers for effective monitoring. The analysis shows that tax collection is not efficient as there is room for evasion and corruption hence more education through radio, television, etc.

5.3 RECOMMENDATIONS

From the findings of the study culminating in the above conclusion, the following recommendations are proposed which when implemented will go a long way to mitigate the challenges and enhance revenue mobilization

Tax collectors should be motivated to execute their job with dexterity and creativity to deter retailers from finding ways to avoid paying the appropriate VAT and come out with innovative ways of combating tax evasion and default

The tax offices should be given the necessary facelift and equipped with the logistics including interconnectivity to help in the identification of tax payers for effective monitoring through real time information sharing among the revenue agencies and related organizations.

Tax education must be more aggressive and frequent in approach using all the various methods for mass education to reach all retailers about the importance of paying their VAT regularly and promptly using the flat rate (3%) as a civic duty for the development of the nation. Retailers should be encouraged to register their businesses by removing the bottlenecks and improve the benefits of formality.

Retailers should be educated through seminars and workshops on how to keep proper records of their finances.

There should be transparency in the tax incentives and tax holiday regime with proper monitoring and evaluation to prevent tax leakages.

Finally, the Anti-Revenue Leakages Monitoring Team of the GRA should be empowered to sanction appropriately recalcitrant defaulters and evaders within the shortest possible time.

5.4 CONCLUSION

As much as a country can benefit from external sources, her major reliable source of fund is the one generated internally. In a developing country, taxation is one of the major forces behind which the country can develop. Whiles GRA is the agency, which can mobilize such funds for the benefit of the nations; it is not easy to find VAT payers for declaring all sales revenue and eventually to pay their returns willingly and freely. From the study, it was discovered that more education is needed to educate retailers on VAT and how to compute it. The researcher concludes that further studies can and should be conducted on the effective mobilization of VAT.

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APENDIX

QUESTIONNAIRE

Informal sector Respondents' questionnaire

Questionnaire to the vat payers of the Adum STO of GRA

This questionnaire has being drawn on the challenges associated with the collection of vat in the Adum STO. The purpose is to compile data for a project work as partial fulfilment of Bachelor of Business Administration Course. The information needed is purely for academic purpose and therefore would be treated with maximum confidentiality.

Part I. Level of Awareness of VAT and Compliance

Indicate your level of agreement with regards to the following statements by circling the appropriate number: 1= strongly agree, 2= agree, 3= disagree, 4= strongly disagree

Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
1	2	3	4	5

1	I am aware of VAT	1	2	3	4	5
2	I had education on VAT through the media	1	2	3	4	5
3	I had education on the calculation of VAT from the VAT officials	1	2	3	4	5
4	I heard of VAT from the GRA information Van	1	2	3	4	5
5	I am aware of VAT but I am not a registered VAT trader	1	2	3	4	5

PART II: COMPLIANCE

Indicate your level of agreement with regards to the following statements by circling the appropriate number: 1= strongly agree, 2= agree, 3= disagree, 4= strongly disagree

1	I pay VAT on my business every month	1	2	3	4	5
2	I always pay my VAT at Adum STO	1	2	3	4	5
3	I always collect a receipt for every VAT I pay	1	2	3	4	5
4	I always get my VAT return forms in time	1	2	3	4	5
5	I always get assistance on how to calculate my VAT from the VAT officials	1	2	3	4	5

Part III. Reasons for Retailers Non-compliance to VAT Payment

Why the Retailers don't pay their VAT

The following usually lead retailers to non-compliance and attributable reasons. Respond, as you believe is the case why you do not pay VAT. *(Circle the appropriate number)*

Possible reasons for Retailers noncompliance						
The reasons why I don't pay my VAT always is because:						
1.	I don't see the need to pay VAT	1	2	3	4	5
2.	I don't know how to calculate my VAT	1	2	3	4	5
3.	I don't know which rate to use in calculating my VAT	1	2	3	4	5
4.	I get my return forms late	1	2	3	4	5
5.	I don't keep financial record on my business	1	2	3	4	5
6.	I don't know when to pay my VAT	1	2	3	4	5
7.	I spend more time at the Adum STO anytime I go to pay my VAT	1	2	3	4	5
8.	It is difficult to locate a nearby tax office	1	2	3	4	5
9.	My business has slowed down because of the 'dumsor dumsor'	1	2	3	4	5
10.	VAT officers make frequent visits and demands for payment	1	2	3	4	5

PART IV: DEMOGRAPHY OF RESPONDENTS:

Please tick the appropriate box [√]

1. Gender: male Female

Educational level: Low/no education Medium (Secondary) High (Tertiary)

2. How old are you?

20-30yrs 31-40yrs 41-50 51yrs and above

3. Nature of Business: super market cosmetics men's wear ladies wear bags

building materials, plumbing materials computer accessories and electrical appliances food stuff cooking utensils stationery

4. Do you have permanent place for your business a) yes b) No

5. How long have you been in this business?

less than a year 1-5yrs 6-10yrs 16 years and above

CHRISTIAN SERVICE UNIVERSITY COLLEGE

QUESTIONNAIRES FOR OFFICIALS

DEPARTMENT OF BUSINESS STUDIES

QUESTIONNAIRES TO FIND OUT THE CHALLENGES OF TAX ADMINISTRATION

(DIRECT TAX) IN KUMASI METROPOLIS

PLEASE NOTE THAT THE INFORMATION GIVEN IS STRICTLY CONFIDENTIAL AND FOR USE OF ACADEMIC PURPOSES

PLEASE KINDLY ANSWER BRIEFLY OR TICK WHERE APPROPRIATE

1. How long have you worked with the service?

2. What system of tax collection do you apply?

Field collection Office Collection Check points

All of the above.

3. Do you have adequate logistics for tax collection? Yes No

a. If Yes, briefly describe it

-
-
4. Do you give education to taxpayers? Yes [] No []
- a. If yes, how often?
- b. What form of education do you give to them?
- Formal [] Informal [] Both []
5. What problems do you encounter when collecting tax (VAT)?
- a.
- b.
- c.
- d.
6. What are the measures taken to solve the problems?
- a.
- b.
- c.
7. Are taxpayers' enthusiastic in paying tax? Yes [] No []
- a. If yes, why
- b. If no, why
8. What benefits do taxpayers' derive from the payment of tax?
- a.
- b.
- c.
9. How do taxpayers, behave towards you?

.....
.....

10. Has the current economic trend affected direct tax collection in the Metropolis?

Yes [] No []

a. If yes, why

b. If no, why

11. Do people evade tax? Yes [] No []

12. What mechanisms have been put in place to identify taxpayers' who do not honour their tax obligation?

.....
.....

a. If no, why.....

15. In your opinion, how will you assess revenue from VAT

.....
.....