CHRISTIAN SERVICE UNIVERSITY COLLEGE

SCHOOL OF BUSINESS

TOPIC:

CHALLENGES AND EFFECTS OF TAX STAMP ON SMALL SCALE BUSINESSES IN

THE KUMASI METROPOLIS

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STATEMENT OF AUTHENTICITY

We have read the university regulations to plagiarism and certify that this report is all our own work and do not contain any acknowledged work from any other source.

We also declared that we have been under supervision of our superb supervisor, Dr Solomon Arhin for this research herein submitted.

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SUPERVISOR'S DECLARATION

We hereby declared that the preparation and presentation of the dissertation were supervised in accordance with the guidance of supervision laid down by Christian service University College.

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DECLARATION

We hereby declare that this is our own research toward the award of a degree in bachelor of business administration and it contains no material formally published by neither any other persons or any material which has been accepted for the award of any other degree of the university except where suitable accepted acknowledge has been made in the text.

DEDICATION

First and foremost, we dedicate this work to the almighty God for granting us wisdom to do this research and also seeing us through this programme.

Secondary, our parents and guardians for their advice and support throughout our education. We appreciate your effort towards our education; however this is to say that we really appreciate your love and support.

ABSTRACT

This study sought to examine the Challenges and Effect of Tax Stamp on Small Scale Businesses in Kumasi Metropolis. Ghana loses billions of tax revenue every year due to unreformed tax regimes and ineffectiveness. A wide range of reforms have been introduced by the Ghana Revenue Authority with the aim of capturing all if not majority of tax payers in the informal sector. The act of corruption, lack of patriotism and inadequate manpower to aid the collection of tax revenue are some of the challenges confronting the informal sector. A primary and secondary source of data collection were used for this research work, structured questionnaire were randomly administered to tax payers in the informal sector specifically operators/owners of Small Scale Businesses and some tax officials. Interviews were also conducted. A sample population size of 100 informal business operators was used, and the data collected were analyses my SPSS 16.0 VERSION.

Analysis of data collected established that the factors that mostly contribute to the challenges and the effect of tax stamp on small scale businesses includes; corruption on the part of tax officials, there is lack of patriotism on the part of the tax payers, there is an inequitable tax laws in Ghana and these tax laws have limited application.

The recommendation of the study included, capacity building, tax information and education, simplification of filing procedures, improving tax administration and preparing a data base of a list of business in the informal sector. There should also be judicious use of tax payers' money in order to encourage compliance with payment of tax, effective tax legislation to improve the treatment of tax payers and tax officials in order to motivate them. It is the hope of the researchers that the findings would contribute to effective tax administration in the informal sector; political leaders should refrain from exhibiting certain types of spending and life styles in order for tax collection to improve.

ACKNOWLEDGEMENT

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INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Tax Stamp was introduced in Ghana on1st of February, 2005 during NPP Government lead by H.E. President John Agyekum Kuffour. The main aim or purpose of the Tax is to widening the Tax net to cover all the traders and artisans especially those in the informal sector such as Dress makers, Bakers, Chop Bar Operators etc. (GRA)

1.1 DEFINITION

It is a tax collected from small - scale self – employed persons in the informal sector on quarterly basis. Under the Tax stamp system, business operators in the informal sector are grouped according to business type e.g. Dressmakers, Susu Collectors, Chop Bar owners, Butchers etc. The business types are further grouped by class/size to arrive at equitable rates to be paid according to both type and size. (www.gra.gov.gh)

In Ghana, the National Board for Small Scale Industries (NBSSI) uses size of workforce and the amount of investment to define small business. According to NBSSI a small business in Ghana is the one that employs 6-29 employees and has an investment which does not exceed $ 100,000.00 excluding land and building. How NBSSI categorizes businesses in Ghana is presented in the table below:

BUSINESS	WORKFORCE	INVESTMENT ($)
Micro	1 - 9	Up to 25,000.00
Small	6 - 29	Up to 100,000.00
Medium	30 - 99	Up to 1,000,000.00
Large	100 or above	Over 1,000,000.00

Table 1: NBSSI Definition of MSMEs.   (Approach to Entrepreneurship and Business Planning; Michael Adusei &Appiah Sarpong; sadev publications 2011, Kumasi)

When the Internal Revenue Service (IRS) started collecting the Tax Stamp there were some measures for rate and tax amount. Now the Ghana Revenue Authority (GRA) uses discretional measures. The highest rate for the Tax Stamp is GH₵ 45.00 and the least is GH₵ 3.00 per quarter depending upon the nature, size, type and the value of the stocks or inventory of the business. (GRA)

When the Tax Stamp is paid, a sticker called Tax Stamp sticker is given to the person who paid the tax. This sticker must be conspicuously displayed at the business premises or carry on your person (in the case of itinerant traders) for inspection at any time. Inspection of the Tax Stamp begins from 15th of the month after the quarter has ended. (GRA)

When it was introduced, at the earlier stage it was difficult for the Internal Revenue Service (IRS) who was mandated to collect the tax to collect from the traders. The traders did not understand why they should pay such tax but now majority of the traders have come to understand it and are paying it willingly because of the intensive education done by the Institution mandated to collect it. (GRA)

Although the purpose of the Tax Stamp that is widening the tax net to cover all traders have been greatly but not fully achieved, there are some challenges on the part of the collectors, among others are:

1. unwillingness of some of the traders to pay the tax

2. Illiteracy on the part of the traders. Some of the traders no matter the kind of education that the GRA give them they still do not understand why they should pay tax stamp.

3. The main one (challenge) is the limited staff. GRA staffs have to go to field everyday to do the tax collection but since they have limited staff they are not able to meet their target.

4. Inability to differentiate Tax Stamp from KMA income tax on the part of the traders.

1.2 STATEMENT OF PROBLEM

Since Tax Stamp is collected from business owners who are in the informal sector of the economy and the majority of the business owners in the informal sector are either partially educated or uneducated, there are some problems associated with the collection and the payment of the tax. Therefore the main problems that necessitated our research in to tax stamp are outline below:

- ➢ Non understanding of the tax stamp system by the business operators/owners in the informal sector
- ➢ Unwillingness of the informal sector business owners to pay Tax Stamp

The research therefore seeks to evaluate the effect of Tax Stamp on the Small Scale Businesses with particular reference to Small Scale Businesses in Kumasi Metropolitan.

1.3 RESEARCH OBJECTIVES

The main objective of this research is to evaluate the challenges and effects of the Tax Stamp on the Small Scale Businesses with particular reference to Small Scale Businesses in Kumasi Metropolitan. Specifically the research seeks to:

- ➢ Identify the challenges of the Small Scale Businesses in connection with Tax Stamp
- ➢ Find out how the challenges affect the Small Scale Businesses
- ➢ Find out the effects of the Tax Stamp itself on the Small Scale Businesses.
- ➢ Offer recommendations based on the findings.

1.4 RESEARCH QUESTIONS

The research seeks to find answers to the following questions:

- ➢ What are the challenges of the Small Scale Businesses?

➢ How do the challenges affect the Small Scale Businesses?

➢ What are the effects of the Tax Stamp itself on the Small Scale Businesses?

1.5 SIGNIFICANCE OF THE STUDY

The research shall,

➢ Help to know the challenges of the Small Scale businesses in connection with Tax Stamp and how do the challenges affect the Small Scale businesses.

➢ Help to know the effects of Tax Stamp on the Small Scale Businesses.

➢ Be useful to future researchers.

➢ Serve as reference for students and other research institutions.

1.6 SCOPE AND LIMITATIONS OF THE STUDY

This research has been limited to Small Scale Businesses in the Kumasi Metropolis. This is because Kumasi is the most populated Metropolitan with largest number of Small Scale Businesses in Ghana. *(Ghana Statistical Board)*.

Moreover, Kumasi Metropolitan was chosen for our research because the Small Scale Businesses in Kumasi makes it possible for researchers to have enough samples for our research.

Some limitations of the research include;

➢ Some operators/owners of the Small Scale Businesses felt too reluctant to answer the questions.

➢ It was difficult getting staff and management of Ghana Revenue Authority (GRA) for some information.

➢ Due to monetary constraints the researchers were not able to get more sample in relation to the entire population of the Small Scale Businesses in the Kumasi Metropolis.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews various literatures concerning the subject of challenges and effects of Tax Stamp on Small Scale Businesses and it involves the following; Definition of the Concept, Related Study, Conceptual Framework and Definition of the Key Terms.

2.1 DEFINITION OF THE CONCEPT

Tax Stamp is a domestic tax payable by owners/operators of the Small Scale Businesses on quarterly basis. When the tax is paid a sticker is issued and it must be displayed at the business premises by business owners/operators.

Tax Stamp is a tax which required a stamp to be affixed to certain products, documents etc., before they change hands to indicate that a tax has been paid. **(dictionary.reference.com/…/tax + stamp**

Per Internal Revenue (Amendment) Regulations, 2004, Tax Stamp is a tax which allows for easy identification of small-scale self-employed persons in the informal sector e.g. persons operating in kiosks, on table tops, identifiable groups such as hairdressers, dressmakers and tailors, butchers, market traders, chop bar and cooked food sellers, artisans such as masons, carpenters, welders, mechanics etc. Under the Tax Stamp System, business operators in the informal sector are grouped according to the business type and volume. The tax is paid quarterly in advance i.e. 15th January, 15th April, 15th July and 15th October.

The definition Per Internal Revenue (Amendment) Regulations, 2004 was revised by **Ghana Revenue Authority (GRA, 2007).** According to the GRA (2007), it is a tax collected from small - scale self – employed persons in the informal sector on quarterly basis. Under the Tax stamp

system, business operators in the informal sector are grouped according to business type e.g. Dressmakers, Susu Collectors, Chop Bar owners, Butchers etc. The business types are further grouped by class/size to arrive at equitable rates to be paid according to both type and size.

2.2 RELATED STUDY

The Personal income tax in Ghana has always been progressive, thus tax rates are graduated with higher income earners paying more tax. The progressive rates are divided into six bands with tax rates set between 5 and 25 per cent. Tax payments of employees are withheld monthly. All resident individuals in receipt of business, investment or employment income accruing in derived from, brought into or received in Ghana are liable to pay income tax. Over the years other taxes and duties were added to the income tax. These were Minerals Duty in 1952, Betting Tax in 1952, and Casino Revenue Tax in 1955. These reductions in the corporate tax rate, coupled with improved ease of compliance, were reflected in Ghana's gains in the World Bank Doing Business survey, climbing from 83rd position to 77th position in a League of 175 countries. Ghana was for that period among the top ten movers in the World Bank Doing Business survey (Prichard & Bentum, 2009).

In revenue terms, corporate taxes and individual income taxes comprise almost identical shares of the total tax take, which is the end result of steady gains in the area of individual income taxation. Of individual income taxes the overwhelming share (88.7% in 2007) comes from withholding taxes on formal sector wages (PAYE), with only tiny share accruing from the self-employed, which encompasses most of the informal sector and many professional occupations, such as consultants. Arguably the most glaring weakness of the direct tax system is the almost total failure to tax property or rental income. While this failure is common across most of sub-Saharan Africa, it nonetheless represents a major revenue loss, and erodes the redistributive capacity of the tax system. The housing market in Accra in particular is dominated by rental

properties, while rental prices and property values are remarkably high given the relatively low-incomes of most citizens (Cooperative Housing Foundation [CHF], 2004). As such taxation of rental incomes and property could yield potentially very significant additional revenues, which some estimate at as much as 1-2% of GDP. Property taxation would have the added advantage of implicitly clarifying ownership, which would represent a major success given that land tenure disputes are a source of major conflicts in Ghana, and one of the major causes of inefficiency and high costs in the property and real estate markets (CHF, 2004).

Indirect taxes and for that matter taxes on goods and services mainly composed of the VAT and excise taxes, the latter of which have declined consistently over time (Prichard & Bentum, 2009). The VAT was initially introduced to replace the existing sales tax in 1995 under significant pressure from the IMF, which was concerned about high levels of indebtedness in the aftermath of huge expenditure increases surrounding the 1992 election. Because of the looming fiscal crisis it was introduced at a relatively high rate of 17.5%, with somewhat less public education that might have been desirable, and without the support of the opposition, which was boycotting parliament over alleged electoral irregularities.

The consequence of these three factors was the outbreak of massive street demonstrations against the tax, with the protests becoming incorporated into broader demands for political liberalization. The government eventually revoked the tax and only reintroduced it three years later at the much lower rate of 10% (Osei, 2000). The rate was subsequently increased to 12.5% in 1999, but was earmarked for the newly created Ghana Education Trust (GET) Fund in order to secure political support. In 2003 the rate was effectively further increased to 15%, though political concerns led the government to go so far as to identify it as an independent tax item, the National Health Insurance Levy (NHIL), which was earmarked for funding a new health insurance scheme (Osei & Quartey, 2005). Though smaller in absolute terms, the most volatile element of indirect taxation has been the share of petroleum taxes in total revenue. The change of government at the

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end of the year 2000 saw a renewed surge in petroleum taxes, but this began to be reversed by 2005, while further major cuts in petroleum taxes were announced in the run-up to the 2008 elections.

The reach of the VAT is significantly wider than income tax, as it is, in principle, levied on all forms of consumption. Because the VAT is levied on every transaction along the value chain, even goods that are not taxed at the final point of sale may carry a significant tax component that was levied at an earlier stage (Prichard & Bentum, 2009). That said it is worth noting various factors that reduce the tax burden on lower income taxpayers. First, the Value Added Tax Act contains a fairly wide range of exemptions primarily on basic consumption goods, which reduces the burden on lower income taxpayers. Likewise, in 2008 there were 46,842 traders registered (up from 30 377 in 2006), of whom 36,000 filed tax returns, which represents only a fraction of the total number of businesses in the country (Prichard & Bentum, 2009). In an effort to bring small traders into the tax net the government introduced the VAT Flat Rate Scheme (VFRS) in September 2007 at a flat rate of 3% of turnover. In principle every trader is meant to be registered, irrespective of the VAT threshold, though the VAT Service estimates that only about 26.4% of potential informal sector traders are currently registered.

Countries use taxes for many purposes. Taxes are used to raise revenues to fund government services, to correct market imperfections, and to encourage or discourage certain types of behaviour (Bird & Zolt, 2005). Thus taxes of all form could be levied to achieve national goals such as economic stability, equity, economic growth and protectionism. It could as well be employed to mobilize revenue into the nation's coffers as reserves.

On the economic stability, for example, wild fluctuations (ups and downs) in prices are very harmful for the development of the economy of the country. Declining prices, for example, as witnessed during the recent Global Financial crisis, causes depression which leads to a fall in company profits, saving, investments, employment and the Gross Domestic Product (GDP).

Taxation therefore supports the Government's goals by ensuring that the public finances are sustainable, contributing to a stable environment that promotes economic growth. This environment is important in building a stronger, more enterprising economy and a fairer society, extending economic opportunity and supporting those most in need to ensure that rising national prosperity is shared by all (Thuronyi, 2003 in Pfeuffer & Weißert, 2006).

Though economic growth could be attained through the employment of taxation, the excessive use of taxation may be counterproductive (Baafi, 2010). For example, if tariffs on food imports including rice, edible oil, and fish and poultry products are astronomically increased as has been the case, the effects trickle down to affect consumers. Currently, there has been a drastic increase in the Roads and Bridge tolls which is still hanging over commuters. Price hikes of water (pure water) and alcoholic beverages including 'Akpeteshie' having been taxed 20%. Tariffs on electricity and water are also up and also to be pushed down the throat of the ordinary man on the street. All these tax initiatives go a long way to further reduce incomes. Because of low incomes and mass unemployment in our society, we must carefully levy taxes and skew it towards equity.

Taxation could be to strive towards equitable distribution of income to create peace and harmony in the society by bridging the gap between the rich and the poor (Baafi, 2010). Progressive forms of taxation could be used for that matter. Ali-Nakyea (2008) summarized the role of taxation in the national economy. He emphasized that taxation raises revenue to defray the cost of services provided by the state; reduce inequality arising from the distribution of wealth; restrain consumption of certain types of goods; protect indigenous industries, and controls the country's economy.

The study looks at taxing the informal sector and the concerns raised by clients with special reference to the issuance of the tax stamp therefore, a review of literature on the informal sector is desired. In some years past, researchers paid no attention to activities carried out outside the

formal sector of the economy. Sociologists and anthropologists were the only ones who seemed to consider the existence of such activities (Gërxhani, 2004). In the 1950s and 1960s, however, the informal dimensions of organizational life became increasingly recognized as important and were accepted as a commonplace topic for researchers (Blau & Scott, 1963). This neglected phenomenon was analyzed in 1972 by the International Labour Office (ILO), under the name informal sector.

Hart (1973) – a social anthropologist – was the first person to use the term informality in his article titled *Informal Income Opportunities and Urban Employment in Ghana*. In this article, he introduced the concept of the informal sector to describe a part of the urban labour force, which works outside the formal labour market. Hart considered the informal sector as almost synonymous for all categories of (small) self-employed individuals. This was thereafter typically used to refer to ways of making a living outside the formal wage economy, either as an alternative to it, or as a means of supplementing income earned within it (Bromley & Gerry, 1979). Even though Hart's original notion of the informal sector is limited to the self-employed, the introduction of the concept made it possible to incorporate activities that were previously ignored in theoretical models of development and in national economic accounts (Swaminathan, 1991). This was an important characteristic of the subsequent use of the term.

In spite of the early work by Hart, the pioneering research on the informal sector is widely considered to be a report of the International Labour Office (ILO, 1972) on employment in Kenya (Gërxhani, 2004). Informality in this report is mainly characterized by the avoidance of government regulations and taxes. Initially, the ILO considered the main aim of the informal sector to be the provision of subsistence to families. It related the growth of the informal sector to its positive effects on employment opportunities and the distribution of income. As a consequence, it argued that solving the problems of the informal sector is only possible if issues like employment relationships and inequality are solved.

The conceptualization of the informal sector took yet another meaning, by focusing on the regulatory framework. In this approach, the legal status is the main element distinguishing informal from formal activities. It relates the emergence of the informal sector to the policies applied and to transaction costs (De Soto, 1989). It suggests, therefore, that to let the informal sector develop, deregulation of the market, greater private property rights, and almost complete abolition of state intervention are needed.

Ghana, like most sub-Saharan African countries, has a large and diverse informal sector. It is estimated that, in terms of economic activity, about 86.3% is carried out by the self-employed sector mostly operating informal structures. (Ghana Living Standard Survey [GLSS], 2000), even though quite a significant number could easily be classified as earning below the taxable threshold of income liable to tax. This comprises activities such as trading, transportation, construction, agriculture, livestock, food preparation, credit facilities, refrigeration, electricity, dressmaking, footwear distilleries, gold and silver smiting and traditional healing (Ayee, 2007).

The size of the Ghanaian informal sector does not only make it difficult for the concerned sectors (Ministry of Finance and Economic Planning and the Statistical Service) to have accurate data on their membership and activities, but also makes it difficult to tax them (Ayee, 2007). According to records at the Registrar General's Department, Ghana, there are 266,760 self-employed registered in the informal sector. It is however sad to note that only 53,352 have been registered and are being assessed to tax.

The income tax base in Ghana is very narrow. Only about 20% of the work force is employed for wages and salaries. The rest are in the informal sector. In some cases, it is almost impossible to determine the income of those in the informal sector because they are mainly self-employed and therefore the greater part of the real income cannot be satisfactorily assessed. As a result, majority of the informal sector have been the worst income tax evaders. The evasion takes three forms, namely, non-declaration of income, under-declaration and inflation of deductions from

income (Ayee, 2007). Some of the informal organizations in Ghana are the Ghana Private Road Transport Union (GPRTU), Progressive Transport Owners Association (PROTOA), Ghana National Tailors and Dressmakers, Association Musician Union of Ghana, National Drinking Bar Operators Association, Chop Bar Keepers and Cooked Food Sellers Association, Hair Dressers Association of Ghana, Susu Collectors Association, Traditional Healers, Fetish Priests, Mallams and Drug Peddlers Association, Cornmill Owners Association, just to mention a few.

The government has shown an increasing desire to tax the informal sector, and there are several reasons for this desire. The reasons include the size and growth of the sector, the perception that the formal sector is heavily taxed, the demands from the informal sector and state legitimacy.

The size and the rapid growth of the informal sector make it a viable tax avenue for the government. Recent calculations estimate that the size of the informal sector in developing countries varies between about twenty percent in Indonesia to around sixty seven percent of GDP in Bolivia (Schneider, 2002). The informal sector is complex and heterogeneous comprising of large enterprises and small; urban firms and rural ones; visible activities as well as invisible ones; owners as well as workers; local activities as well as those that cross jurisdictional boundaries.

Also tax payers in the formal sector perceive the state as being unfair in pursuing them for taxes while the informal sector continues to operate untaxed. Ignoring informal sector activities will lower compliance morale and increase the risk of generalized noncompliance (Terkper, 2003). There is some evidence from Latin America suggesting that tax compliance in the formal sector is higher in countries which have a relatively small informal sector (Torgler, 2003).

Several studies have shown the willingness of those within the informal sector to pay taxes, specifically when these are in exchange for some legitimacy, stability and protection from arbitrary harassment from state agents (Eaton & Dickovick, 2004). For many within the sector,

the tax burden is not burdensome, especially as they are paying informally anyway in order to stay in business (Ayee, 2007).

In order to regain legitimacy, governments are looking for ways to incorporate informal activities into formal systems. Taxation is a good route into the problem, as it enables governments to recognize informal activities without legitimizing the breaking of other rules and regulations. Broadening the tax base and developing a 'culture of compliance' can achieve more than simply increasing revenues; it can be a way of re-engaging citizens with the state (Ayee, 2007).

However there are several difficulties in taxing the informal sector and Ghana, as a developing country has not escaped these difficulties. Crucial among these difficulties are capacity constraints, the inappropriateness of tax collection mechanisms, the politics in taxing the informal sector, and lack of incentives for tax collectors.

In view of these reasons, the government has introduced several taxes to specifically target informal sector operators. These include the Vehicle Income Tax on public transport operators, the Tax Stamp for collecting income tax from small traders, and the Flat Rate Scheme for expanding the reach of the VAT. These taxes all collect relatively very little income, but the government is determined to continue to expand their collection.

2.3 CONCEPTUAL FRAMEWORK

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         Manufacturers                                    Artisans


                        Taxes From
   Banks                Businesses  in      NATIONAL                    Taxes
                        the                 TAX                 From                    Bakers
                        Formal Sector       REVENUE             Businesses  in
                                            KIT                 the    Informal
                                                                Sector
   Tourism
   Services

                                                               Traders
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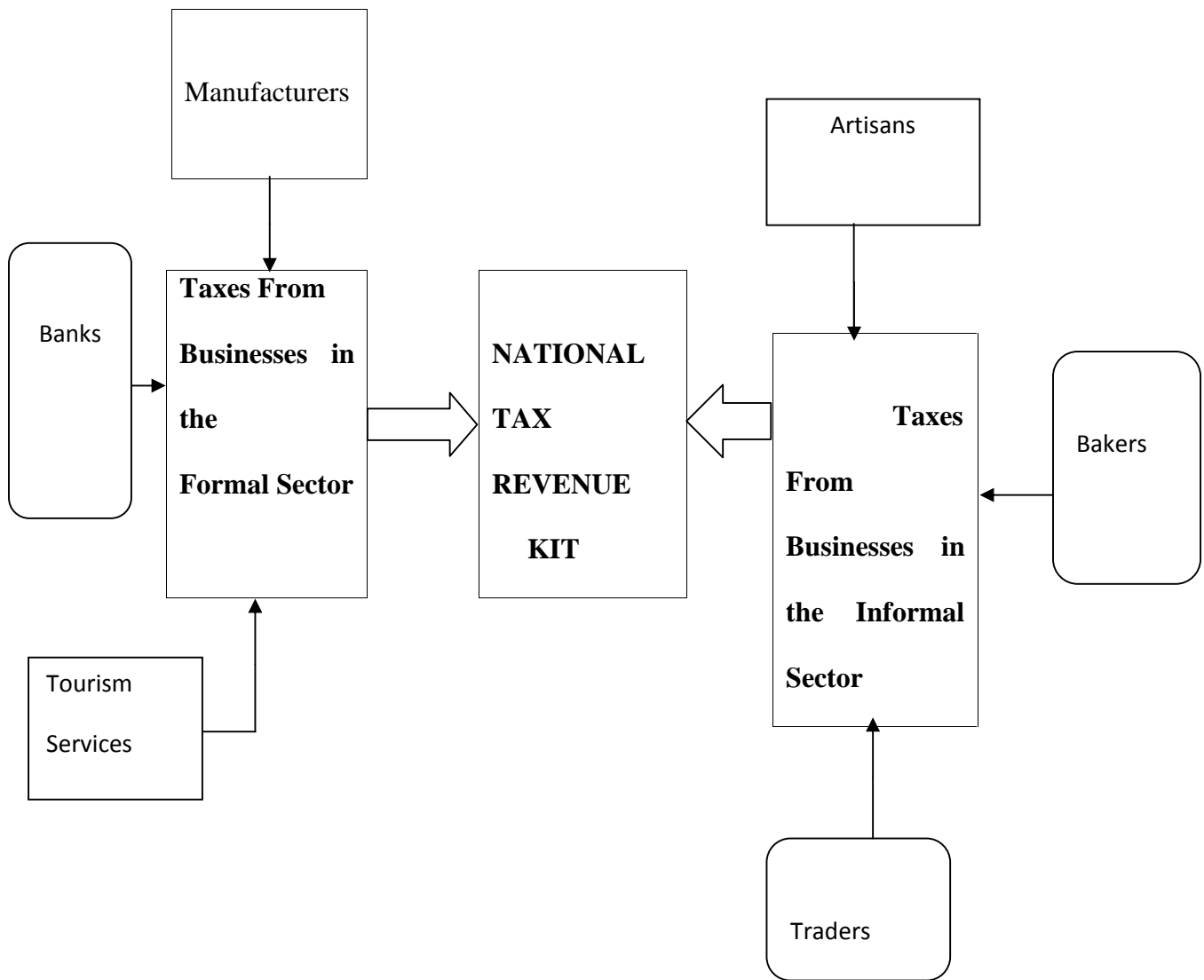
The National Tax Revenue Kit which is managing by Ministry of Finance was receiving greater part of Tax revenue from businesses in the formal sector leaving the businesses in the informal sector to contribute small. In the year 2005, the Tax Stamp concept came in to existence with the main objective of widening the Tax net to cover all the businesses in the informal sector in order to increase the Tax revenue.

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The businesses in the formal sectors include listed and registered companies or businesses and Government Agencies (Income Tax), example Banks, Manufacturers, Tourism and Service Providers etc. they are businesses that can be easily identified.

The businesses in the informal sectors include Artisans, Traders, Bakers, Chop Bar Operators, Butchers, Susu Collectors, etc. they are Small Scale Businesses that cannot be easily identified.

2.4 DEFINITION OF KEY TERMS

Tax - is a compulsory contribution to the state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions.

Ghana Revenue Authority (GRA) – an institution mandated by law to administer and collect tax revenue on behalf of the Ghana government.

Internal Revenue Service's – Formal/defunct institution mandated by law to administer and collect Domestic Tax Revenue (DTR) on behalf of the Ghana government.

Domestic Tax (DT) – Tax Administered by Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority. It is levied on income and profit of individuals and businesses respectively in the country. Some of the domestic taxes being administered by the DTRD include: **Corporate Tax, Personal Income Tax, Stamp duty, Gift tax, Rent tax etc.**

Tax Revenue – Revenue collected out of tax or Revenue derived from tax collected

Domestic Tax Revenue Division (DTRD) – a division in the Ghana Revenue Authority. It is the merger of the operational wings of the erstwhile Value Added Tax Service and the Internal Revenue Service.

Tax Stamp Sticker – A sticker issued by Ghana Revenue Authority when a Tax Stamp is collected. It must display at a conspicuous place on the premises of the business.

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The main purpose of the research is to evaluate the challenges and effects of Tax Stamp on Small Scale Businesses in Kumasi.

This chapter looked at the entire procedure that was used in carry out the research work. It indicates the sample or population from which the data was obtained and the sampling techniques that were used to obtain the data. This consists of Background of the Study Area**,** Study Type**,** Study Design, Sources of Data, Population Sample Size, Sampling Technique, Data Collection Method, Data Analysis Method and Ethical Consent.

3.1BACKGROUND OF THE STUDY AREA

The study was carried out in the Kumasi Metropolis located in the Ashanti Region of Ghana. It is the second biggest commercial city in Ghana. The city has attracted massive migration of people from different parts of the country and also some parts of the world due to its tourist sites of attraction and also commercial nature of the city.

A research of this nature was necessary in this area because the highly industrialized and commercialized nature of the town has given rise to a number of small business operators in the informal sector. The study therefore explains their concerns about the tax stamp.

3.2 STUDY TYPE

For the purpose of this research, the researchers used Descriptive Research and Analytical research. Descriptive Research involves surveys and fact –finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. It is often termed as Ex post facto research. The main characteristic of descriptive research is that the researchers have no control over the variables; they can only report what has happened or what is happening.

Analytical research allows the researchers to use facts or information already available, and analyze them to make a critical evaluation of the material.

3.3 STUDY DESIGN

Convenience sampling, observation, interviews and questionnaire were the major techniques employed by the researchers. These techniques provided enough grounds for the researchers to obtain credible, reliable and relevant information required for the research.

3.4 SOURCES OF DATA

Both Primary and Secondary data were sourced in order to obtain accurate, adequate, credible and reliable data.

The Primary source was the data collected from the fieldwork. Primary data collection was used due to the following reasons;

➢ They are collected to suit the exact purpose of the current research topic.

➢ Information gathered is current.

➢ Reliability can be determined when necessary.

➢ All findings are known only to the researchers.

➢ Firm secrecy can therefore be maintained from other organizations.

Secondary data was also collected to supplement the primary data. The sources of secondary data collection were from works of other researchers, journals, books (both published and unpublished), articles, Ghana Revenue Authority (GRA), internet and others. References were made by the researchers for the various secondary data collection source.

Secondary data was collected due to the following reasons;

➢ Secondary data could be less costly.

➢ Data assembly is normally quick, especially for published in company materials.

➢ There is high reliability for data especially those assembled by independent sources.

➢ They are quick helpful where exploratory research is needed.

3.5 POPULATION SAMPLE SIZE AND SAMPLING TECHNIQUE

The population of this research constituted the entire Small Scale Businesses in the Kumasi Metropolis that are required by law to pay Tax Stamp.

However, a sample size of? Two Hundred (200) Small Scale Businesses were used for the research. This sample size fairly represented the responses of the general or entire research population and also made the research work convenient and easier.

For the purpose of this research, we used Random Sampling method. It is the purest form of the probability sampling. Each Small Scale Business operator/owners in the research population has an equal and known chance of being selected for interview or to fill questionnaire.

When there is very large population, it is often difficult or impossible to identify every member of the population hence reason for using Random Sampling Method. It has advantage of unbiased statistics. An unbiased statistics has the characteristics that as the sample size increases, the statistics from the sample approaches the true value of the population.

The researchers went out in the Kumasi Metropolis and interviewed some selected Small Scale Business operators/owners. Questionnaire was also given to them to fill as well.

3.6 DATA COLLECTION METHOD

A well structured questionnaire, interviews and observations were used for collecting primary data. Questionnaires were given to operators/owners of the Small Scale Businesses and the Tax Stamp payers to provide responses for their views to be expressed to their best knowledge.

Also, personal interviews with operators/owners of the Small Scale Businesses and the Tax Stamp payers provided the researchers other relevant data.

In addition, the researchers also adopted a non participant observation to supplement the questionnaire and interviews to verify whether the responses given by operators/owners of the Small Scale Businesses and the Tax Stamp payers were really true. The observation was made at the time when the GAR officials were at the field to collect Tax Stamp.

Moreover, in all One Hundred (100) operators/owners of the Small Scale Businesses and the Tax Stamp payers filled the questionnaire, Seventy five (75) were interviewed and Twenty Five (25) were also observed.

These three techniques were used for the collection of data

3.7 DATA ANALYSIS METHOD

Data collected had been carefully analyzed and edited to ensure that all relevant information or responses obtained.

Descriptive statistics were used to analyze the data collected. Percentages which correspond to the figures we had were used in the presentation of the findings. Graphical presentations were also used to create a more visual impression of the findings. Explanations and conclusions were made based on the results obtained.

3.8 ETHICAL CONSIDERATIONS

Operators/owners of the Small Scale Businesses and the Tax Stamp payers sampled for this research were subjected to voluntary participations and they were guaranteed confidentiality and anonymity. Respondents were interviewed after their informed verbal consent was sought.

CHAPTER FOUR

PRESENTATION OF RESULT, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

Ghana, since independence has depended on taxes for its national development. In view of this successive governments have instituted tax administrative structures to curb the various challenges confronting the tax regimes in order to maximize tax revenue for national development.

The total number of questionnaires produced is 100 (hundred), only 94 (ninety-four) were completed and returned, with 2 (two) invalid. The presentation and analysis of data will be in tables, pie chart, and statement.

4.1 AGE OF RESPONDENT

The study population is composed of the traders of the informal sector in the Kumasi metropolis. The respondents numbered one hundred (100) traders answering thirty-five questions. The table below summarizes the ages of the respondents. The table shows that majority (42) of respondents are between the ages of 29-38 years representing 42.0% , followed by ages between 18-28 years (23 respondents) representing 23.0%, respondents between the ages of 39-48 years(23 respondents) and 49 years(12 respondents) and above shows a percentage value of 23.0% and 12.0% respectively.

TABLE 4.1   AGE OF RESPONDENT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 18-28	23	23.0	23.0	23.0
29-38	42	42.0	42.0	65.0
39-48	23	23.0	23.0	88.0
49 and above	12	12.0	12.0	100.0
Total	100	100.0	100.0	

Source: Field Work 2015

4.2 GENDER DISTRIBUTION OF THE RESPONDENTS.

The table below shows that a total valid population of one hundred (100) respondents, for both Male and Female, a male frequency of 51 respondents with a valid percentage of 51%   the female respondents shows a frequency of 49 representing 49.0%, totalling a sample population size of hundred.

TABLE 4.2   GENDER OF RESPONDENT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	51	51.0	51.0	51.0
Female	49	49.0	49.0	100.0
Total	100	100.0	100.0	

Source: Field Work 2015

4.3 TYPE OF BUSINESS.

Business in the informal sector was group into, Dress Makers, Artisans, Food Vendors, and Shop Operators. Shop operators have frequency of 41 respondents representing 41.0% of the total respondents, followed by Dress Makers with a frequency of 27 respondents representing 27.0%, Artisans had a frequency of 16 respondents representing 14.0% , food vendors and printing press make up 14 and 2 respondents representing 14.0% and 2.0% respectively.

TABLE 4.3   TYPE OF BUSINESS ENGAGED

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Dress Makers	27	27.0	27.0	27.0
	Artisans	16	16.0	16.0	43.0
	Food vendors	14	14.0	14.0	57.0
	Shop operators	41	41.0	41.0	98.0
	Printing Photocopy	2	2.0	2.0	100.0
	Total	100	100.0	100.0	

Source: Field Work 2015

4.4 BUSINESS LOCATION:

This table show that those who operate in Permanent Location with a frequency of 92 representing a valid percentage of 92.0%, those in roaming business has 8 frequency of respondents representing 8.0% of the total population sample.

TABLE 4.4   PERMANENT BUSINESS LOCATION

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Permanent	92	92.0	92.0	92.0
	Roaming	8	8.0	8.0	100.0
	Total	100	100.0	100.0	

Source: Field Work 2015

4.5. LEVEL OF EDUCATION.

This tells us that business operators with low/no education representing 35% of 34 respondents,

medium(secondary) education representing 51.0% of 51 respondents and high(tertiary) makes

14.0% from a frequency of 14 respondents.

TABLE 4.5 LEVEL OF EDUCATION

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Low/no education	35	35.0	35.0	35.0
	Medium (Secondary)	51	51.0	51.0	86.0
	High (Tertiary)	14	14.0	14.0	100.0
	Total	100	100.0	100.0	

Source: Field Work 2015

4.6. INFORMATION ABOUT TAX STAMP.

The table below shows that the total respondents of questionnaires; 74.0% respond **YES** to knowing information about tax stamp of a frequency of 74 respondents, 26.0% responded **NO** to information not knowing about tax stamp of 26 respondents.

TABLE 4.6 INFORMATION ABOUT TAX STAMP

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	74	74.0	74.0	74.0
	No	26	26.0	26.0	99.0
	Total	100	100.0	100.0	

Source: Field Work 2015

4.7 DECLARATION OF TOTAL INCOME TO GRA.

Out of the 100 population size, 57 respondents responded YES to DECLARATION OF TOTAL INCOME TO GRA representing 57.0%, 43 respondents responded NO to DECLARATION OF TOTAL INCOME TO GRA representing 43.0%.

TABLE 4.7 DECLARATION OF TOTAL INCOME TO GRA

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	57	57.0	57.0	57.0
	No	43	43.0	43.0	99.0
					100.0
	Total	100	100.0	100.0	

Source: Field Work 2015

FIGURE 4.1 DECLARATION OF TOTAL INCOME TO GRA

DECLARATION OF TOTAL INCOME TO GRA

No 43%

Yes 57%
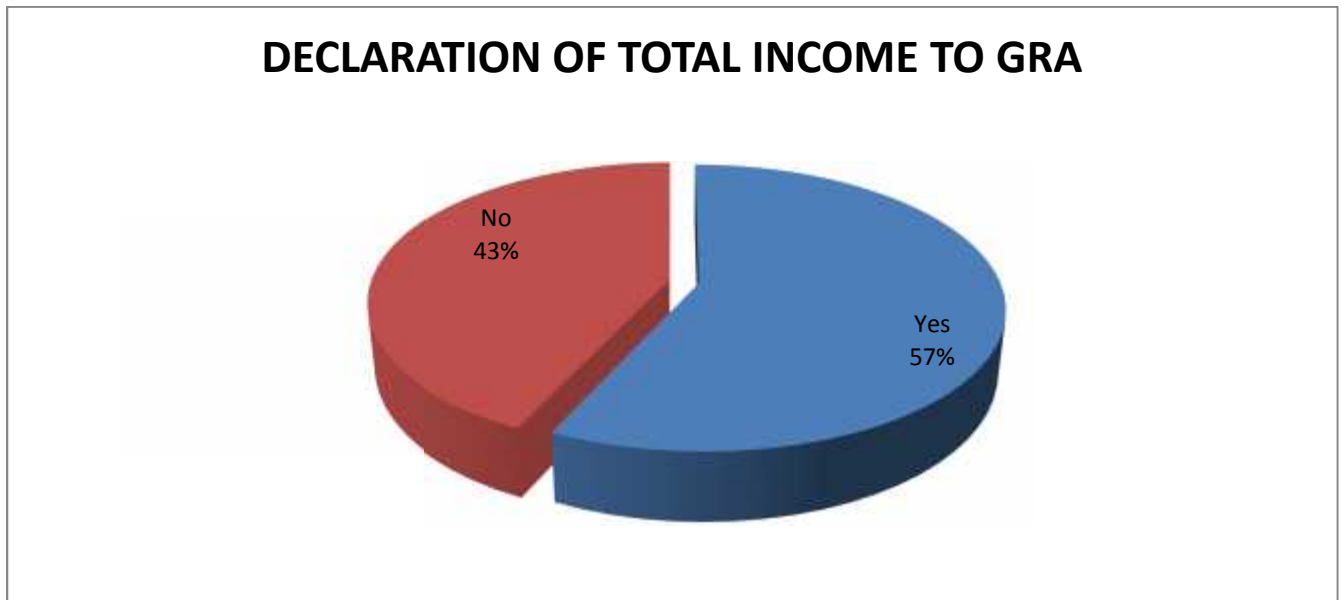
Source: Field Work 2015

4.8. DO YOU KEEP ACCOUNTING RECORDS?

The table below shows that 58.0% answered **NO**; this means they **DO NOT KEEP ACCOUNTING RECORDS** of which make a frequency of 58 respondents, however 32 responded **YES** of keeping accounting records of their business representing 35.0% of the total population size.

TABLE 4.8   DO YOU KEEP ACCOUNTING RECORDS?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	42	42.0	42.0	42.0
No	58	58.0	58.0	58.0
				100.0
				100.0
Total	100	100.0	100.0	

Source: Field Work 2015

FIGURE 4.2 DO YOU KEEP ACCOUNTING RECORDS

DO YOU KEEP ACCOUNTING RECORDS

Yes 42%

No 58%

Source: Field Work 2015

4.9 DO ALL YOUR COLLEAGUES BUY TAX STAMPS?

Out of a total population sample size 100 respondents, 62.0% of this respondent answered **NO**; they perceive their colleagues in the informal sector **DO NOT BUY TAX STAMPS** representing a frequency of 62 respondents, 38% believes their colleagues buy Tax Stamp by answering **YES**; representing a frequency of 38 respondents.

TABLE 4.9   DO ALL YOUR COLLEAGUES BUY TAX STAMP?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	38	38.0	38.0	38.0
	No	62	62.0	62.0	62.0
	Total	100	100.0	100.0	100.0

Source: Field Work 2015

FIGURE 4.3 DO ALL YOUR COLLEAGUES BUY STAMP

DO ALL YOUR COLLEAGUES BUY TAX STAMP

Yes
38%

No
62%
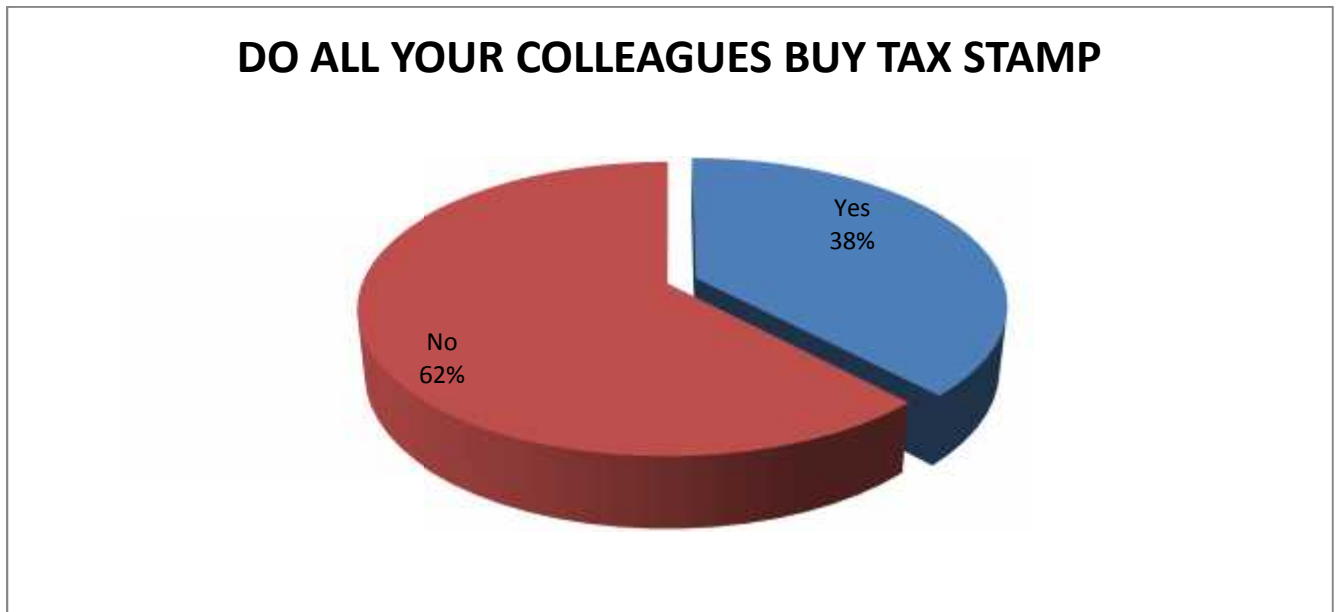
Source: Field Work 2015

4.10 HAVE TAX OFFICIALS LOCKED UP YOUR SHOP?

78.0% of a valid percentage answered **NO** to tax officials locking up their shop of a frequency of

78 respondents, 20.0% responded **YES**, to the same question with a frequency of 20 respondents.

TABLE 4.10   HAS TAX OFFICIALS LOCKED UP YOUR SHOP?

			Valid	
	Frequency	Percent	Percent	Cumulative Percent
Valid Yes	22	22.0	22.0	22.0
No.	78	78.0	78.0	78.0
Total	100	100.0	100.0	

Source: Field Work 2015

FIGURE 4.4 HAS TAX OFFICIAL EVER LOCKED UP YOUR SHOP
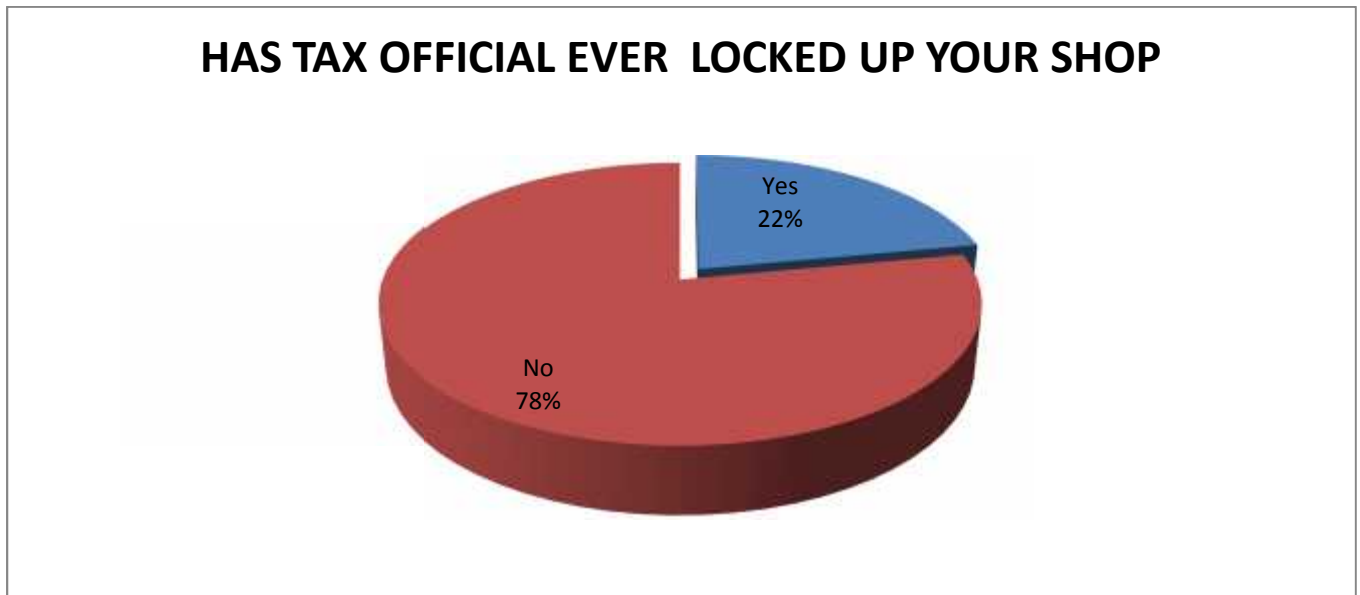
Source: Field Work 2015

4.11 DO YOU HAVE CHALLENGES IN COMPILANCE OF TAX STAMP PAYMENT?

The table below shows that out of the 100 respondents 53.0% responded **YES** to having

challenges with compliance of tax stamp payment of a frequency of 53 frequencies, 47.0%

responded **NO**, to having challenges with compliance of tax stamp payment with a frequency of

47 respondents.

TABLE 4.11 DO YOU HAVE CHALLENGES IN COMPLIANCE OF TAX STAMP PAYMNET?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	53	53.0	53.0	53.0
	NO	47	47.0	47.0	47.0
	Total	100	100.0	100.0	

Source: Field Work 2015

FIGURE 4.5   DO YOU HAVE CHALLENGES IN COMPLIANCE OF TAX STAMP PAYMENT?

DO YOU HAVE CHALLENGES IN COMPLIANCE OF TAX STAMP PAYMENT?
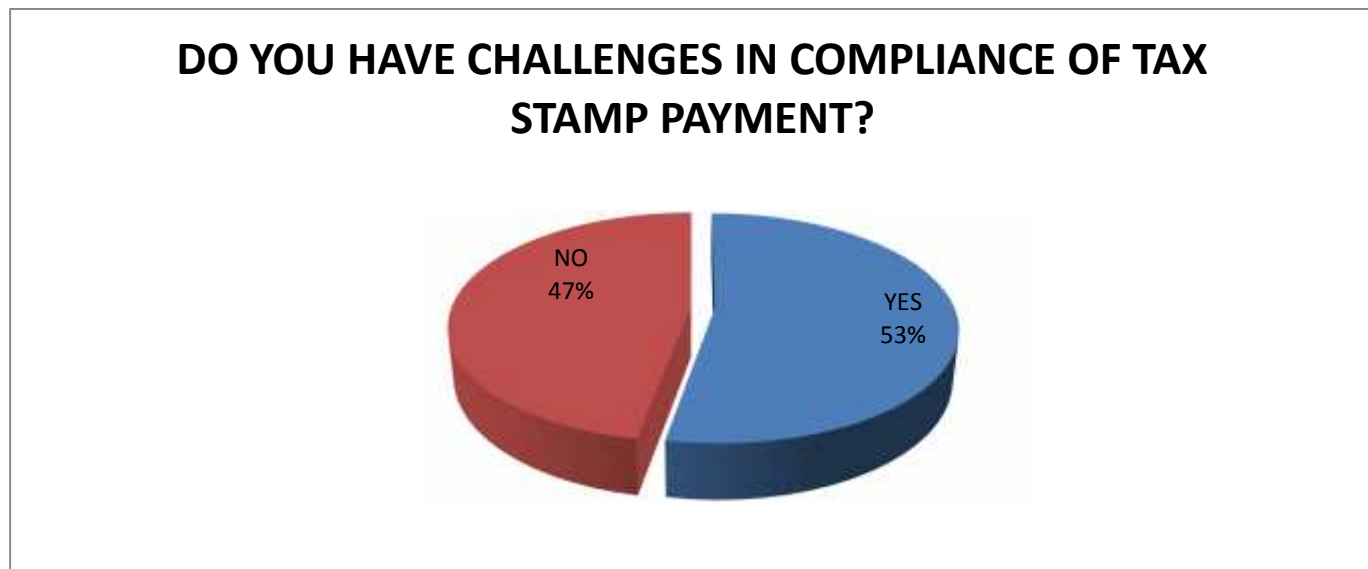
Source: Field Work 2015

4.12 DO YOU PAY/BUY TAX STAMP VOLUNTARILY.

Out of the total population size of 100, 67.0% say they do not buy tax or pay tax as they fall due voluntarily, however 33.0% say they buy tax stamp as they fall due voluntarily.

TABLE 4.12   DO YOU PAY TAX STAMPS REGULARLY AND VOLUNTARILY?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	33	33.0	33.0	33.0
	No	67	67.0	67.0	100.0
	Total	100	100.0	100.0	

Source: Field Work 2015

FIGURE 4.6 DO YOU PAY TAX STAMP REGULARLY AND VOLUNTARILY?

DO YOU PAY TAX STAMP REGULARLY AND VOLUNTARILY?

YES
37%

NO
63%
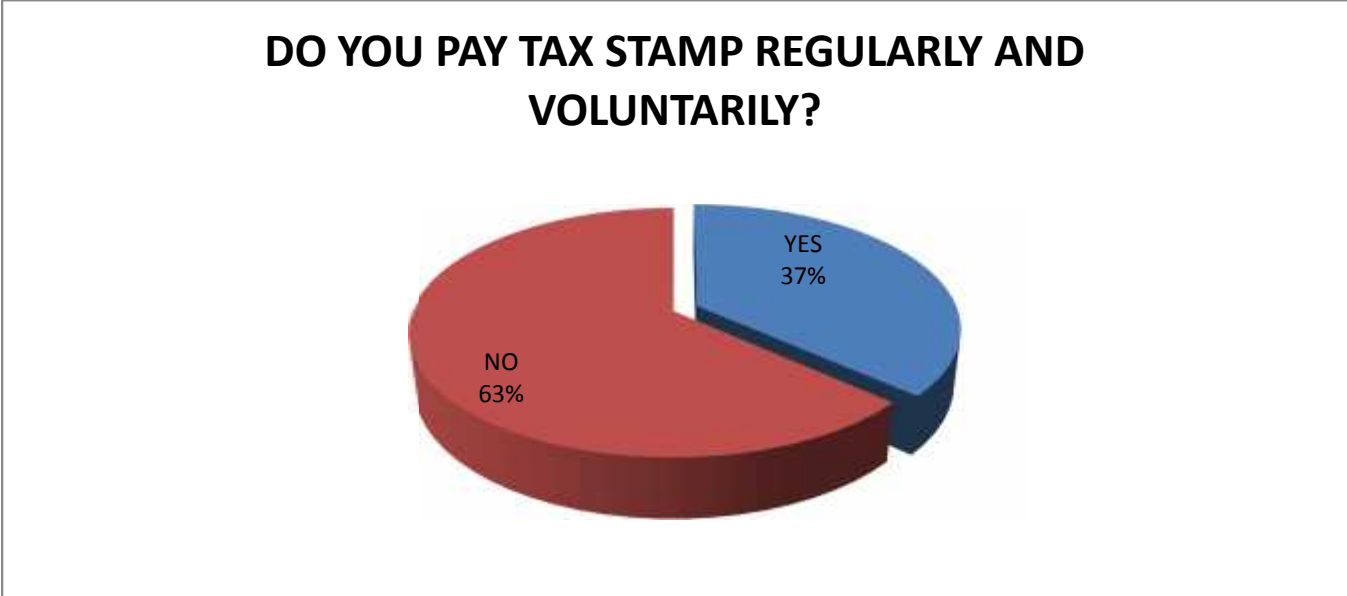
Source: Field Work 2015

SUMMARY, CONCLUSION, AND RECOMMENDATION

5.0   INTRODUCTION

This chapter talks about three sections which are summary, conclusion and recommendation. The summary section presents the major findings of the study while the conclusion section presents the interpretation of the findings. The recommendation section presents a set of suggested course of action resulting from this study.

5.1   SUMMARY OF ANALYSIS.

The population of this work is made up of businesses in the informal sector that pay or buy tax stamp.

Due to the large size of the population for a study of this nature, taking cognizance of time and money constraints, the researchers decided to employ the use of sampling techniques, selecting a limited number of elements from the population which is the representative of the entire population. The samples that will be taken from this population as mentioned above and some tax officials from GRA.

Data collected for the study comes mainly from informal business operators and some tax officials of GRA in Kumasi Ghana. The sources of data used in this study were primary and secondary data.

Having viewed all the research carried out in the form of questionnaires and interviews conducted, the use of documented material, and the review of related literature, it is emphatic that the challenges confronting the informal businesses in the Kumasi metropolis continuous to exist.

A careful analysis of the data collected and analyzed in the preceding chapters reveals the following findings:

A high proportion of the informal sector entrepreneurs are not well educated on the subject of tax stamps.

A large degree of voluntary compliance on the part of taxpayers is required for satisfactory income taxation. Income taxes cannot be collected by the best administrative organization satisfactorily from the self-employed when evasion is generally attempted and incurs little or no moral disapproval from the public. The use of force in tax compliance is not sustainable over a long period of time hence the need to work at voluntary compliance (Otieku, 1988

In Ghana, most informal businesses carry out business transactions on cash basis as some do not accept bank cheque for fear of bouncing. The prevalence of cash transactions creates room for tax stamp evasion. Cash transaction leaves no traces of evidence of the income from such transactions. Cash transaction also enables one to manipulate records and figures for tax reduction purposes (Otieku, 1988).

Many businesses in the informal sector keep no records of their business transactions. Most self-employed persons are totally indifferent to proper record keeping in the Kumasi Metropolis. However, in tax administration, a very crucial task is the correct determination of the income of the taxpayer so that a proper assessment of the tax liability could be made.

The caliber of personnel running tax administration and the management style also create a great deal of challenge to the tax payers as some officials' indulge themselves in corruption. A corrupt and low-morale tax officer may result in tax evasion as some of the officers may collude with the taxpayers in non-payment of tax. A strong and effective tax administration may, to some extent, curtail tax evasion.

5.2   CONCLUSION

Based on all the findings, it is evident that challenges confronting the tax payers in the informal sector are having a negative impact on the economy of Ghana. Other conclusions drawn from the findings are enumerated below;

） The Ghana tax system is characterized by ignorance.

） There is lack of patriotism on the part of the tax payers.

） There is an inequitable tax laws in Ghana and these tax laws have limited application.

） Major problems facing taxation includes low yield in revenue, corrupt practice and the presence of multiplicity in taxes.

） The major challenges facing the tax authorities include the need to find solution to tax avoidance and tax evasion, fraud, mismanagement of collected revenues.

） There is a need to improve voluntary compliance to payment of taxes.

） The government must use tax payers' money judiciously in order to motivate the tax payers.

） There are lots of loop holes in the tax law that serves as an opportunity for many tax payers to avoid and evade tax; therefore this should be a major challenge to the legislature.

） Ghana tax system needs reform in order to function properly and eliminate inappropriate tax avoidance.

） There is high rate of poverty in Ghana and as a result, contributed to the reduction of tax revenue for the government.

） Many multi-nationals operating within Ghana are aware of the weak tax system and loop holes; this has given them the opportunity to avoid tax.

) There is lack of discipline on the part of tax payers, tax officials and even the government, regarding taxation and utilization of the revenue generated through tax collection.

Finally, it is evident that Ghana tax system needs reform in order to function properly to eliminate challenges with business in the informal sector.

5.3 RECOMMENDATION

Taxation is crucial to Ghana to ensure sustainable fiscal policy. This is even more important in view of the fact that the country presently operates under a deficit budget approach. The inability of government to meet her ever increasing fiscal responsibility makes the collection of taxesvital, hence the zeal to deal with the challenges facing the informal sector to enhance proper tax administration.

Based on the study the following recommendations are made.

) The government of Ghana and the GRA for that matter should maintain a sustained tax education campaign throughout the country.

) The GRA should also provide adequate logistics like vehicles, stationary among others to the tax collectors. This will enhance their effectiveness.

) The GRA should also provide adequate training for the tax officials in order for them to be efficient and effective.

) Incentives and punishment schemes should be established together with a strict monitoring mechanism to ensure that tax collection officers are duly motivated to improve the tax collection. This will also prevent them from engaging in any form of corruption.

) Political leaders in power should be transparent in expending the taxes collected. A major drawback to tax collection is the perceived misapplication and misappropriation of it by

political leaders to the detriment of the whole nation. They should refrain from exhibiting certain types of spending and life styles in order for tax collection to improve.

) The tax payer should be educated on the need to pay taxes and the benefits they will get as citizens of Ghana.

) Accountability on the part of government and effective use of tax revenue will instil faith in the government thereby encouraging payment of taxes.

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Dear Respondent,

This instrument is aimed at soliciting your views on the Tax Stamp System of taxing small scale businesses. We will be grateful if you could spend a few minutes to answer the questions as candidly as possible. Please note that this is not a commissioned study for the Ghana Revenue Authority (Domestic Tax Revenue Division) but an academic study aimed at writing a dissertation for a bachelor's degree. Your views and opinions will therefore not be disclosed to any person and your identity will be safe guarded at all times. Thanks for your cooperation.

Please tick in the boxes or write your responses in the spaces provided where necessary

Section A:

Q. 1. Questionnaire No. ………..

Q. 2. Name of Respondent ……………………………………………………

Q. 3. Address ………………………………………………………………….

Q. 4. Age;

   a) 18-28 ( )

   b) 29-38   ( )

   c) 39-48   ( )

   d) 50 and above ( )

Q. 5. Gender:

   a) Male   ( )

   b)   Female   ( )

Q. 6). Marital Status

        (a) Married

        (b) Single

        (c) Divorced

Q.7). Type of Business engaged in

     (a) ………………………………

     (b) ………………………………

     (c) ………………………………

     (d) ………………………………

     (e) Other specified

Section B: Level of awareness of Tax Stamp and general views on taxation

Q.8). Do you have a permanent business location?

     (a) Permanent ( )

     (b) Roaming ( )

     (c) Both ( )

Q. 9) . What is your level of education?

     (a) Low/no education ( )

     (b) Medium (Secondary)   ( )

     (c) High (Tertiary)   ( )

Q.10). Do you know you have to declare your total income to GRA?

     Yes ( )

     No ( )

Q. 11.) Have you ever heard of the Tax Stamp?

     Yes ( )

     No ( )

Q. 12) If yes, where did you first hear of it?

     a.) Through a friend ( )

     b.) On radio ( )

     c.) Through a tax official's visit ( )

d.) Public forum ( )

e.) On television ( )

f.) Meeting of Association ( )

g.) Other specify..

Q. 13.).Do you keep accounting records?

Yes ( )

No ( )

Q. 14.) Level of Income (per annum)

(a) Below GH¢1,000   ( )

(b) Between gh¢1,000 – GH¢1,500   ( )

(c) Above GH¢1,500   ( )

Q. 15.) What is the level of accounting practice in your business?

(a) Low/poor   ( )

(b) Medium   ( )

(c) High/very good ( )

Q. 16).what is normally the mode of payment for your goods or service?

(a) Cash only   ( )

(b) Credit only ( )

(c) Both cash and credit ( )

Q. 17.) Do you think tax stamp is necessary?

Yes ( )

No ( )

Q. 18) If yes to Q 17 above, please give reasons
....
....
....

Q. 19)if no, please explain why?

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

Q. 20.). What is the most important reason why you buy your tax stamp?

    a.) Because it is mandatory by law   ( )

    b.) For infrastructural development ( )

    c.) To contribute to national development ( )

    d.) To be a good citizen   ( )

    e.) I don't really know ( )

    f.) For other reasons, specify..

Section C: Level of compliance and effectiveness of measures to improve tax stamp collection

Q.21.) How regular do you buy your tax stamp?

    a.) Very regular   ( )

    b.) Regular   ( )

    c.) Somehow ( )

    d.) Not regular ( )

Q 22.) Do you think all your colleagues in the private informal business pay tax stamp?

    Yes ( )

    No ( )

Q 23.) How much tax stamp do you buy per quarter?

    a.) GH ¢3   ( )

    b.) GH ¢5cedis   ( )

    c.) GH ¢10cedis   ( )

    d.) GH ¢15cedis   ( )

    e.) GH ¢20cedis   ( )

    f.) Other please specify…………………………………………

Q.24.) Where do you buy it?

    a.).From tax officials who come around ( )

    b.) From tax official in their office ( )

c.) Other places specify...

Q.25.) Have you ever been confronted by tax officials over tax collection?

Yes ( )

No ( )

Q. 26.)If yes to Q 25 above, what were the reasons?

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

Section D: Challenges in Tax Stamp payment:

Q. 27.)   Has tax authority locked up your shop for non-payment of tax stamp?

Yes ( )

No   ( )

Q. 28.)If yes to Q27 above, what was the effect on you business?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
…………………………………………

Q.29) . Do you pay your tax stamps voluntarily and regularly?

a.) Yes ( )

b.) No ( )

Q 30.) If yes to Q29 above, what motivates you to do so?

1.……………………………………………………………………………………………………
…………………………………………………   …………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
…………………………………………

Q.31). If No to Q30 above, State briefly, three factors that make it difficult for you to Payyour tax stamps voluntarily
1.
……………………………………………………………………………………………………
……………………………………………
2.
……………………………………………………………………………………………………
………………………………………………….

3.

……
………………………………………………..

Q.32.). Do you have challenges complying with the tax stamp?

Yes ( )

No ( )

Q.33). If Yes to Q32 Above, enumerate your challenges

……………………………………………………………………………….………………………………………
………………………………..………………… ……....

……..

.................................………………………………………………………………...……………………………………

……………………………………………

Q.34). Please suggest ways to overcome the challenges

………………………………………………...

……

……

……………...............

Q.34.). Do you think the operations of the tax stamp can be improved?

Yes ( )

No ( )

Q.35) If yes to Q 34 above, give your recommendations

…….

…….

…….

………………………………………………… ………………...

....