THE RELEVANCE OF TALK-TIME TAX ON THE ECONOMY OF GHANA
(A CASE STUDY OF KWADASO SUB-METRO)

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MAY, 2008

INVESTIGATION REPORT SUBMITTED TO THE BUSINESS ADMINISTRATION DEPARTMENT OF CHRISTIAN SERVICE UNIVERSITY COLLEGE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION.

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ABSTRACT

The dynamic role of tax systems to mobilize revenue for the development of the nation cannot be over emphasized. These tax systems are setup as part of the revenue generating ventures and have been identified as one of the means through which rapid industrialization and other developmental goals of nation can be realized.

Taxation has contributed to very substantial percentage to the development of the nation. This project explores the relevance of talk-time tax on the economy of Ghana, its impact on the people of Ghana, it's current predicaments characterized by critics from the public that prevent it from being implemented thereby preventing it from realizing its potential as an instrument for development.

In undertaking the research views of the public were sort through interviews and questionnaires issued. 96% of the public responded to the questionnaires issued. Findings from the research indicated that the public do not want the talk-time to be implemented and as such government have received a lot of critics. They believe the talk-time tax is not a good tax system and that it does not ensure equitable distribution tax burden, since it is regressive.

The researcher therefore acknowledges and recognizes the effects of these critics from the public and has outlined a number of recommendations for an overall understanding of the talk-time tax.

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CHAPTER ONE

INTRODUCTION

1.1   BACKGROUND OF THE STUDY

Quarter (2005) defines taxation as a compulsory levy by the government on the citizen of a nation and it is the main source of revenue to the government and its purpose is to ensure or promote the general welfare of the citizens. Effective and efficient tax systems reflects an effective and vibrant economy in which development increase where as inefficient and inadequate inflow connotes a weak economy causing less development. For an effective economy the tax systems must be strong. Taxation is thus, the life blood and engine of growth of the government.

The government of Ghana to ensure a healthy and vibrant economy and political atmosphere needs revenue for the effective running of the country. Taxation is the main source of revenue and is to ensure economic growth.

Ensuring a better atmosphere the government instituted the National Health Insurance Levy for health care service to improve the quality of the labour force for the benefit of the nation and the National Youth Employment Program to reduce unemployment and increase jobs.

The talk (air) time tax, a proposal tax system is one of the main sources of revenue the government want to use to fund the projects for easy access to health and reducing unemployment. But taxing one's air time talk seems to generated a lot of contradictions or arguments in which the citizens are of the view that air-time tax is a disincentive to work and discourage or distort the flow of information because the longer one talks the higher the tax. They also believe that air time is not a good tax system. However, a good tax system is influenced by attributes or principles of a good tax system like productive of revenue, certainty, and convenience to the contribution, stability of the economy, adjustable, equitable and consistent with government policy.

In Ghana the distribution of wealth is not fair. And as a tax system the citizens believe it should ensure a fairer distribution of tax burden, thus tax should be equitable. But the air-time tax is regressive and that the rich and the poor are made to pay the same amount.

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Although, the citizens accept the fact that they are certain about the payment of tax but it is not convenient and they have to pay tax when they have earned nothing. Telecommunication operators also claim that the tax would inflict enormous distress on the service provider's, subscribers and the government and that mobile phones brought to the country are already taxed.

In contradiction to the above, some of the people believe that it will provide or promote economic growth to the country since more revenue will be generated to provide developmental projects and programmes.

In relation to the above, the research will help the community and economy at large to know the essence of tax as an instrument for the funding National Health Development Programme in the country and also air-time tax as an instrument for funding the National Youth Employment Program relieving people of unemployment and living in a health situation. The research will also serve as information for future research and increase documentary of research on air-time tax.

In essence, taxation is the life wire of the nation because developmental programmes and projects are done with the tax and it is also the main source of revenue to the nation but effort must be done to ensure that air time is a good tax system to promote the general wellbeing of the citizens.

1.2   STATEMENT OF PROBLEM

Mobilisation of revenue to ensure that development programmes and projects are carried out seems to be a problem. Tax is the main system of revenue to the government but the citizens evade the payment of tax. Air time tax, a proposed tax system which is to ensure effective mobilisation of revenue to support development projects in the country but the citizens do not welcome this tax system and the government has come under various critics.

From the fore going, there is the need to assess the effectiveness of the talk-time tax and ask guest ion as How effectiveness will the talk-time tax be?

This research will therefore look into the assessment of the effectiveness of the talk-time tax so as to come out with recommendations and suggestion that will be beneficial to all and help develop the metropolis and the country as well.

1.3 OBJECTIVE OF THE STUDY

The purpose of the study is to find out;
1. The extent to which air-time tax will affects the people of Kwadaso sub-metro.
2. The extent to which air-time tax will serve as an effective tax system.

1.4 RESEARCH QUESTIONS

1. How equitable will the talk time tax be as a tax system?
2. How convenient and certain will the talk-time tax be as a tax system?
3. What benefits and problems will the talk-time tax bring on the people of Kwadaso sub-metro?

1.5 STRUCTURE OF THE STUDY

The research is divided into five chapters.

Chapter one talks about the introduction which entails the background of the study, statement of problem, objective of the study, significance of the study, scope of the study, hypothesis, limitation of the study and the structure of the study.

Chapter two deals with the literature review.

Chapter three focuses on the methodology which describes the research design, tools for data collection, respondents, data capture and processing, sampling techniques, Data collecting procedures and data analysis.

Chapter four talk about the results and analysis of the study.

Finally, the chapter five deals with the conclusion, recommendation and suggestions.

CHAPTER TWO

LITERATURE REVIEW

2.1   INTRODUCTION

Taxation is the livewire of every nation and its importance to the development of a nation cannot be over emphasised but instituting tax systems in the country is a problem. In this part of the research effort is made to look at what other writers and researchers have done about the relevance and impact of tax on the economy of the nation and also review other materials.

2.2   IMPORTANCE (PURPOSE) OF TAX

The purpose of tax is an important element in the development of nations and economists have outlined a number of importance's relating to tax and some of these are:

1. To raise income: Tax forms a major part of government revenue and the government use the monies from tax for recurrent and capital expenditure. The recurrent and capital expenditure includes:

- To reduce the incidence of unemployment
- spending on education to help develop human capital for the benefit of both the state and the private sector of the economy
- to reduce unemployment and increase jobs payment of public servants,
- spending on road transportation to promote flow and distribution of economic activities,
- Spending on basic health care services to help improve the quality of his labour force for the benefit of the state and private industries.

2. To promote economic growth: The revenue gained by the government from companies and industries help the government to gives out subsidies to increase production.

3. It is used to modify the influence of the price mechanism or price system. Imports goods are normally at lower prices and government imposes high taxes so that infant industry can compete with them.

4. Improve the balance of payment system. Balance of payment is an economic entry of a country with that of other country. It is like an accounting entry having a debit and credit entry.

5. Achieving quality in the distribution of wealth of goods and income. Heavy taxes are imposed on goods demanded by the rich and lower taxes on goods demanded by the poor. Thus, tax system should be progressive.

6. Taxation also discourages production of undesirable goods such as tobacco.

2.3 PRINCIPLES OF A GOOD TAX SYSTEM

Adam Smith in his 'Wealth of Nations ascribed four features which calls cannons (principle) to a good tax.' His four cannons are:

1. The principle of equity: This means that every person must pay tax according to his ability to pay. The rich can afford to pay more than the low income. Progressive tax made to conform to this principle.

2. The principle of certainty: The tax payer must be made to understand the rate of tax he must pay and the amount and time he must pay the tax.

3. The principle of convenience:The tax must be paid at time convenient to the tax payer. Example farmers must pay their tax soon after have and selling the produce.

4. The principle of economy: The cost of collecting the tax should be relatively minimal so that the purpose of collecting the tax is not defeated.

2.3.1 ADDITIONAL FEATURES OF GOOD TAX SYSTEMS ARE

Principle of flexibility and adjustability: The tax system should be flexible and easily adjustable so that the tax rates may be attended up or down.

➤ Consistent with government policy: The tax structure should not be constantly changing. It should be in line with the government policy and promote the policy

➤ The tax system should also be automatic in stabilising the economy.

2.4 STRUCTURE OF THE TAX SYSTEM

According to Baumol and Blinder (1986), the structure of tax is classified into two namely direct taxes and indirect taxes. The direct tax is levied directly on people. Thus, with these taxes, the person makes payment direct to the revenue authorities. Usually each individual's tax liability is assessed separately. Example includes:

➤ Income tax;-tax levied directly on income.

➤ Corporate tax;-tax corporations pay on their profits.

> Capital gains tax;-tax levied on any capital gain when an asset is disposed –off.

They also explained that, indirect tax is a levied on specific economic activities. Thus, taxes levied on goods and services. The indirect taxes are so called because the revenue authority collects them from the seller who as far as possible passes the burden on the consumer by including the duty in the final selling price of the goods. Examples of indirect taxes include:

> Customs duties – taxes levied on imports and exports
> Excise duties – tax levied on home-produced goods and services. Example soaps.
> Value –Added Tax (VAT) Advalorem tax levied on most goods and services at each stage of production at a basic rate. Example restaurant, hotels.

2.5   TAX SYSTEMS

Baumol and Blinder (1986) also go on to say that economist also classify tax as progressive, proportional or regressive.

The progressive tax is one in which the average tax rate paid by an individual rises as his taxable income rises.
A proportional tax is one in which the average tax rate is the same at all income levels.
A regressive tax is one in which the average tax rate falls as income rises. To ensure a fairer distribution of tax Ghana uses the progressive tax system.

2.6   PEOPLES ATTITUDE TOWARDS AIR-TIME TAX

Yeboah and Boateng (2007) in the Daily Graphic said, operators in the telecommunication industry have asked the government not to introduce the proposed tax on the phone talk time because it has the tendency to derail the national economy in the long term and that operators dismissed assertions by the government that the imposition of the tax would increase national revenue to offset the National Youth Employment Programmes (NYEP). They also contended that the tax would rather inflict enormous distress on service providers and the government and also increasing tax on talk time will reduce the amount of communication related to economic activity in all sectors.

The managing director of Westel and spoke person for the operators, Ms Ursula Owusu, said the government might achieve its aim of increasing revenue with the imposition of tax,

however, in the long term, revenue will dip because many mobile phone users would be discouraged from using handset. Ms Owusu, also said that already there is a VAT/NHIL tax element on talk time.

Thompson (2007) in the Daily Graphic is also of the view that the proposed talk time is an efficient tax system and suggested that revenue to be accrued from it should be paid into a separate account and not the consolidated fund to ensure effective utilisation of the tax.

Baneseh (2007) in the Daily Graphic stated that the Ministry of Finance and Economic Planning has denied claims by telecommunication operators in the country that the proposed tax on mobile phone talk time can derail the national economy but the telecommunication operators reacted that the tax would rather inflict enormous distress on service providers, subscribers and the government.

The Director of Budget at the Ministry of Finance and Economic Planning, Mr Kwabena Adjei-Mensah in an interview with Daily Graphic said about 95 percent of cellular phones brought into the country were smuggled. Leading to the loss of billions of Cedis to the state. Mr. Adjei Mensah also said money accruing from the proposed talk tax would go into the National Youth Employment Programme (NYEP), the capitation grant, free screening for cancer related to cellular phone use and screening for breast and prostate cancers.

2.7   SUMMARY

From the above, a critical analysis of what other writers and people have said about the relevance of talk-time tax is being reviewed. It really centres on the tax systems and its effectiveness.

CHAPTER THREE

METHODOLOGY

3.1   INTRODUCTION

In this part of the research effort is made to look at the procedure through which the research work was carried out. The research work was conducted based on the following headings: Population and Sampling Size, Sources of Data, Sampling Procedure, Data Collection tools, Data Capture and Processing, Scope and Limitation of Study.

3.2   RESEARCH DESIGN

The design for the research was survey. A survey was conducted throughout the area of study. This helped the researcher to familiarise himself with the respondents, sought information relevant to the study and analysed the data answer the research questions.

3.3   POPULATION AND SAMPLING PROCEDURE

The population chosen for the study covered all the community members of The Kwadaso sub-metro, specifically telecommunication operators and mobile phone users in the metropolis.

The number of questionnaires (sample size) issued was fifty (50) and the response rate was ninety two percent. That is forty-six out of the fifty people responded to the questionnaires.

Sampling method used in the study was the convenience and snowball sampling technique. This is because the researcher made initial contact with a small group of people who are relevant to the research topic and used it to establish contacts with others especially those available to the researcher and by virtue of accessibility. This was also due to the fact that, the people were scattered over a wide area and also due to limited time and high cost of transportation.

3.4 SOURCES OF DATA

Information gathered for the study was obtained from both primary and secondary sources. The primary source was from the research conducted using the responses from the interviews and questionnaires. The data for the secondary source were obtained from; reference books, internet search, known experts, published statistics and KMA documentary.

3.6 DATA COLLECTION TOOLS

Depending on circumstances and convenience the researcher used interviews, questionnaires and documentary analysis as the tools for data collection. The questionnaires used for data collection contained both open and closed questions.

The interviews were both semi-structure and unstructured presented with an interview guide. Other documents relevant to the study were critically examined and analysed to obtain relevant information needed for the research.

3.7 DATA CAPTURE AND PROCESSING

Results of the data gathered were presented in appropriate statistical tools such as tables, figures and percentages.
Analysis of the data of the response were from the questionnaire and interviews as well as other relevant materials discovered. The data related to each research question was categorised and presented with appropriate statistical tools.

3.8 SCOPE AND LIMITATION OF THE STUDY

For a clearer and simplified analysis of the study the researcher will limit himself looking at principle of a good tax system like productive of revenue, certainty of tax, convenience to the contributor, stability of the economy, adjustability of the tax system, equity of tax, consistency with government policy and also what development are tax monies used for.

A lot of problems were encountered in the collection of data for the study. Among them were difficulties in conducting interviews. The respondents had their individual time schedules in

conducting interviews. This made it a big problem scheduling time to suit their. Related to interviews was the fact that respondents were scattered at different places at their workplaces. Associated with this problem is that a lot of money was spent in conducting interviews as well as receiving response to the distributed questionnaires.

Exports in the field were also not willing to cooperate because of their work load making it difficult in getting information.

3.9   SUMMARY

This chapter explained why certain data were collected, where it was collected, what data was collected, how it was collected, and how it was analysed

CHAPTER FOUR

RESULTS AND DISCUSSIONS

From the interviews conducted and the questionnaires sent out, the researcher gathered information relevant to talk-time tax.

4.1 TAX REGIME AND DISTRIBUTION OF TAX BURDEN

Figure one. Percentage of Perception of Tax Regime

Too Rigid
10.9%

Discriminatory
41.3%

Too Loose
28.3%

Fair
19.5%

Legend:
- Too Rigid
- Too Fair
- Fair
- Discriminatory
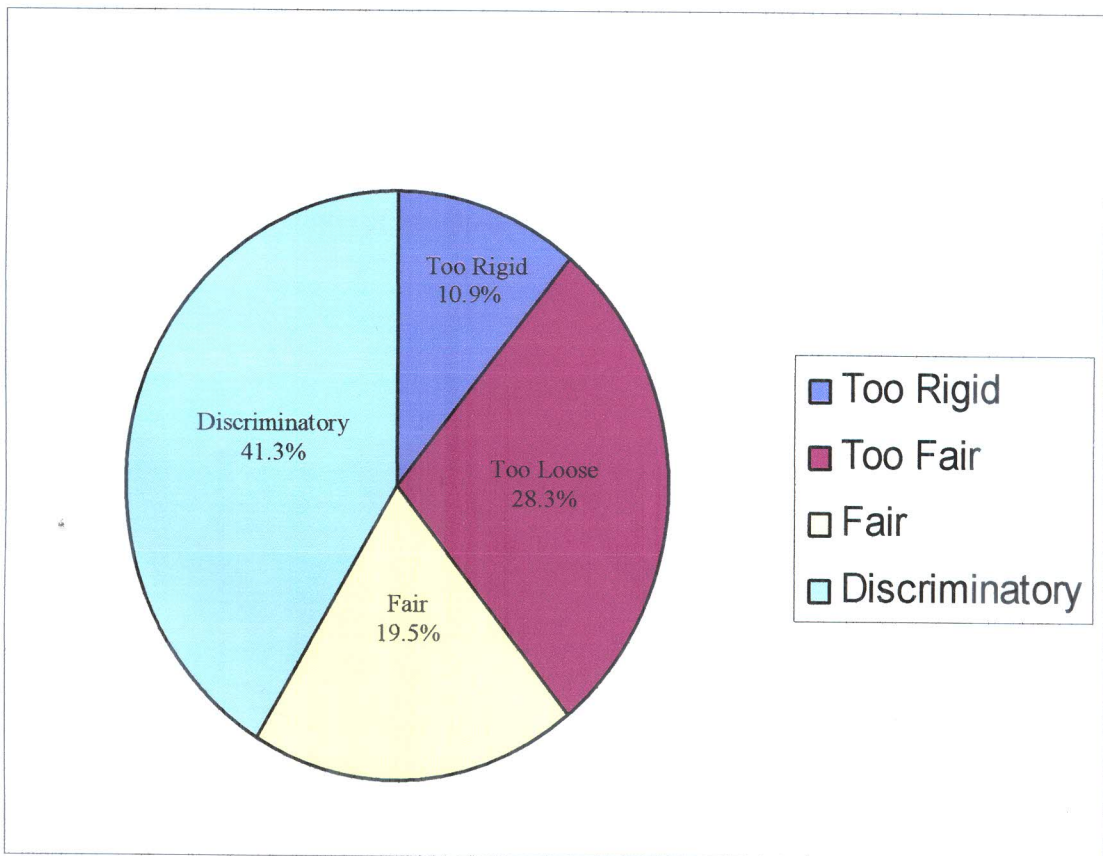
Source: Researchers survey 2008.

From figure one above, 28.3% of the respondents indicated that the tax regime is too loose, 41.3% also indicated that the tax system of Ghana is discriminatory. That is, some people are favoured more than others and for tax system to be not discriminatory it should ensure equitable distribution of tax burden.

TABLE ONE   **DITRIBUTION OF TAX BURDEN**

| FAIRER DISTRIBUTION OF TAX BURDEN		PERCENTAGE (%)
Yes	13	28.3
No	33	71.7

Source: Researchers survey, 2008.

In relation to the above, 71.7% of the respondents were of the view that the talk time tax will not ensure a fairer distribution of wealth. This is because the rich and the poor are made to pay the same rate. Findings deduced from the above analysis are:

1.   Tax systems in Ghana is discriminatory

2.   Talk time tax will lead to unfair distribution of tax burden.

4.2   TAX RATE

Figure two tax rate: Perception of current tax rate
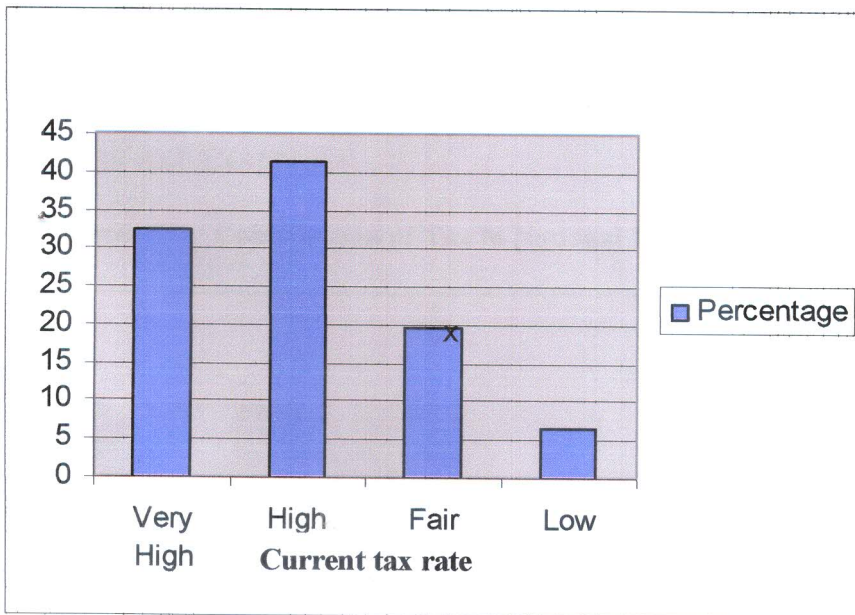
Source: Researchers survey, 2008.

Figure two show that, 32.6% of the respondents believe the current tax rate is very high and 41.3% say is high. Only 6.5% indicated that the tax rate is low. From the above it is realised that the tax rate in the country is high and people cannot afford such rates causing inconveniences for them.

4.3 TAX AWARENESS AND INCREASE IN TAX BURDEN

TABLE TWO   TAX AWARENESS AND TAX BURDEN

| Aware of talk-time tax threshold		PERCENTAGE
Yes	19	41.3
No	27	58.7
Increase tax burden		
Yes	34	73.9
No	12	26.1

Source: Researchers survey 2008.

From the table above, 73.9% of the respondents said the tax talk-time will increase their tax burden. This buttresses the fact earlier asserted by the respondents that the current tax rate is high. 41.3% of the respondents indicated they are aware of the talk-time tax threshold. It is realised that a lot of the respondents are not aware of the talk-time tax threshold and as such are not certain they will be paying tax. This could be attributed to the poor advertisement on talk-time tax or low education of the tax system. From the above analysis it was found out that

1. Low level of education on the talk-time tax

2. Tax rates are high.

4.4   TAX CONTRIBUTION TO NATIONAL DEVELOPMENT AND HINDRANCE TO BUSINESS EXPANSION

Figure three   Contribution of Tax to National Development
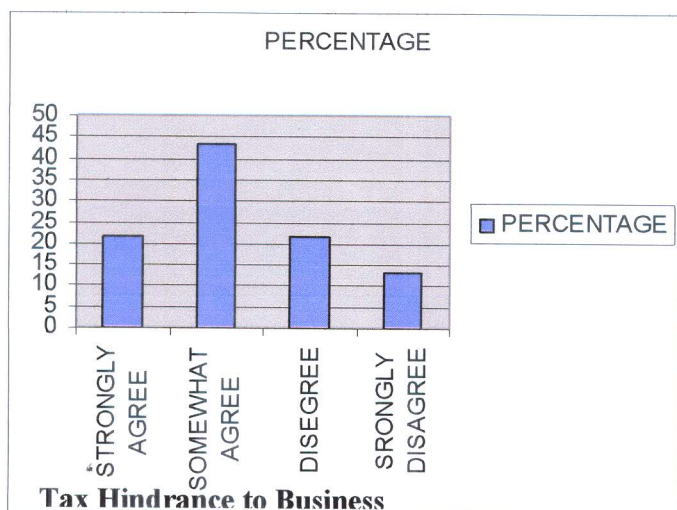

Source: Researchers survey 2008.

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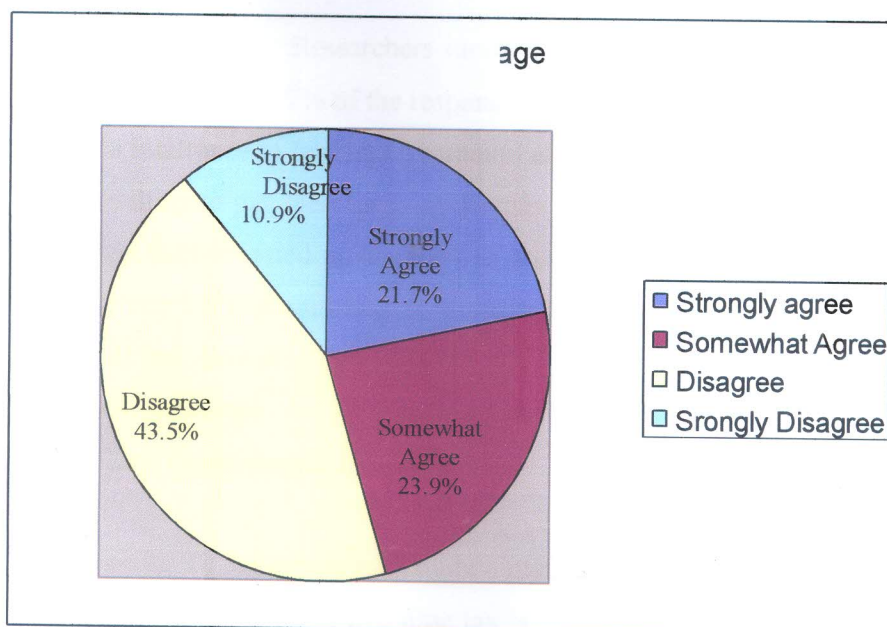
From figure three, 21.7% of the respondents strongly agree that the talk time tax will contribute to national development and 23.9% somewhat agree. 43.5% disagree that the tax revenue generated are channelled to developing the nation. People's perception about what their tax monies are used for is very poor and could be due to the low development projects in the country.

From the above, it can be realised that

1.   The citizens do not know what tax collected are used for

2.   There is low development in the country

Figure 4:   Tax Hindrance to Business Expansion

Source: Researchers survey 2008.

From the figure 4, 21.7% of the respondents indicated they strongly agree that the talk time tax will be a hindrance to business expansion and 43.5% somewhat agree. This shows that people are not willing to pay their taxes which may be attributed to high level of rate or tax. Also they do not get their invested money back to prior it back into their business. 21.7% indicated they disagree that tax is a hindrance to business expansion. In relation to the above analysis it was found out that there is

1.   High tax rate

2.   Low development in the nation

From interviews conducted with mobile phone users and telecommunications operators, it was revealed that the proposed talk-time tax is a disincentive to work. Although they believe that most of the mobile phones brought into the country are smuggled, they said it is the

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responsibility of the government to tightened security network and ensure that all imported goods are assessed and the necessary taxes imputed on them. But to tax one air time tax is discouraging.

It was also asserted that increasing ones talk time will reduce the amount of communication related to economic activities and that there is already VAT/NHIL tax element on talk-time.

Notwithstanding the associated problems with the talk time tax above, some of the mobile phone users believe that the proposed talk time tax will be efficient and beneficial. Some of those who believe in the efficiency of the proposed talk time asserted it will even be more efficient if the revenue accrued from it is channelled to development projects especially as already indicated to be channels to the National Youth Employment Programme and the National Health Insurance Scheme.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The imposition of tax on individuals and corporate bodies cannot be over emphasised since it leads to the development and general welfare of the citizens. That is why the government want to introduce the talk-time tax to effectively mobilize revenue to enhance development. The study was done to know the relevance of Talk-time tax on the economy of Ghana.

The study showed that, for a tax system to be effective it must follow the principles of good tax system, that is it should be equitable, certain, convenient and productive of revenue.

It was found out that the current tax regime in the country looks discriminatory and that some individuals and business are more favoured than others. It also does not ensure a fairer distribution of tax burden.

Current tax rate is also perceived to be high by the citizen and as such the introduction of the talk-time tax will increase their tax burden.

In relation to the above, the respondents believe that tax officials do not channel the tax collected into developing projects.

5.2 CONCLUSION

Not withstanding the critics about the talk-time tax, the study proved that taxation is the blood and engine of growth of the nation since it is the major source of income to the nation. Development in the nation is done through the tax revenue mobilized. In view of this, there is the need to ensure efficient and effective tax system.

5.3   RECOMMENDATION

From the findings of the study on the relevance of Talk-time tax on the economy of Ghana, the following recommendations are outlined to ensure effective mobilization of tax revenue.

1. There should be checks and balances to make sure that tax revenue collected is used to develop the country.
2. Reduce taxes to acceptable level so as to encourage people to pay tax.
3. Educate the public about taxation and their benefit.
4. Start implementing laws against tax and defaulters.
5. There should be lower and affordable tax rate.
6. Provide the atmosphere of transparency to enable tax payers know that they are not cheated.
7. Ensure a fairer distribution of tax burden.

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MOBILE PHONE USERS (GENERAL PUBLIC)

This information is required to enable me carry out my report work for the award of Bachelor of Business Administration, under the topic **THE RELEVANCE OF TALK TIME TAX ON THE ECONOMY OF GHANA.** A case study of Kwadaso sub-metro.

Sex:

Male [　]　　　　　　　Female [　]

Age: ....

Qualification: ....

1.　　What class of tax is usually administered?

　　　a) Direct tax [　　]　　　　　　b) Indirect tax [　　]

2.　　Is indirect t tax adequately understood by the tax payer?

　　　Yes [　]　　　　　　No [　]

3.　　Do you agree that indirect tax also contribute to natural development?

　　　Strongly agree [　]　some what agree [　]　　　disagree [　]

　　　Strongly disagree [　]

4.　　Do you believe that tax officials channel the revenue collected to developing the country?

　　　They do [　]　　　　they don't [　]　　I don't know [　]

5.　　Is tax revenue effectively utilised.

　　　Yes [　]　　　no [　]

6.　　Is tax a hindrance to business expansion?　　Strongly agree [　]

　　　Some what agree [　] disagree [　] strongly disagree [　]

7. What is your perception about the current tax rate?

   Very high [ ]   High [ ]   Fair [ ]   Low [ ]

8. Do the tax collectors educate you on why you should pay tax?

   Yes [ ]   no [ ]

9. Do you know why the government want to introduce the air-time tax?

   Yes [ ]   no [ ]

10. Are you aware of the talk time threshold?

    Yes [ ]   no [ ]

11. Will the tax increase your tax burden?

    ....

12. In your own opinion how do you perceive the tax regime in Ghana?

    Too rigid too loose [ ]   fair [ ]   discriminatory [ ]

13. Do you think the government will be justified introducing the talk-time tax?

    Yes [ ]   no [ ]

    If yes why...

    If no why...

14. Are you aware of some benefit that could be denied from talk-time tax?

    Yes [ ]   no [ ]

15. Do you pay your taxes? Yes [ ]   no [ ]

16. Do you have knowledge on tax evasion? Yes [ ]   no [ ]

17. Do you know that mobile phones are smuggled into the country?

18. What effect does smuggled have on the economy.

19. Have you ever defaultered in paying your tax? Yes [ ]   no [ ]

20. How many times have you defaultered?

    ....

APPENDIX B

INTERVIEW WITH TELECOMMUNICATION OPERATORS

This information is required to enable us carry out our project work for the award of Bachelor of Business Administration, under the topic **THE RELEVANCE OF TALK-TIME TAX ON THE ECONOMY OF GHANA** . A case study of the Kwadaso Sub-Metro

Any information provided will be kept confidential

Kindly answer the questions as objectively as possible. Tick where appropriate and write when necessary

1. What class of tax is usually administered?

2. Is indirect t tax adequately understood by the tax payer?

3. Do you agree that indirect tax also contribute to natural development?

4. Is tax revenue effectively utilised

5. Is tax a hindrance to your business?

6. In what way will talk time tax affect your business?

7. Do you know the threshold of the talk time tax?

8. How will this affect your business?

9. Are you aware of some benefit that could be derived from talk-time tax?

10. Do you know that mobile phones are smuggled into the country?

11. Do you pay your tax?

12. Have you ever defaultered in paying your taxes.

TABLE 4   PERCEPTION OF TAX REGIME

PERCEPTION OF TAX REGIME	NUMBER	PERCENTAGE
Too rigid	5	10.9
Too loose	13	28.3
Fair	9	19.5
Discriminatory	19	41.3

TABLE 5   TAX RATE AND AWARENESS OF TAX

	NUMBER	PERCENTAGE
Current tax rate		
Very high	15	32.6
High	19	41.3
Fair	9	19.6
Low	3	6.5

TABLE 6 HINDRANCE AND CONTRIBUTION OF TAX TO NATIONAL DEVELOPMENT

	NUMBER	PERCENTAGE
Contribution of Nation Development		
Strongly Agree	10	21.7
somewhat agree	11	23.9
Disagree	20	43.5
Strongly Disagree	5	10.9
Hindrance to Business Expansion		
Strongly Agree	10	21.7
Somewhat Agree	20	43.5
Disagree	10	21.7
Strongly Disagree	6	13.1