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**TAX EVASION IN SEKONDI TAKORADI METROPOLITAN ASSEMBLY  
(GHANA): CAUSES, EFFECTS AND SOLUTIONS**

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Final Dissertation submitted to *Instituto Politécnico de Bragança*

To obtain the Master's Degree in Management, Specialisation in Business Management

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***Bragança, March, 2022.***

## **Abstract**

The incidence of tax evasion/avoidance has become one of the major challenges affecting revenue generation in many countries, especially in developing and emerging economies like Ghana. This study aims to examine the causes, effects and solutions of tax evasion/avoidance in the Sekondi-Takoradi Metropolitan Assembly of the Western Region of The Republic of Ghana. The main objectives are: (i) analyse the causes of tax evasion/avoidance; (ii) analyse the effects of tax evasion/avoidance according to the point of view of small business owners; (iii) identify the suggested solutions according to the opinion of the respondents. The data was collected using a structured questionnaire. The final sample size is based on 97 taxable persons and businesses. According to our findings, the retail sector is more prone to tax evasion; females have different behaviour from males. Education and marital status are the factors showing more differences concerning the cause and effects of taxation. In relation to the solutions, we did not find different solutions according to the respondent's profile; however, "Government spending should be development oriented to encourage taxpayers" was the solution with higher preference.

**Keywords:** Tax Evasion, Tax Avoidance, Taxation, Direct Tax, Indirect Tax

## **Resumo**

A incidência de evasão/elisão fiscal tornou-se um dos principais desafios que afetam a geração de receita em muitos países, especialmente nas economias em desenvolvimento e emergentes como Gana. Este estudo tem como objetivo examinar as causas e os efeitos da evasão e elisão fiscais na Assembleia Metropolitana Sekondi-Takoradi da Região Oeste da República de Gana. Os principais objetivos são: (i) analisar as causas da evasão/elisão fiscal; (ii) analisar os efeitos da evasão/elisão fiscal, na ótica dos pequenos empresários. Os dados foram recolhidos por meio de questionário estruturado. A dimensão final da amostra baseia-se em 97 sujeitos passivos e empresas. De acordo com os resultados, o setor de retalhista está mais sujeito à evasão fiscal; as mulheres têm um comportamento diferente dos homens. A escolaridade e o estado civil são os fatores que apresentam mais diferenças em relação às causas e efeitos da tributação. Em relação às soluções, não foram encontradas diferenças por perfil de inquirido; porém, "as despesas governamentais devem ser orientadas para o desenvolvimento para encorajar os contribuintes" foi a solução que apresentou elevada preferência.

**Palavras-chave:** Evasão fiscal, Elisão fiscal, Tributação, Imposto direto, Imposto indireto

## **Acknowledgments**

To God be the glory for bringing this work to a successful end.

I deeply express my appreciation to my supervisors, Professor Carlos Lopes and Professor Paula Odete, for their patience, time, encouragement, and support in making it possible for me to accomplish this work.

I do extend appreciation to the late Hon. K. K. Sam (Metropolitan Chief Executive) and the entire staff at the Sekondi-Takoradi Metropolitan Assembly for their good human relations and for assisting me.

To my lovely family and especially to my late grandmother, I say may God bless you. I sincerely acknowledge the writers of the various journals, articles, and books that contributed in diverse ways to fine-tune this research.

Thanks to all those who contributed to this work in diverse ways since I was unable to capture every name.

## **Abbreviations and Acronyms**

CEPS	Customs Excise and Preventive Service
DTRD	Domestic Tax Revenue Division
GDP	Gross Domestic Product
GIF	Global Financial Integrity
GRA	Ghana Revenue Authority
ICAG	Institute of Chartered Accountants
IRS	Internal Revenue Service
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
RAGB	Revenue Agencies Governing Board
SAEMA	Shama Ahanta East Metropolitan Assembly
SMEs	Small and Medium Sized Enterprises
SSD	Support Services Division
STMA	Sekondi-Takoradi Metropolitan Assembly
VAT	Value Added Tax

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## Introduction

The development of every economy in the modern world largely depends on tax revenues from taxable entities and individuals. However, tax evasion has existed for over two thousand five hundred years ago. At that time, Plato on writing about tax evasion mentioned that Ducal palace of Venice had a hole through which it received information on people who evaded taxes.

Fjeldstad (2006) posited that during the third century BC in India, the state craft arthashastra advised the kings of Mauryan to take good care of the state revenues otherwise be misappropriated by the people for self-gains.

The Global Financial Integrity (GFI) estimated that African countries lost US\$854 billion in cumulative capital flight by way of tax evasion and avoidance between 1970 – 2008 Germany Federal Ministry for Economic Cooperation and Development, 2010).

Ghana economy is also strongly affected by tax evasion. The impact on the economy and, consequently, on society is high. Understanding the causes, effects and solutions for tax evasion and avoidance is a relevant issue.

Therefore, taking into consideration the point of view of small business owners, this study aims (i) to analyse the causes tax evasion and avoidance; (ii) to analyse the main effects of tax evasion and avoidance. (iii) Identify the solutions suggested by small businesses owners.

Based on the tax evasion literature, we have identified the main factors that might causes tax evasion. In terms of methodology, we prepared a questionnaire to obtain the data needed; next using appropriate statistics methods we achieved the results. The results discussion allowed us to reach the conclusions about the causes and the effects of Ghana tax evasion issues.

The data was collected in the Sekondi-Takoradi Metropolitan Assembly of the Western Region of The Republic of Ghana. Precisely, 97 taxable persons and businesses answered the questionnaires.

This work is structured as follows: after this introduction, we present the theoretical framework and the literature review (point 1). Next, we explain the methodology used in the study, particularly the sample and the methods used (point 2). Finally, after the discussion of the results (point 3), we present the main findings (conclusions).

# 1. Literature Review

## 1.1 Overview of taxation

Matters concerning Taxation dates back into medieval times, so it is no surprise how most of the masses consider taxes as the problem. Adams (1998) wrote that in most of the Egyptian Pharaohs' reigns, tax collectors were referred to as scribes. The scribes were so duty conscious to the extent that at one time they even introduced a tax on cooking oil. As a control and compliance measure, the scribes audited individual homes to ensure that the actual amount of cooking oil were consumed and that the masses were not using the accumulated oil from previous cooking as an alternative for subsequent cooking. Rehnquist et al. (1992) posited that Rome introduced the earliest tax called the Portoria, a customs and excise duty. Julius Caesar's regime introduced a 1% sales tax. A 4% sales tax for slaves and a 1% tax for every other thing were introduced by Caesar Augustus. An important need for taxation was to fund wars.

Nowadays, the provision of infrastructure needed for the development and growth of any economy is vital. Holding it to be true, it explains why all governments around the world exhibit greater interest in devising ways to generate revenues to undertake their respective goals for their societies. As a social obligation to the masses, it is evidently reasonable that government needs funds to carry out its social responsibilities. The social responsibilities are necessary but are not restricted to the provision of social services and infrastructure, Fagbemi et al. (2010). Quite obviously, meeting the social needs of the citizenry requires an enormous budget or funding, which is practically impossible for an individual or society to contribute solely. Therefore, the government assumes the responsibility to find the needed funding to provide the citizenry with the basic amenities. Taxation becomes one major source of funding for all government activities. The payment of tax, therefore, becomes a moral obligation and a social contract with the government. Therefore, the masses are expected to exercise their civic responsibility by paying their taxes as a contribution toward the provision of developmental projects and for administrative purposes, Murkur (2001), Fagbemi et al. (2010).

In a NEPAD-OECD roundtable ministerial meeting on fiscal affairs, taxation was touted to be key in modern economic development agenda. Tax ensures a constant and stable flow of revenue to fund development priorities, such as strengthening physical infrastructure interwoven with numerous variable policy areas, from good governance and formalizing the economy to spurring growth, NEPAD-OECD, (2009). Taxation forms an integral part of government's developmental agenda, for instance, promoting Small and Medium Sized Enterprises – SMEs – and the stimulation of export activities.

According to Ogundele (1999), Taxation is the process or means by which a group of persons or members of a community are mandated to contribute in some agreed quantum and scheme for society's administrative and developmental needs. Tax is a compulsory exaction of money by a public authority for public purposes (Soyode & Kajola, 2006). Any levy imposed on citizens of a country by a legal entity or the government is

called Tax (Altus Directory, 2006 – 2010). Nightingale (1997) also described tax as a compulsory contribution imposed by the government while Kohonen and Alemayehu, (2011) defined tax as a compulsory levy on transactions, privately held assets, works, among others and inflows as designated by the parliament and enacted by the government. Pratt et al (2001), tax is revenue collected from the masses to support government operations, implying that tax provides the avenue for government to achieve a greater proportion of revenue for operational activities.

Parliament designates taxes according to its understanding of equity in accordance with the constitutional provisions prescribing the objective of taxation and confirms that the rightful ownership of tax receipts ultimately lies with the citizens – Kohonen and Alemayehu (2011). Tax can thus be seen that it is not just an avenue of funds; though it has become a great tool used by policymakers to attain socio-economic goals. Selma et al. (1951) defined taxation as the process by which government solicits support from the citizenry to run the economy. Louis (1991) also opined that a taxation is a government tool for raising public spending money, making tax revenue the central activity of any economy. In most essential cases, tax revenue is the pivot around which any economy revolves, making available funding for everything from infrastructure investment to social programs, Richard and Bentum, (2009).

In both private and economic enterprise none of the government powers, not even its powers to declare war, bear so incisively upon the welfare of citizenry the as does the government's power to tax. Tax effect is that subjects are forced to give up their hard-earned earnings or possessions, or, in early days, also payments in kind, without receiving visible benefits in return, Coetzee (1993), Theron (1994), Lamont (1992). Thus, despite the importance and benefits of taxation, people still find it fit to avoid and evade tax payments.

According to Manuel (1999) the obligation one must pay a fair share of tax as and when they fall due has been embodied in the new morality which is in democratic governance. Manuel argued further that the avoidance and evasion of tax are among the most insidious forms of criminality that plague society as millions get diverted daily by tax criminals. According to Bosco and Mittone (1997), tax fraud is risky because the probability is high that it will be discovered and punished accordingly. In reference to the Portfolio theory, the choice of the taxpayer is influenced by his/her preferences - mostly his/her risk-taking attitude – and by the return on the risky asset determined by the tax structure, which includes both the tax rate and the penalties in the case of evasion.

### **1.1.1 The role of taxation in the national economy**

According to Altus Directory (2006 – 2010) the reasons for taxation can be classified as follows:

- Revenue: Government's revenues largely depend on the taxpayer's contribution, which is used to provide quality educational systems, social amenities such as hospitals, clinics, and infrastructure like roads, among others.

- Redistribution: This purpose of taxation aims at an effective and appropriate distribution of economic wealth among all sections of walk-of-life, both the affluent and not so well off in society. Even though very debatable and arguable, Redistribution is a common practice among democratic economies but varies in ways and proportion of application among countries.
- Reprising: The reason for this taxation aims at addressing certain externalities suffered by society due to some actions of industries. For instance, if we look at the sources of the threats to society through global warming, it is clear that it is as a result of the emission of toxic carbons from industries, among others. Various activists and governments therefore suggest the imposition of such tax on industries.

### **1.1.2 Attributes of a good tax system**

As referred to by many theorists, the canons of a good tax system refers to the attributes of a good tax system, notable among is Adam Smith in his “Wealth and Nations” book. The canons of a good tax system provide a good platform for assessing any tax system globally, so it makes the concept the basis of all tax related issues and deliberations. Based on a dynamic model, the canons of a good tax system hold that a system of taxation is ‘only’ effective if there is a free will of the taxpayer to pay rather than being compelled to do so. By this measure, one can assert that any good system of tax measuring in standards to Adam Smith’s theories in his famous Wealth and Nations book is likely to bring about tax administration efficiency whilst ensuring that taxpayers are willing to comply and adhere to the tax laws. In his book, Adam Smith outlined four tax attributes based on Equality, Certainty, Convenience and Economy which would be discussed in the subsequent pages.

#### *The Canon of Equality*

Adam Smith in his first canon argued that every good tax system should exercise fairness to the taxpayer. This infers that each taxpayer, judging by this canon, is expected to pay tax in accordance with his/her ability to do so which is best measured by the amount of income received per period. The equity here is that those with higher income will end up paying higher and those with a lower income paying low. So, in his argument, Adam Smith sought to affirm that every taxpayer’s commitment to tax should be in direct proportionate to his/her income earned as a matter of equity, fairness and a smooth tax administration system. However, it is authoritative to note that equality or equity here does not mean every taxpayer will or should pay the same amount as tax in simple terms. Rather, equality means that those with broader shoulders should bear the heaviest tax burden to cushion those with narrow shoulders.

However, most economists in today’s work environment hold a contrary view to Adam Smith’s Canon of Equality theory. Basing their assumptions on the heels of diminishing marginal utility of money income, recent economists argue the principle of a taxpayer’s ability to pay tax is more of progressive income tax.

By this, it simply means that the rate of tax increases as one's income increases. Most economies today adopt the progressive tax system to ensure equality in the tax system.

Some school of thoughts also postulate two arguments in the ability to pay principle, the Horizontal Equity and Vertical Equity concepts.

Horizontal Equity Concept argues that people of equal status should be given the same treatment. Meaning those with equal income should be given the same amount of tax to pay without any discrimination.

Vertical Equity Concept on the other hand argues that taxpayers having different payments capabilities should be given a different treatment for the purposes of division of the tax burden. It simply means that people with different levels in income should be taxed using different tax rates. Thus, a good system of tax should ensure both Horizontal and Vertical Equity in the tax administration.

#### The Canon of Certainty

Adam Smith on this canon posits that the amount of tax payable by each taxpayer should be certain and not arbitrary. In simple terms, the manner of payment, time of payment and the precise amount payable should be plain and clear to the taxpayer and all other persons. In making decisions regarding investments and other financial commitments, every taxpayer should be certain on how much tax s/he is liable to pay on any taxable income earned. The tax system is flawed with many uncertainties by the authorities regarding the amount of tax payable. The taxpayer becomes apathetic to work or do more investments in the economy, hence the need to ensure certainty in the tax administration. Adam Smith also talks about corruption possibilities in the tax administration. Therefore, to uphold the canon of certainty, every good tax system should ensure the security of the individual taxpayer against any unpredictable taxes levied on their wages or other incomes. Tax laws ought to be clear and specific; tax collection agents should be limited in applying their discretion during the tax assessment since it is a very great power and a fertile ground subject to abuse.

#### The Canon of Convenience

In his third argument on the canons of a good tax system, Adam Smith advocates that the sum, manner and time of payment of a tax need not only be certain but such elements should equally be convenient enough to the taxpayer or the tax contributor. As a logical example, the most convenient time to levy or tax farmers would be at the time when they are harvesting and selling their produce but not the time of ploughing and planting.

#### The Canon of Economy

Undoubtedly, tax administration incurs some cost to every economy. Surprisingly such costs in the collection of tax do not in any way add to the growth of the national product. This has been one of the strong arguments by many theorists including Adam Smith who holds the view that there should be economy in the tax administration and therefore calling for such costs associated with the collection of tax to be

minimized by any possible means. After all, there is no prudence in levying tax when the cost involved is more than the tax revenue to be realised.

#### Simplicity

A good tax system is that one that is built on clear and simple structures. So, for economy to be sustained in the collection of tax, the procedures should be spelt out in very comprehensive and simple terms. The tax laws should be framed so that there would be no ambiguity in interpretation.

#### Flexibility/Elasticity

The urgency of additional funds is very common with governance, and so this canon explains that every good tax system ought to be fairly elastic in order to cater for such additional commitments. This enables the government to raise its revenue base without necessarily incurring extra administration and collection costs. Income tax and postal rates are typical examples of elastic taxes that the government usually adjust to in times of rising government revenue demands.

#### Productivity

When the costs of administration and collection of taxes exceeds the targeted revenue, such taxes are not worth applying. The Productivity canon explains that every tax levied should be capable of producing much enough revenue to the government for development. So, by extension, if few taxes generate the needed fund for government undertakings, then that should be preferred to imposing many taxes that do not yield the needed funds.

### **1.1.3 Types of taxes**

Tax falls under two basic types, viz, Direct Tax and Indirect Tax

#### Direct taxation

Direct tax is the category of tax collected from organisations or individuals on which they are imposed. It assumes a vital role as a progressive tax and aims at taking more from persons and entities having more. Example is the income tax taken from the individual earning the income or taxes imposed as gift tax.

Because of its direct administration, Direct Tax is paid by individuals, organisations and businesses on which it is levied. Income tax, capital gain tax, corporate tax and gift tax are all types of a Direct Taxation. The Institute of Chartered Accountants (ICAG) Taxation Manual (2014) mentions the Domestic Tax Revenue Division of the GRA as the agency responsible for direct tax administration in Ghana. Because of its progressive nature, it acts as a check to restrict the consumption pattern of luxury goods by the rich and affluent whilst facilitating the distribution of scarce economic resources from the production of luxury goods towards capital construction. This is said to ensure a degree of flexibility in the tax system and increase the inflow of tax revenue as individual income increases (Ali, 2001).

Over the years, Direct Taxation has proven to be ideal and a measure of distributive justice for developing economies due to its progressive nature. According to Akakpo (2009), developing countries have a higher incidence of economic inequalities, which widens up as the economy develops. The determination of incidence and yield in Direct Tax is much probable and easier to both the administrator and the payer. In direct tax, the taxpayer knows the exact amount to pay as tax with certainty. Although indirect tax is much flexible regarding incidence and yields, it rises with the increases in population of an economy and the corresponding number of captured taxpayers. Ali (2001) also posits that direct tax has a rather sizeable cost in terms of administration whilst the “effect on incentive, enterprise and savings in the case of those with large income, may be considerable”.

### Indirect taxation

As the name suggests, it is the direct opposite of the Direct Tax with the aid of an intermediary as a means of collection. Indirect Tax can be said to be the type levied on expenditures. This means that Indirect Taxes are levied on persons other than those responsible for paying the tax to the administrators. A typical example is retailing business in the collection of sales tax from purchasing activities. The tax administrator or the government is reimbursed with a tax return filed by the intermediary as proportionate to the periodic sales proceeds. Indirect tax is transferable in nature, in that it is expected to be transferred from the original person or agent being levied to another taxpayer and eventually ends on the final consumer. This makes the incidence and impact of indirect taxation to fall on different persons (Akakpo, 2009).

The major types of Indirect Taxation are the customs and excise duties and Value Added Tax (VAT), and the corresponding administration and implementation authorities are the CEPS and the VATs (Ali, 2001). Unlike in direct taxation, the tax authorities do not deal directly with the consumers but instead do so by employing agents such as manufacturers, importers, and other intermediaries in the collection of the indirect taxes hence the name Indirect Tax. According to the ICAG Manual (Taxation and Fiscal Policy, 2015), the transfer of indirect tax liability is applied by pushing the tax burden on the selling prices of finished goods in the commercial chain to be borne finally by the end user, vis-a-viz the consumer.

In Akakpo's argument (2009), the attributes and value of the items or goods influence the rate of duty in indirect taxation and the rate is usually fixed in nature. For instance, a crate of soft drinks may be taxed based on its volume, but a bag of maize would be taxed on a per kilogram (kg) bases. By its nature, Indirect Taxation comes with many merits. For example, there is a high labour market incentive as indirect taxation rises because the government can then reduce the tax effects on capital and income. Also, according to Ali (2001), the majority of the public prefer indirect taxation to direct taxation because under the indirect tax system, employees can retain more of their income as expenditure-based and can be controlled. This also explains the rise in returns for over-time hours worked when income tax rates are reduced. Ali (2001) continued that people are able to earn a particular target of post-tax income with fairly lesser working hours comparable to previous hours worked before the cut in tax, if one puts income tax into perspective. The administration of indirect taxation is more flexible since it targets businesses that are normally easy to

identify and assess. It also holds true that employees would choose not to work but rather devote much time to leisure and still earn their due income if leisure was, in any ways, regarded as a normal good. With indirect taxes, the government enjoys much control over its fiscal policies. Another important merit of indirect taxation is its flexibility to be altered between budgets without any prior parliamentary approval – example being the VAT and excise duty – as in the case of direct taxation, which can only be altered in the annual budget.

However, unlike direct tax, which is progressive, indirect tax is regressive by its nature. Every taxpayer irrespective of their income level variations pays the same tax rate under the indirect tax system, which eventually results in low-income earners paying higher taxes than those in the high-income earning bracket.

## **1.2 Taxation in Ghana**

Per Randolph (2011), tax was introduced in Ghana in 1943. However, the government of Ghana made some attempts to introduce taxation in Ghana prior to its official introduction in 1943 as envisaged by Randolph. For instance, in order to generate revenue for funding the increased British Administration in 1852, the then Colonial administration introduced the erstwhile Poll Tax Ordinance. Men, women and children living in British protected district zones were made to pay 1 shilling per head per annum under the said 1852 ordinance.

However, the attempts towards the collection of the direct taxes failed as a result of some weakness as well as the failure of the administration to use the initial tax collected for the purposes for which it was collected. This is the genesis of taxation in Ghana and there have been various vital amendments in the tax laws. According to Abdallah (2008), Income Tax Ordinance was introduced in the year 1943 as the very first Income Tax Law. The Ghana Income Tax Ordinance was a model of the then United Kingdom Tax Act. The Ghana Tax Ordinance levied tax on incomes generated primarily in Ghana. These exempted incomes generated in foreign land unless such incomes or part was remitted to Ghana. As unique and important features, the Ghana Income Tax Ordinance encloses numerous deductions and personal reliefs.

Since the introduction of the Tax Ordinance, the Income Tax Law has undergone various alterations and reforms, example of which is the Income Tax (Amendment) Ordinance 1952. This was followed with the release of an initial consolidated edition of the Income Tax Ordinance in March 1953. In 1961, Act 68 of the consolidated edition of the Income Tax Ordinance was also amended and it was followed by similar amendment in 1963 to Acts 178 and 197 and Act 312 in 1965. The Tax Decree 1966 (No. 78) was released as the second consolidation in September 1966. The Income Tax Decree 1975, SMCD 5, was released as the third consolidated edition in December 1975. To effectively manage administration of Income Tax, Gift Tax and Capital Tax, the then Ghana government in the year 2000 introduced new tax laws, which were aimed to make tax administration in Ghana, better in general.

### *The Ghana Revenue Authority (GRA) evolution*

The Ghanaian economic structure is mostly informal with an estimation of about 86.3% of the economic activities being carried out by individuals as self-employed in the informal sector. Out of the estimated 86.3%, just about 29.9% have been captured in the tax basket for periodic assessment. As an attempt to bridge the gap between the formal and informal sectors to reduce tax evasion, the Ghana government in 2009 instituted the Ghana Revenue Authority (GRA). The GRA was a merger of the Revenue Agencies Governing Board (RAGB) the Customs Excise and Preventive Service (CEPS), the Value Added Tax Service (VATs) and the Internal Revenue Service (IRS) and was subsequently empowered as the sole government agency responsible for the general administration of merged revenue agencies in the country as mentioned earlier.

The GRA, upon its inception, issued out communiqué to phase out the three individual revenue agencies with their governing board (i.e., the RAGB) as have been consolidated by the passage of the GRA Act of 2009, (Act 791). As it has come to be, the GRA Act established the GRA as a legal entity to absolve the CEPS, IRS, VATs and RAGB for the administration of domestic tax and customs revenue in Ghana.

The Commissioner-General of the GRA, Mr. George Blankson, explained that the operations units of the VATs and IRS had been integrated into the Domestic Tax Revenue Division (DTRD) while the operations and preventive units of the CEPS forms the Customs Division, all under the newly instituted Ghana Revenue Authority (GRA).

Hitherto, all management support functions such as Human Resource, IT, Finance and Research Planning and Monitoring were undertaken independently by the three revenue agencies and their governing body. With the establishment of the GRA all, the management support functions were abridged under a new division called the Support Services Division (SSD).

Per Act 179, the Commissioner-General has a Commissioner and a Deputy Commissioner, each have specific functions and reporting to him directly. Specifically, the Commissioner is in charge of the Support Services Division while the Deputy Commissioner is responsible for the Internal Affairs, Legal Affairs, Communication and Public Affairs, Modernization Program Office and Board Secretariat and Internal Audit. In line with the GRA Act, 2009 (Act 791), all the former revenue agencies businesses and dealings were therefore to be redirected, with immediate effect, to the Ghana Revenue Authority (GRA).

### **1.3 Tax evasion and tax avoidance**

Taxes are imposed on citizens by their governments as a means of generating revenues needed to help in the development and provision of such social services and amenities such as infrastructure and utilities for the masses. Therefore, paying tax is a civic responsibility and fulfilling tax obligations by eligible taxpayers is a clear demonstration of the citizenry to contribute towards the development of every economy. Revenue from taxes therefore forms a major chunk of government revenue flow.

However, Tax Evasion and Tax Avoidance have become a predominant phenomenon in tax administration by various governments all over the world of which Ghana is not an exception. Looking at the impact of tax evasion and tax avoidance on economies, it is much prudent to fully grasp the concept when discussing taxation and attempt to draw a clear distinction between the two concepts. In the Ghanaian context, many have over the years misconstrued the concept of tax avoidance and tax evasion.

### **1.3.1 Tax Evasion**

As has been argued by Fisman and Wei (2001), tax evasion per its nature is hard to detect. Research into tax evasion and tax avoidance date back into the works of one of the 'law and economics' pioneer Cesare Beccaria (1797). By a simple definition, Tax Evasion is where eligible taxpayers consciously miscarry their tax obligations. For many years now issues concerning Tax Evasion have been separated to stand alone in consideration of its urgent appeal to tax authorities to ensure that much effort is put forward into finding a lasting solution. The 1966 international glossary defines Tax Evasion as illegal arrangements to hide or ignore tax liabilities. Abdallah (2008) argues that "tax evasion is using illegal means to reduce tax". Browing (1979) also posits that tax evasion is a deliberate effort not to pay a legally due tax.

Evasion of tax constitutes an utter fraudulent action on the taxpayer's part, which is an intentional omission or commission. For instance, a taxpayer may intentionally add a certain category of family members to get tax relief. In addition, a taxpayer may ignorantly or deliberately refuse to declare his full income to tax authorities or omit certain items even if the income is declared, just to hide the true financial position of the business. Such acts are all considered as criminal offences under the tax laws.

### **1.3.2 Tax Avoidance**

Tax avoidance is an associated model of tax evasion where individual taxpayers decrease their tax liabilities in ways that tax legislators may unplan but is permissible by law. To this effect, individuals/entities adopt business strategies and transactions which enable them to decrease their tax burden without necessarily flouting the laws. According to Muhammed and Muhammed (2012) although various governments protest the influx of tax evasion and tax avoidance, taxpayers apply tax avoidance mechanisms, including wilfully using sham schemes with the support of tax officials to ultimately engage in tax evasion.

By the operations of law, tax avoidance and tax evasion differ in that tax evasion is unlawful and where it is identified it becomes an offence and punishable under the tax laws. Tax avoidance on the other hand is legally allowed. Hoffman et al. (2002) has also advanced some clear distinction between tax avoidance and tax evasion which could be seen as follows:

- i. Tax Evasion is an act considered to be illegal while Tax Avoidance is an action recognised and permissible under the tax laws;

- ii. Tax Evasion is a criminal offence and punishable while Tax Avoidance is not;
- iii. Tax Evasion is mainly shrouded in fraud and/or wilful default in tax payments while Tax Avoidance applies a critical analysis of the Tax Acts and Laws and relying on the best side of all tax exemptions, reliefs and allowances permitted under the tax laws;
- iv. Taxpayers under tax evasion 'may not' show up in any way to the tax authorities while taxpayers under tax avoidance usually show up at the tax authorities and go through all the paper works for effective assessment and settlement.

When taxes are evaded or avoided, it is clear that there is inequity in the tax system since tax forms a large percentage of government revenue. This is in accordance with studies carried out by Reynolds (1963). Tax evasion deprives the government of its revenue, which creates imbalances between the actual revenue amount of tax collected and what ought to have been collected. There was a presentation of a case study on tax evasion somewhere in China where a discovery of enormous, disaggregated level of individual products that measured tax evasion comparatively and accurately by matching values that China reports as imports from Hong Kong, with Hong Kong reports as exports to China.

In the said case study, they matched the tariffs – including VAT – with tax evasion gap schedule at the product level. Irrespective of this, Alm and Martinez-Vazquez (2007) explains that taxing certain individuals, activities or sectors (i.e., the “informal sector”) in both developed and developing economies poses much further challenges for tax administration and the “fiscal gap” that arises from the inability to administer tax in such sector can be quite alarming. There are also other vital tangible effects that arise from taxing the informal sector quite apart from the collection of tax revenue.

According to Araujo-Bonjean and Chambas (2003) most African countries revenue levels in the global perspective is low and the tax burden is frequently concentrated on modern sector firms. Mobilizations of public fund over the years have become a considerable difficulty for most of the Sub-Saharan Africa economies. Studies have traced such difficulties to under-taxation of unrecorded activities mostly identified in urban areas, leading to low record levels in public revenues. Efforts were put in place in the 90s with the aim to improve on the difficulties identified with public fund mobilization. Structuring it in specific context to synchronize with the Sub-Saharan Africa economies, the tax systems were simplified, modernized and adapted while at the same time ensuring that some tailor-made attempts were employed to improving tax administration. Defying the challenges, encountered, average public revenues in terms of GDP substantially compared to the GDP of other groups in the developing countries according to Araujo-Bonjean and Chambas (2003), Brun, Chambas and Combes (2003).

#### **1.3.4 Determinants of tax evasion and tax avoidance**

All over the world, contemporary societies have become ‘servants’ of compulsory payment of taxes, hence tax compliance efforts are being enforced in every society to achieve the expected target, Lago-Penas and

Lago-Penas (2010). Studies have shown a gross disparity in tax revenue as a proportion to GDP between rich economies and developing economies. A leading study to this theory is found in the works of Cummings et al. (2009) where they discovered the encouragement of high levels of tax compliance as one of the disturbing challenges for policymakers in developing and transition economies. The weakness in direct taxation in developing economies widely explains the difference in tax revenues between the world's richest and poorest nations.

For instance, whilst the GDP of the industrialized economies is composed of 22% of direct taxation the GDP of the Sub-Saharan Africa economies is made up of just a little over 7% from direct taxation. According to Auriola and Wartters (2005) indirect taxation in developing economies is 10% average of GDP which compares in equal level to that of the industrialised economies, which is a vivid indication of the disturbing level of tax compliance in developing economies.

Theoretical and empirical studies on tax evasion attest that the determinants of tax evasion are distinctly extreme. According to Herschel, (1978) in his study on tax evasion in developing and developed countries, he argued that tax evasion tends to be prevalent in developing countries. His reasons were that developing economies are based on fewer large enterprises, low tax morale, less use of tax practitioners, less wealthy individuals and reduced opportunities which enticed them to rely on tax avoidance schemes. According to Sookram and Watson, (2005) the extremity of tax evasion cut across economic and social factors, psychological attitudes, administrative and legal issues. Also, the causes of tax evasion involve certain characteristics identified with developing economies, which largely include high concentration of income, underground economy, and taxpayers' financial limitations.

Understanding some of the underlying factors regarding the decision to pay or not to pay tax is a better way to deal effectively with the problems of Tax Evasion and Tax Avoidance. Kaldor (1993) argues that there is a positive correlation between tax evasion and perceived inequality of the tax system.

According to Beattie (1982, 2010) the desire to amass more wealth is one of the motives for tax evasion. To the businessman, the essence of sales is measured on the amount of money remaining after all expenses, including taxes, have been met. The ultimate aim of the business is to reduce costs of operation, reduce prices to capture a bigger market share and thus increase the cash available to the entity at the end of the financial year.

Another study by Spiecer (1974) on Behavioural Model of Income Evasion also concluded that individual tax evasion was positively linked to the number of friends and colleagues believed to be evading taxes.

According to Ablordepey (2006) the attitudes and decisions of taxpayers to evade taxes could be traced to various reasons including the following:

- Ignorance
- Law and justice

- Excessive corruption by government officials
- General dishonesty among the citizenries
- Unpatriotic citizens
- Unfairness of the tax system and lack of regard for equity
- Political culture,
- Incompetence on the part of the tax administrators, etc.

Another milestone literature review on tax evasion by Jackson and Milliron (1986) identified fourteen (14) vital determinants of tax evasion. They included: complexity, fairness, revenue-initiated contact, compliant peers and tax morale or ethics (i.e., 'behavioural' determinants), gender, age, education and occupation status (i.e., 'demographic' determinants) and income level, income source, marginal tax rates, sanctions and probability of detection (i.e. 'economic' determinant). Richardson (2006) also identified other significant tax evasion determinants as tax morale, income source, education and fairness to buttress earlier studies by Jackson and Milliron.

The most pertinent question of why people evade and avoid tax could be 'attempted' by taking a cursory look into the major determinants of tax evasion as identified by Jackson and Milliron (1986) and Richardson (2006). Ten (10) key variables of Jackson and Milliron's (1986) findings would be given emphasis in this study. The variables are age, complexity, education, fairness, gender, income level, income source, marginal tax rates, revenue authority-initiated contact and tax morale. According to Jackson and Milliron (1986), the linear age of taxpayers is one of the most vital tax evasion determinants. Studies show that older taxpayers are generally more compliant to the tax obligations than the younger taxpayers, Tittle, (1980) in Richardson (2006), Feinstein (1991). A candid explanation about the connection concerning age and tax deviance as attributable to lifespan disparities and generational transformations was given by Tittle (1980) in Richardson (2006). He explained that as lifespan disparities, younger taxpayers tend to be more risk-inclined and less-sensitive to punishments for default in tax payment. Further, Tittle explained that the life-cycle disparity reveals the social and psychological modifications associated to the era in which the younger taxpayers are raised (i.e., generational difference).

Richardson (2006) argued that female taxpayers usually have a higher tax compliance rate than their counterpart male taxpayers. Two decades earlier, Jackson and Milliron (1986) also argued that the tax compliance gap among males and females is closing-up with time as a result of the emergence of new generations of liberated women. Contrary to this argument on gender and tax evasion since Jackson and Milliron (1986), further studies have shown that the compliance gap between males and females has been retained. These revelations indicate that the issue of gender of taxpayers matters. Thirdly, available literatures have once again revealed the level of education as another vital tax evasion determinant. More often than not, a taxpayer's capacity is related to his/her understanding to comply or not to comply with the

income tax laws (Ibid). Jackson and Milliron (1986) argued that education on taxation has two elements: 'the general degree of fiscal knowledge' and 'the specific degree of knowledge regarding tax evasion opportunities. Jackson and Milliron are of the view that considerable advanced opinions about taxation are built when the general financial understanding of tax compliance is enhanced.

Other theories corroborated by Richardson (2006) argue that tax compliance suffer negatively where there is increased knowledge on tax evasion opportunities because it breeds non-compliance. He further opined that the widely held studies probing the effects of education on tax evasion apply the over-all educational level of the taxpayer as the approach to measure education. Wallschutzky (1984) has also discovered a regressive relationship between tax evasion and the over-all education level of the taxpayer. Income levels, which refer to the gross adjusted income or positive income of the taxpayer, have also been identified by Jackson and Milliron (1986) as another key determinant of tax evasion. Evidence abounds that taxpayers in the middle-income level are more compliant to the tax laws while high- and low-income level taxpayers are more non-compliant with tax laws, Witte and Woodbury (1983) in Richardson (2006).

Studies have shown that taxpayers who are dependent on wages and salaries as their source of income have the least opportunity to evade tax since they are subject to tax withholding, a typical example being those in the service sector. Jackson and Milliron (1986) refers to income source as the type or nature of taxpayer's income. Schmolder (1970) in Richardson (2006) argued that when a large part of the labour force in a country is engaged in small trading and agriculture, taxation on profits and income is mostly unsuccessful.

A research on "Tax Evasion and Tax Rates: An analysis of individual returns" by Clotfelter (1983) revealed that, another cardinal determinant of tax evasion is marginal tax rates. Clotfelter reported in his findings that, a progressive relationship exists between marginal tax rates and tax evasion but Feinstein (1991) on the other hand portrays a regressive relationship between tax evasion and marginal tax rates. In Richardson's (2006) submission, the inability to control the correlation between marginal tax rates and income level may impact on this variation.

Studies by Jackson and Milliron (1986) and Barth et al. (2006) have pointed out the general perceptions about the connection between tax evasion and fairness. The taxpayer's perceptions on the principle of 'fairness' ought not be underrated in any circumstances in the discussion of tax evasion. A significant regressive relationship between fairness and tax evasion was identified by Song and Yarbrough (1978) in Richardson (2006) with 75% of eligible taxpayers indicating that the 'ability to pay' as a concept of fairness is more significant for tax evasion than the concept of 'benefits. Furthermore, the perception of an improved tax system was identified to be significantly connected with fairness and subsequently reflecting a negative relationship between tax evasion and fairness.

According to Richardson, (2006) revenue authority-initiated contact is another vital determinant of tax evasion. Jackson and Milliron, (1986) in supporting an earlier study conducted by Wallschutzky (1984)

argued that in majority of the studies in tax structure in Europe, it became evident that while the Southern European countries have a long-standing reputation of striving to strengthen enforcement to improve tax compliance, the lowest rates of tax compliance in Europe were associated with the same Southern European countries.

Recent studies affirm that there is a negative correlation between tax evasion and tax morale. According to Tittle (1980) there is a negative relationship between tax evasion and tax morale of individuals. Jackson and Milliron (1986) opined that because tax morale explains the doctrines or beliefs individuals possess about paying taxes, it makes the concept ambiguous. Cummings et al. (2009) also argued that the concept of tax morale highly influences the issue of tax compliance.

### **1.3.5 Estimates of tax evasion and tax avoidance in developing countries**

Over the years, quantitative estimates about losses due to tax avoidance and tax evasion have faced enormous difficulties. Arguments have been rife to the effect that the nature of such activities escapes the normal documentation and statistical record-keeping. In this regard, to estimate the value of tax avoidance and tax evasion, there is a need to build on concepts that exploit the connections between observable and statistically documented variables and evasion. Findings show that developing countries are prone to increased challenges when estimating the losses associated with tax avoidance and tax evasion. This is because economic data is mostly constrained than in advanced economies. Further, there is very little empirical evidence on tax avoidance and tax evasion. This could largely be blamed on the data related issues mentioned earlier.

The existing tax avoidance and tax evasion estimates would be discussed in the following pages. Cobham's (2005) study on tax evasion in focus is the first to start with for the following reasons:

- (i) It is the most commonly quoted paper by authorities;
- (ii) The methodologies used in the paper are very transparent. This enables the result to be duplicated using data available to the public and;
- (iii) The paper addresses the collective impacts of international and domestic tax evasion, focusing on the domestic component. This is a significant diversion from most of the studies on tax evasion and tax avoidance on developing countries which mainly focus on the international component only.

It is worthy to note here that any attempt by the government to compensate for tax losses by raising tax rates will eventually make tax evasion even more attractive. On the other hand, higher tax rates in effect penalize honest taxpayers who comply with their tax obligations either because they want to or because they have no opportunities for evasion. Arguments are rife to the effect that if the government adopt measures to fight non-compliance, it can raise much more revenue without necessarily having to increase taxes and/or reducing spending.

Franzoni (1999) argues that the continuous losses in tax revenue may cause grievous damages to the smooth functioning of the public sector as well as threaten the capacity to finance its basic expenses. Undoubtedly, the provision of public services forms the basis for taxation, but Chen (2003) posits that taxation and tax evasion largely influence public expenditure and capital accumulation, which impacts output and economic growth.

### **1.3.6 The extent of tax evasion in Ghana**

Myles (2000) proposed that the significance of developing a conjectural understanding of tax evasion can only be evaluated by estimating the real scope of tax evasion. Russo (2010) argues that some of the transactions that are part of our daily routine are, either deliberately or accidentally, concealed from the tax authority. In Fjeldstad's (1996) study, he opined that there is a universal and persistent problem of fiscal corruption and tax evasion with many-sided important economic consequences from time immemorial. Gillman and Kejak (2006) argued further that tax evasion is fashioned in a 'competitively' dispersed fraud services sector.

Studies have shown that tax evasion poses a range of economic effects and at least two or more reasons for concern have been advanced. In the first instance Alm et al. (1991) where they argued that because the effective tax rates faced by individuals may differ due to differences in opportunities for tax evasion, horizontal and vertical equity suffer. This opinion was buttressed by Shome (2005) on his study which emerged that if there was no tax evasion, tax rates would be lower under the premise of revenue neutrality. He advanced further that equity is one important adverse effect of tax evasion where in both forms of horizontal and vertical inequity; the higher-taxed person pays for the lower-taxed person.

The second reason for concern was advanced by, Fjeldstad (1996) who is of the opinion that revenue losses as a result of corruption and non-compliance assume particular significance in times of substantial budget deficit. On February 18<sup>th</sup>, 2015, an article was carried by Today Ghana News website to wit 'information reaching Today Ghana News from the corridors of power indicates that the Special Operations Unit on Tax Evasion at the Presidency has uncovered about two-hundred-and-eighty (280) public and private companies which had evaded taxes in the country'. This is a class display of the worrying situation of tax evasion in Ghana.

The article went on to report that in the space of seven (7) years (i.e., from 2005-2012) the economy of Ghana lost a whopping sum of USD\$367 million, which prompted the police to investigate the said entities alleged to have evaded taxes for subsequent prosecution. The article revealed that "... nine more dockets have reached advance stages of investigations and will soon be sent to court. More dockets are being built and will be forwarded for prosecution." The presidential task force in October 2013, also uncovered over USD\$367 million loss to the state through tax evasion. The above-mentioned circumstances are a clear indication that tax evasion could not be overlooked in Ghana.

Tanzi and Shome (1993) expressed great concern about the growing underground economic activities and their impact on economic policies. In 1994 and 1995, Tanzi, advanced further that corrupt activities by tax administrators often play a major role in the promotion and sustenance of underground economic activities and the facilitation of tax evasion. Undoubtedly, the legitimacy of governments worldwide is always weakened by tax evasion and corruption in fiscal processes.

For instance, in Italy, loss in revenue to the government is one of the effects of tax evasion. The Finance Ministry estimate indicated that roughly 20% of income earned within the national border was not reported, resulting in more than 300 Million Euros loss in revenue generation every year in forgone tax revenue.

In February 2015, there was a publication on Myjoyonline (a private broadcast/media outfit) regarding officials of five companies to be persecuted for tax evasion. The article reported in quotes that, "Police will by close of this week put officials of five Ghanaian companies alleged to have evaded tax before court for prosecution. This follows investigations by the special operations unit of tax evasion at the presidency. The unit has so far retrieved more than One Billion Ghana Cedis (GHC1,000,000,000.00) from some companies engaged in the illegal act". The article quoted further that, "the police have investigated a number of companies which have evaded custom duties and tax. The police have meanwhile refused to disclose the identities of the companies involved but Joy News checks indicate that over 280 public and private companies were involved".

Matsaganis and Flevotomou (2010) also espoused another effect of tax evasion, emphasizing that it raises substantial issues from efficiency. Tax evasion distorts economic efficiency according to Shome (2005). Investments are normally huge in sectors with less subjectivity to administrative scrutiny as exists in the informal economy. Revenue intake for the government is always lower where there are gross inefficiencies and by extension, government efficiency, functional capacity and effectiveness suffer due to tax evasion. Efficiency falloffs since vital functions may have to be prioritised less than others. Low availability of resources also causes the capacity to suffer, and effectiveness declines as taxpayers, who have hitherto been complying, realize the government's inability or unwillingness to adopt corrective measures and therefore increasingly feel comfortable in joining the rest in tax evasion practices (Ibid).

The prevalence of tax evasion and its associated crippling effects on the Ghanaian economy have become a major concern for the Ghana Revenue Authority. In December 2014 by 'adomonline', a local news agency, a publication highlighted the numerous concerns expressed by the Ghana Revenue Authority on tax evasion. According to the news agency, the deputy commissioner at the Takoradi Medium Tax Office of the Ghana Revenue Authority, Mr. Adogla Bessah, urged the media to collaborate with the tax administrators in educating the general public on their responsibility as citizens to adhere to their taxes liabilities in order to help in developing the economy. Mr. Bessah indicated that about 80% of the people engaged in the non-formal sector of the Ghanaian economy were not fulfilling their tax obligations. He identified the lack of a historical database to track such individuals and advised the need to devise a computerised database to capture data on the non-formal sector as a developing economy.

From all the foregoing, it is clear that some factors have been responsible for the increased tax avoidance and tax evasion in Ghana. Taking 'ignorance' as a major factor for tax evasion, one can advance an argument that most taxpayers believe that the money is for the government and tax collectors and there is no assurance that they will directly benefit as taxpayers. Studies abound that lower tax revenues may ultimately lead to higher tax burdens on the taxpayers. Tax evasion therefore assumes a profound effect on distributional analysis. Touching on vertical equity, Cowell (1987) in Matsaganis and Flevotomou (2010) stated that "if the poor had more opportunity of evading taxes than the rich, or were better at it, then the egalitarian policy maker might have good reason to smile indulgently on evasion: up to a point anyway". Contrary to the intentions of the tax schedule to fortify redistribution, tax evasion stifles any attempts to strengthen redistribution; therefore, discounting the menace of tax evasion is a potential avenue for misjudgement by policy analysts and decision-makers alike on matters regarding fiscal and distributive effects of changes in the tax system and social benefits. Tax evasion also leads to poverty, increased income inequality and fall-backs in advancement toward pro-poor social policies of the income tax system (Ibid).

### **1.3.7 Reasons why people evade tax in Ghana**

There are unsolicited public perceptions giving credence to the understanding of why people evade tax in Ghana.

#### *The Decision to Evade*

It is vital to outline the processes a Ghanaian taxpayer follows in order to fulfil his tax obligations. Every taxpayer needs to correctly declare his tax base in order to calculate the appropriate tax liability, file tax returns due in time, and eventually pay the tax. These simple tax processes form the genesis of all tax evasion decision. Tax evaders begin by refusing to accurately disclose their tax base, which eventually corrupts the true determination of their tax liability or even decide not to file their returns, leading to tax evasion. Tackling tax evasion adequately demands that some of the factors behind individual's decision not to pay tax be ascertained. Some bases of tax evasion are particular to some countries; nevertheless, the various backgrounds of tax evasion are common and can be practical to almost all countries.

Pommerehne et al. (1994) carried out a study using the presence of grievances in the absolute term in order to recognize the determinants of tax evasion. As the grievance sentiments increased in absolute terms, the tax evasion level equally increased and the tax morale belief level decreased. A study by Orewa in 1957 analysing the features of tax evasion reported that because there was a free movement of people from one region to another and carry-on with their business, it created the chance to save that legal money. Orewa also discovered that there are improper and/or inadequate records keeping by some operators which lead to reporting on interim income to tax administrators for the purposes of tax assessment. It was again discovered that wages and salary workers spontaneously dislocate at certain times so as to avert tax

authorities from detecting them and subsequently collecting tax proceeds. Below are some of the basic reasons why individuals evade their tax obligations:

*Lack of a “Quid Pro Quo”*

Most individuals feel they do not receive any value for money on the taxes they pay to the government; it becomes a panacea for them to avoid paying taxes. For such individuals it is a sheer waste of their hard-earned resources to pay tax when they are denied of their basic social needs, instead they prefer to evade the payment of taxes and use the money to provide their own social needs.

*Inequitable Distribution of Amenities*

Governments all over the world have in one way or the other been critiqued for being partial in the distribution of social amenities and Ghana is never an exception. Given the reason that taxpayers in a particular region are denied access to some basic social amenities others enjoy in other regions, it becomes justifiable for taxpayers to evade tax in anticipation that those working in those regions endowed with the amenities should be the ones to be taxed.

*Mismanagement of Tax Revenue*

Day-in, day-out, there have been general public perceptions of misuse of public funds by governments and public officials. Most of such perceptions have been confirmed by the careless spending of public funds by people in government's positions mostly for their personal gains. For instance, in Ghana, there have been countless issues of judgement debts which have ripped of the country of billions of Ghana Cedis. Governments have lost huge sums of money meant for various social intervention projects, which have failed according to available reports and various expose by the media. Knowing that mismanagement of public revenues has no immediate end in sight, most individuals resolve either not to pay tax at all or pay just a paltry amount of the true taxable amount.

*Proximity of Taxpayers from Government*

Judging by their lifestyles which are far lavish than the ordinary Ghanaian, people in government usually become enemies to the average Ghanaian taxpayer. They believe that their taxes are paid to cater to the economic well-being of people in government who already fall in the upper class in society. Most individuals know the numerous tax reliefs enjoyed by already rich people. Therefore, the poor taxpayer sees no reason to pay tax to cater to the government and its officials living in the urban areas who already enjoy flashy lifestyles.

*Failed Spirit of Civic Responsibility*

Factually, illiteracy is a major problem of the greater percentage of the Ghanaian adult population, which makes the majority of the population incomprehensive of their liability to certain civic obligations such as paying taxes. Interestingly, the public believes that the government should print enough money to cater to the challenges it faces rather than attempting to educate the public on the adverse effects of failing to live

up to their civic responsibilities. The facts are right that the increase in tax evasion in Ghana is caused significantly by this lack of nationalism.

Orewa (1957) in Nigeria advanced further that the improper bookkeeping and accounting records kept by eligible taxpayers and the notion that only those earning wages and salaries ought to be taxed are all wrong perceptions which other writers have corroborated across the globe to cause tax evasion. Another argument put forward by Kibel (2001) is that, even though high earnings are recorded, there is lack of understanding of the essence to pay taxes by majority of the business operators and entrepreneurs. Such habits are another classical display of unpatriotism. According to Song and Yarbrough (1978), in their earlier studies to explore both attitudinal and behavioural characteristics of tax ethics they discovered that although many individuals feel that the tax laws ought to be observed, they do not regard violations as stern offence deserving a severe penalty.

The higher perceptions of tax inequality people have, the higher the incidence of tax evasion which is a positive correlation between tax evasion and the inequality of perception in tax payment, Kaldor (1962). 'The behavioural moderm of income evasion' by Spicer (1976), also advanced a positive connection between tax evaders and the rate of tax evasion among the friends of the tax evaders. Den et al. (1980) in their 1977 survey on taxpayers' attitudes turned out that 93% thought that 'income tax is (much/little) too high' while 62% also averred that the government is not prudent in its' expenditure of the taxpayers' money.

### **1.3.8 Challenges faced by Ghana Revenue Authority in tax collection**

In most cases, insufficient tax administrators account for some of the flaws in the pool of tax revenues. According to Kangave (2005), ensuring tax compliance among business and individuals poses one of the biggest challenges for developing economies, including inadequate tax administrators with low skills, high illiteracy rate among taxpayers, inadequate equipment, and scarce reliable data. Earlier on Bird (2003) advanced an argument that the mere existence of the tax laws to coerce individuals to fulfil their tax obligations is not enough. However, the effectiveness of the tax laws will determine the overall revenue from tax that the government needs for developmental projects.

Insufficient resources are the major difficulty for tax administrators in their day-to-day administration of the tax processes. Tax resources can be categorized as follows:

- (i) Human Resources which mainly deals with the number of expertise available as tax officials;
- (ii) Physical Resources which range from equipment, transportation, office buildings and communication systems.

These simple categories make it clear that both human resources and physical resources are interdependent in ensuring effective and efficient tax administration and tax laws compliance.

Fiscal restrictions have affected various tax administrators to lack the accounting models required to analyse revenues and this position is degenerated by the absence of sufficient training facilities and opportunities, Tanzi and Zee (2000).

According to a Ghana Statistical Service survey conducted in 2010, just about 51.5% of the entire adult population were literate. This situation of high level of illiteracy on the part of the taxpayers also forms another challenge.

### **1.3.9 Mitigating tax evasion in Ghana**

According to Shome (2005) tax administration has the mandate to maximize revenue from taxation whilst minimizing tax evasion. These constitute the main challenge of the tax administration and therefore cannot be over-emphasized. The issue at stake is not just about maximization or minimization but rather, that of optimization.

Some categories of measures are opened to the government to address tax evasion issues. The following categories have been advanced by Oberholzer (2007):

- (i) Measures which define and criminalize tax evasion such as anti-avoidance legislation;
- (ii) Those which punish evasion;
- (iii) Those which forgive tax evaders and allow them to re-enter the formal economy. E.g., Settlements and Amnesties; and
- (iv) Measures which appeal to or seek to create group norm of compliant behaviour such as Naming and Shaming.

Shome (2005) again argued that genuine and urgent threats and effective audit practices, scrutiny, investigations, penalties and punishment for errant taxpayers ought to be put in place as a measure to combat the menace of tax evasion. Contrary to this argument by Shome (1982) as cited in Oberholzer (2007) proposes two policy initiatives as the point of focus which are:

- (i) Pushing for an improvement in taxpayers' attitudes and perceptions vis-à-vis the government and tax administrators; and
- (ii) Enhancing the deterrence capabilities of tax administrators.

Lewis believes the issue is not about the fear of punishment but rather compliance to rules prompted by conscience or self-intuition.

Shome (2005) has also summed up laudable approaches in keeping tax evasion in check. He admonishes as follows:

- (i) The tax administration should be well structured and resourced to enable them to incorporate genuine threats of penalties and ensure due process;
- (ii) Tax administrators should not sit aloof in designing a good tax policy that follows a simple tax structure and is commensurable to the tax laws;
- (iii) The tax administration should endeavour to digitize as many administrative processes as possible to check the face-to-face encounters between tax officials and taxpayers.

In his research topic "What Is Wrong With Tax Evasion?" Green (2009) also espoused various probable approaches to fix the problem of tax evasion as follows:

- a. Making the Tax Code more equitable in vertical and horizontal perspective; and clearly distinguishing between 'choate' and 'inchoate' violations;
- b. Streamlining the Tax Code, distinguishing clearly between lawful and unlawful behaviour (not overlooking the imposing difficulties especially in the context of large businesses tax commitment); and giving clearer outlines on what establish criminal violations and civil violations of the Code;
- c. Redefining the characteristics of '*mens rea*' (criminal intent; the thoughts and intentions behind a wrongful act including knowledge that the act is illegal); and enhancing enforcement whilst ensuring uniformity at the level of enforcement;
- d. Eschewing political rhetoric, drumming home the importance of tax revenue in the public; and modifying government spending priorities.

Chiumya (2006) is of the view that due to the diversified nature of tax evasion, it makes combating the menace one of the most intricate task in tax administration. Per Vogel (1974) as cited in Oberholzer, (2007), on education and information and their impact on the process of forming opinions, it is argued that understanding the behaviour of taxpayers and the origin of such unambiguous behaviour is one of the keys to combat tax evasion more successfully.

Hoe (2010) also posits that to enhance tax efficiency, tax administrators must adhere to the following:

- ✓ Simplification: the administration of taxes should not be so complicated to assess and collect. This will ensure a lower cost to the administration and the taxpayer;
- ✓ Shorter Audits: Once a tax return is filed, the tax audit should begin soon enough time possible. With this, the taxpayer can respond to needed information in ample time;
- ✓ Transparency: All rules of engagement about tax payments should be made public, be effectively communicated to the taxpayer and also be assessable. This gives the taxpayer the full knowledge of the tax paying system;
- ✓ Training: As tax administration evolves, tax officials should stay abreast with the recurrent changes in the course of their duties;

- ✓ Cost of Compliance: More often, the requirements for tax compliance are just the properly recorded books; therefore, the taxpayers should be well-informed on the best approaches to keeping good books of record;
- ✓ Confidentiality: To encourage the taxpayers to provide tax information at will without the fear of being leaked, tax administrators should offer the highest confidentiality to taxpayers' information in their custody;
- ✓ Impartial Appeal Process: Any disparities among tax administrators and taxpayers should go through an impartial appeal process. A report should be formally communicated without overlooking the confidentiality of the individuals affected.

From the foregoing, an argument can further be advanced that cultivating a deeper understanding of the technicalities behind the tax laws and regulations; and the tax benefits to the economy are conditions precedent to affirmative attitudes about the tax system and a fiscal behaviour which is capable enough to put tax evasion as a social canker in check.

## **2. Methodology**

Research Design considers the type of research and the methods adopted in carrying out data collection and analysis. The research is focused on interrogating the cause, effects and solutions of tax evasion and tax avoidance in the Sekondi-Takoradi Metropolitan Assembly of the Western Region of the Republic of Ghana.

The argument of the study was that traders and artisans avoid and evade tax largely due to ignorance, poor record standards, non-compliance, high tax rates, incorrect filing of returns as well as taking advantage of the loopholes in the tax net, which all pose a grave challenge on the economy of Ghana.

According to Jackson and Milliron (1986) as corroborated by Richardson (2006), the taxpayer's choice to fulfil his/her tax obligation is largely based on the benefits derived from paying tax. This is done by carefully analysing the business environment, social status, and turnover from sales, among other indicators.

This study adopted a blend of quantitative and qualitative approaches in the collection of data as well as data analysis. To achieve the operational objectives there will be conducted and carrying out questionnaires in the region of Sekondi Takoradi Metropolitan Assembly. Therefore, questionnaires were used to gather data for the study.

### **2.1 Data and Sample**

Primary data was fully adopted in the study. Considering the study's objective, there was the high need for first-hand information to assist in accessing the causes and effects of tax evasion and tax avoidance in the defined study environment. Busha and Harter (1980) argued that data from a primary source involves first-hand information from the study population. Relying on this candid argument the study has been carried out by relying purely on primary data.

The target population for the study was the informal sector (SMEs) in the Sekondi-Takoradi Metropolitan Assembly basically shop owners and artisans. For instance, the inclusion of artisans in the study was crucial since they form about 19% of the study environment. Also targeted was the Ghana Revenue Authority (GRA).

As advanced by Saunders et al. (2007), the sampling technique in research makes room for reducing the quantum of data required by focusing on subgroups rather than all possible cases of elements. Therefore, this study is carried out using the purposive sampling technique, which is commonplace to almost all qualitative related research works. The purposive technique was subsequently applied to the artisans and the Ghana Revenue Authority staff. The selection of purposive sampling fits Neuman's (2003) argument where small samples – in a particular informative class – are considered in a study.

As a non-probability sampling technique, purposive sampling allows the researcher to decide on the choice of respondents, hence its adoption in selecting GRA staff best fitted in answering the research questionnaire. By so doing, the variety of criteria, which may include special knowledge of the research issue of selected respondents, needs consideration.

The sample is a finite part of a statistical population being studied to reflect the entire population using the available characteristics and properties. The study, therefore, selected a sample size of ninety-seven (97) respondents; considering the number of the questionnaires distributed (116) the response rate was 83.6%.

The study adopted a self-completed questionnaire (cf. appendix A) as the main tool for collecting primary data. The self-completed questionnaires were administered by hand to selected respondents and later collected.

To maintain credibility and ethics, it was needful to assure respondents of their anonymity and promise to treat every information provided as private and be used with the utmost confidentiality. Therefore, the study has been carried out most ethically in fulfilment of the said promise.

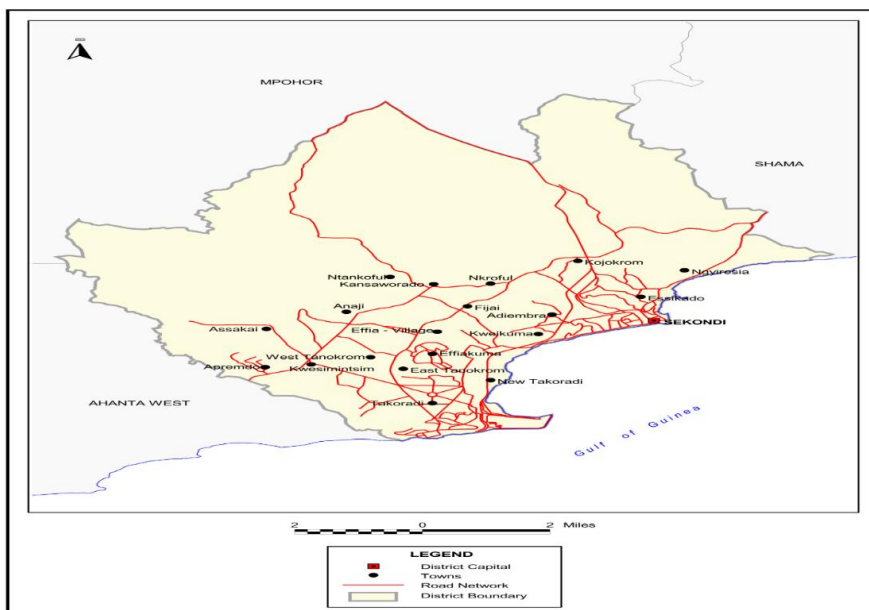


Figure 1. Map of Sekondi-Takoradi Metropolitan Assembly.

Source: Ghana Statistical Service, GIS (2021).

The report deals with the Sekondi-Takoradi Metropolis. Its objective is to make available to the public an analysis of the 2010 Population and Housing Census results and their full implication for policy and planning in the Metropolis.

Like most local authorities in Ghana, Sekondi-Takoradi Metropolitan Assembly started as Sekondi-Takoradi Town Councils on 1st October 1903 by proclamation in the Gold Coast Colony. The proclamation was dated 15th September 1903 and was made under the town Council ordinance of 1894. Over the time, the population and the geographical area expanded. Many villages such as Ketan and Tanokrom were included in the Council's administrative jurisdiction. The status and the name of the Council changed from Town Council to City Council in 1976. The name again changed to Shama Ahanta East Metropolitan Area, which later changed to Sekondi-Takoradi Metropolitan Area in December 2007 through Legislative Instrument 1933 when Shama was carved out of Shama Ahanta East Metropolitan Assembly (SAEMA).

Sekondi-Takoradi Metropolis is located at the south-eastern part of the Western Region. The Metropolis is bordered to the west by Ahanta West District and to the east by Shama District. At the south of the Metropolis is the Atlantic Ocean and at the northern part is Wassa East District. The Metropolis covers land size of 191.7 km<sup>2</sup> and Sekondi-Takoradi is the regional administrative capital. Though the smallest district in terms of land size, the Sekondi - Takoradi Metropolis is the most urbanised among the 22 districts in the region.

## **2.2 Methods, objectives and hypothesis**

As previously mentioned, the main general objective of the study is to analyse causes, effects and solutions concerning tax evasion in the Sekondi-Takoradi Metropolitan Assembly of the Western Region of The Republic of Ghana. Next, we present the data and methods.

The study employed descriptive statistics and tests as a means of analysing data and the results are presented in charts and tables in the subsequent pages.

To answer the research hypothesis and analyse the association between variables, the  $\chi^2$  test of independence was applied, always bearing in mind not to violate the assumption that at most you can only have 20% of cells with an expected value lower than 5 cases. To analyse the differences between two independent samples, parametric tests were applied as long as the assumptions were verified. For two independent samples, there is the need for the sample size, per independent sample, to be greater than or equal to 30 elements or to verify that the sample mean distribution follows normality, using the Kolmogorov-Smirnov test (cases  $n \geq 30$ ) or the Shapiro-Wilk test (cases  $n < 30$ ); as well as to verify that variances are homogenous for independent samples, using the Levene test. For three or more independent samples and when any of the assumptions were violated, the Kruskal-Wallis.

The next table provides information about the techniques applied to answer the research objectives and hypotheses.

Table 1. Objectives and Hypotheses.

<b>Label</b>	<b>Objectives or Research Hypotheses</b>	<b>Technique</b>
<b>O<sub>1</sub></b>	Identify the <i>age bands</i> with more propensity to <i>tax evasion</i>	Mean and Standard deviation. Frequency tables.
<b>O<sub>2</sub></b>	Identify the <i>marital status</i> with more propensity to <i>tax evasion</i>	Mean and Standard deviation. Frequency tables.
<b>O<sub>3</sub></b>	Identify the <i>type of business</i> with more propensity to <i>tax evasion</i>	Mean and Standard deviation. Frequency tables.
<b>O<sub>4</sub></b>	Identify the <i>years in business</i> with more propensity to <i>tax evasion</i>	Mean and Standard deviation. Frequency tables.
<b>H<sub>1</sub></b>	There is an association between variables <i>gender</i> and <i>tax evasion</i>	Chi-Square test
<b>H<sub>2</sub></b>	There is an association between variables <i>education</i> and <i>tax evasion</i>	Chi-Square test
<b>H<sub>3</sub></b>	There is an association between <i>number of employees</i> and <i>tax evasion</i>	Chi-Square test
<b>H<sub>4</sub></b>	There are differences by <i>gender</i> regarding <i>causes, effects</i> and <i>solutions</i> of tax evasion	Student t-test
<b>H<sub>5</sub></b>	There are differences between the <i>age bands</i> regarding <i>causes, effects</i> and <i>solutions</i> of tax evasion	Kruskal-Wallis
<b>H<sub>6</sub></b>	There are differences between the <i>education</i> regarding <i>causes, effects</i> and <i>solutions</i> of tax evasion	Kruskal-Wallis
<b>H<sub>7</sub></b>	There are differences between the <i>marital status</i> regarding <i>causes, effects</i> and <i>solutions</i> of tax evasion	Kruskal-Wallis
<b>H<sub>8</sub></b>	There are differences between the <i>type of businesses</i> regarding <i>causes, effects</i> and <i>solutions</i> of tax evasion	Kruskal-Wallis
<b>H<sub>9</sub></b>	There are differences between <i>years in business</i> regarding <i>causes, effects</i> and <i>solutions</i> of tax evasion	Student t-test
<b>H<sub>10</sub></b>	There are differences between <i>number of employees</i> regarding <i>causes, effects</i> and <i>solutions</i> of tax evasion	Kruskal-Wallis

Source: Ghana Statistical Service, GIS (2021).

### 3. Data presentation, analysis and discussion of findings

#### 3.1 Taxpayers profile

Next, we analyse the taxpayers' profile, according to the data obtained.

The study revealed that 64(66%) and 33(34%) of the respondents were males and females, respectively (Fig. 2).

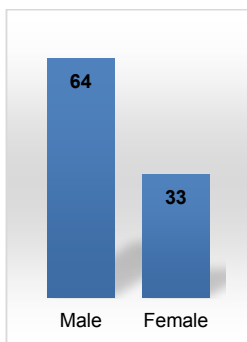


Figure 2. Gender Distribution of Respondents.

Source: Field Survey, January (2019).

The study sought to ascertain the various age distribution among the respondents and adduced the following:

Data gathered from the study showed that 4 (4.1%) of respondents were below 25 years. 11 (11.3%) respondents fell within the age range of 26-30 years, 43 (44.3%) respondents fell in the bracket of 31-35 years while 25 (25.8%) of the respondents fell between 36-40 years. Additionally, 14 (14.4%) of the respondents came within the category of 41 years and above. Figure iii gives a graphical representation of the above statistics.

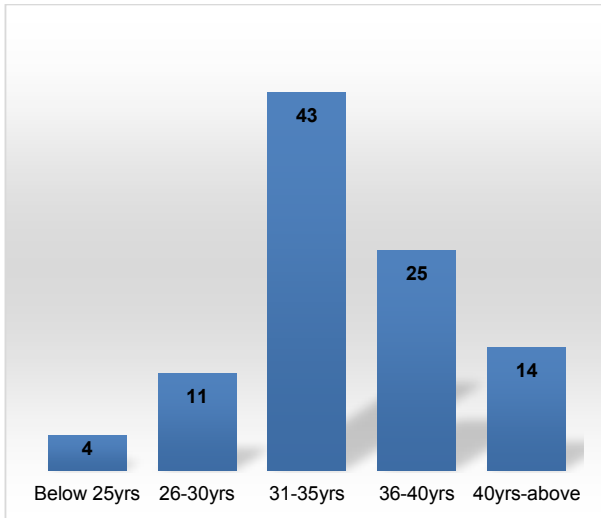


Figure 3. Age Distribution.

Source: Field Survey, January (2019).

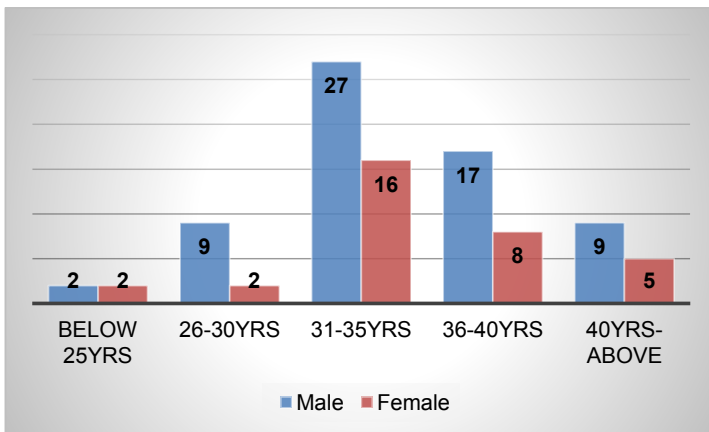


Figure 4. Age Distribution by Gender.

Source: Field Survey, January (2019).

The above figure portrays that 16.4% of the respondents are captured between the age bracket of 25 – 30 years, representing the youth. Further analysis reveals that such youth group are new graduates with various educational backgrounds and start-ups. The age bracket of 31 – 40 years pulled out 17 representing 69.1% of the respondents. This reflects a representation of men and women entrepreneurs alike and have been operating their own businesses. The respondents within the 41 years and above age bracket represent the surviving pioneers who have been plying such trade for quite a long in the Metropolis.

The study of tax is largely influenced by the level of education and therefore very critical to this study. Figure 5 presents the statistics of the educational background of the respondents.

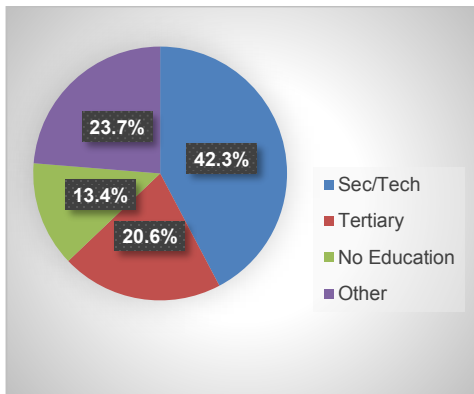


Figure 5. Educational Distribution of Respondents.

Source: Field Survey, January (2019).

The study observed that, 42.3% of respondents had secondary/technical/ education. 20.6% of respondents formed the tertiary school leavers whilst 13.4% of the respondents received no formal education. In addition, 23.7% of the respondents constituted those within another level of education. Gathering from the above data, a valid submission could be made that 37.1% of the respondents stand the higher risk of having little or no understanding of tax and tax administration in general. This will also influence their knowledge on tax evasion. The remaining 20.6% and 42.3% representing the respondents with tertiary and secondary education, respectively, may be able to acquire and assimilate the theoretical knowledge in taxation and, by extension, the concept of tax evasion/avoidance.

The study revealed that out of the 97 validated responses, 24 respondents making up 24.7% were single. 61 respondents representing 62.9% were married and 10 respondents representing 10.3% were divorced. 2 respondents constituting 2.1% fell in the other category. Figure 6 below represents the statistical distribution of the above information.

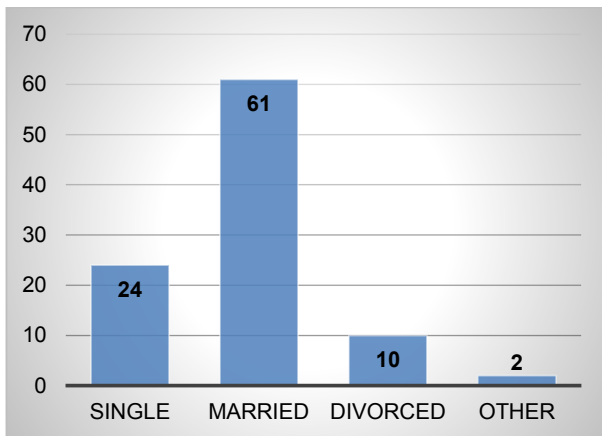


Figure 6. Marital status of respondents.

Source: Field Survey, January (2019).

### 3.2 Business

To ascertain the types of business the respondents engaged in, the following was adduced. 2 respondents representing 2.1% of the total population were engaged in manufacturing goods. 17.5% making up of 17 respondents were into services. Again, of the total population, 16 respondents representing 16.5% found themselves in the distribution of their goods whilst the remaining 57 respondents of the total population, representing 58.8%, were engaged in the retailing of goods. From all indications, it may not be far from true for one to conclude that more than half of the entire population in the area surveyed are into the business of retailing. Furthermore, it may also be more logical to conclude that the retailing venture is more stressful, easy-to-enter and managed and perhaps the fastest-growing and profitable venture in the SMEs. Figure 7 below shows the graphical distribution of the above narratives.

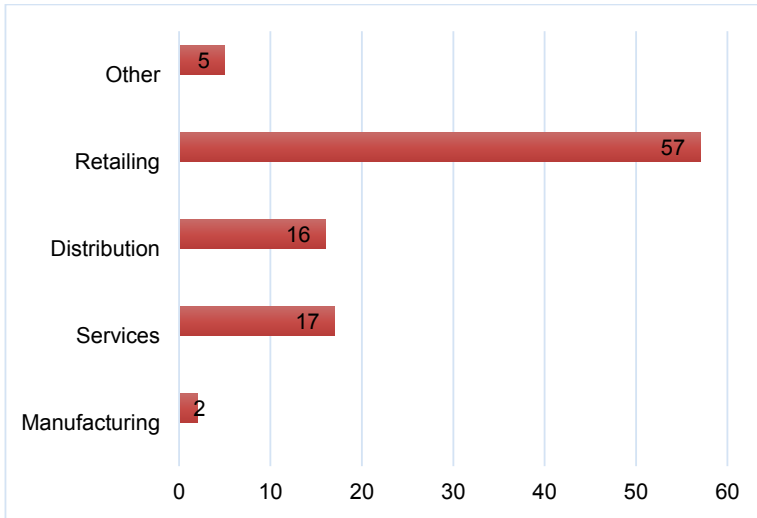


Figure 7. Types of business engaged in by respondents.

Source: Field Survey, January (2019).

The study sought to find out from the respondents how long they have been in business in the district.

Figure 8 below gives the graphical presentation from the data gathered.

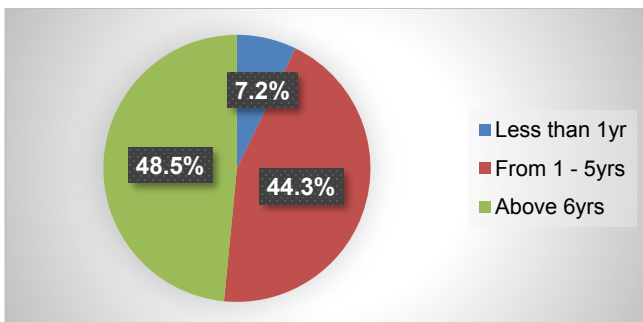


Figure 8. Years in business.

Source: Field Survey, January (2019).

From the figure above, 7 respondents representing 7.2% of the total population sampled had been in business for less than a year. 43 of the total population representing 44.3% had been in business between 1 to 5 years. Also, 47 of the respondents representing 48.5% of the total population sampled had been in business from 6 years and above.

The study also sought to ascertain the number of employees each of the respondents in the sampled population had employed in their businesses. Below is the graphical impression of the outcome.

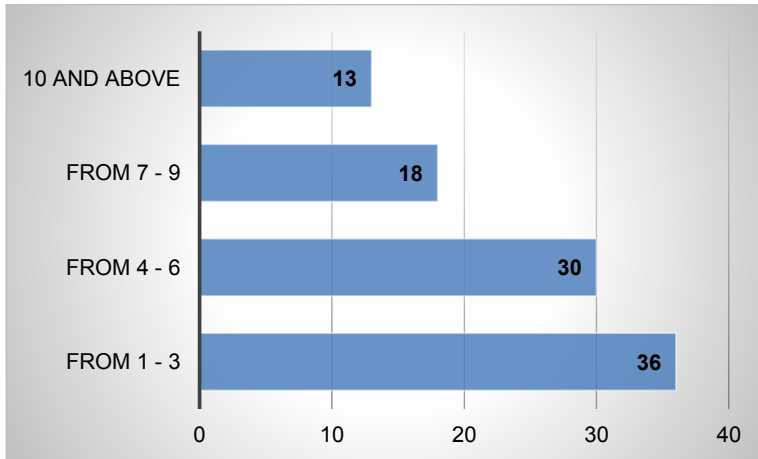


Figure 9. Number of employees engaged by respondents.

Source: Field Survey, January (2019).

The study sought to establish the number of stalls being operated by the respondents and the following was observed.

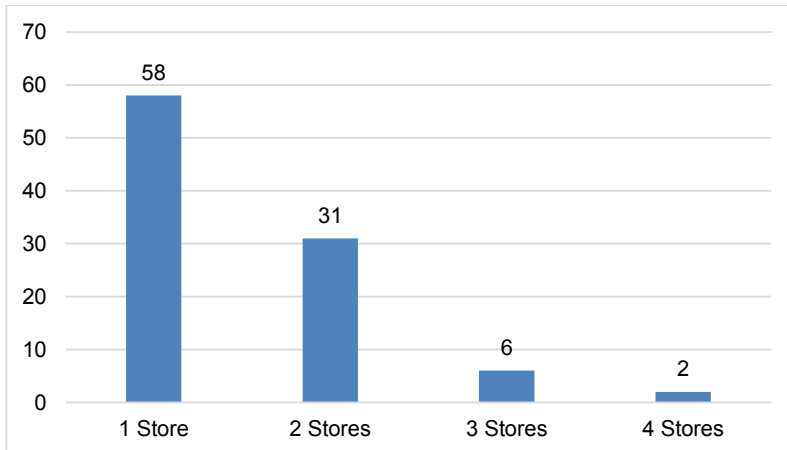


Figure 10. Number of stalls owned by respondents.

Source: Field Survey, January (2019).

From the data obtained on how many stores owned/operated by respondents, 58 out of the total population representing 59.8% declared they owned only one store. 31 respondents representing 32.0% answered they operate two stores whilst 6 respondents making up 6.2% of the total population answered they owned

three stores. The remaining 2 respondents representing 2.1% responded that they own a maximum of 4 stores.

### 3.3 Respondents' response as to whether they know they are to declare their income to the Ghana Revenue Authority

Figure 11 relates to responses from respondents on the question as to their awareness about the declaration of their income to the Ghana Revenue Authority (GRA).

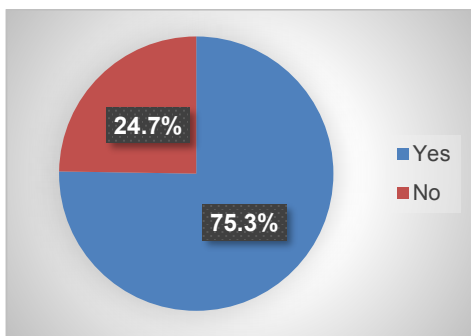


Figure 11. Awareness to declare income to the GRA.

Source: Field Survey, January (2019).

From Figure 11, it could be observed that, 73 respondents representing 75.3% of the total sampled population answered that they are fully aware of their obligation to declare their periodic incomes to the Ghana Revenue Authority. The remaining 24 respondents out of the 97 sampled respondents making up 24.7% said they are not aware of their duty to declare their periodic incomes to the Ghana Revenue Authority. There is no doubt that this result is a strong conduit to influence the incidence of tax malpractices particularly the canker of tax evasion. Assuming the 24.7% respondents genuinely responded to the question, then a conclusion could be accurately drawn that anyone who knows the duty to declare income to the GRA would understand the importance of tax and its payment accordingly.

As have been noticed, the issue of tax evasion does not only rest on those who do not have any knowledge of their responsibility towards tax obligations. So, the question one would ask is, the credibility and compliance of even the 75.3% respondents who are knowledgeable of their obligation to declare their income to the GRA.

The study sought to ascertain the number of respondents in the sampled population who were aware of their income declaration obligation and their obligation to be registered as taxpayers with the Ghana Revenue Authority. Out of the 97 respondents sampled, 74 respondents representing 76.3% answered YES whilst 23 representing 23.7% respondents answered NO. Once again this is a significant figure that can

have a serious consequence on tax administration in general. Figure 12 below is the pictorial projection of the above findings.

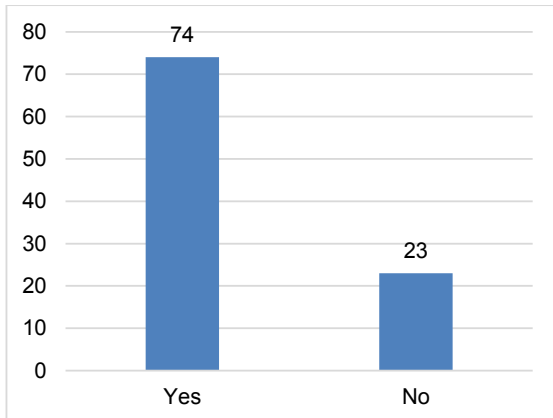


Figure 12. Registration of respondents with the GRA as taxpayers.

Source: Field Survey, January (2019).

The study also sought to find out if the respondents were aware of their obligation towards tax payment and the outcome is as follows and as given in Figure 13. 84.5% out of the 97 sampled respondents indicated their awareness of paying tax on the total income generated from their business. However, the remaining 15.5% respondents declared that they are not aware of their responsibility to honour their tax obligations to the GRA. From the foregoing, it is a clear indication that the incidence of tax evasion in most cases is a well-hatched attempt to deprive the state of its due revenues from the very indigenes who demand the government to provide them with the developments they dream of. For instance, it is surprising considering the fact that a greater percentage of the respondents (i.e. 24.7%) are not aware of their obligation to declare their income to the Ghana Revenue Authority but rather are knowledgeable of their responsibility to pay tax to the GRA. In relative terms, other schools of thought would argue that the imbalance educational backgrounds of the respondents could affect their understanding of the difference between the payment of market tolls collected daily and the payment of business tax, which are periodic. The presence of toll collectors in the market collecting toll mostly from hawkers might have influenced the awareness of the duty to pay tax.

It was also gathered from the field survey that the occasional tax forums by the tax authorities focused mainly on educating the traders and store operators to be aware of their duty to pay tax but not necessarily on their obligation to declare their income to the GRA. The call to restructure tax education would be a step in the right direction in getting store owners and the traders to understand this.

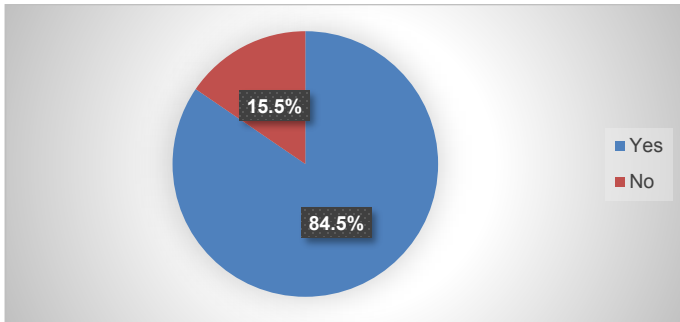


Figure 13. Awareness of the responsibility to pay tax from income to the GRA.

Source: Field Survey, January (2019).

The study sought to ascertain the rate of tax payment from the respondents to the Ghana Revenue Authority (GRA) and the responses obtained are presented in figure xiv below.

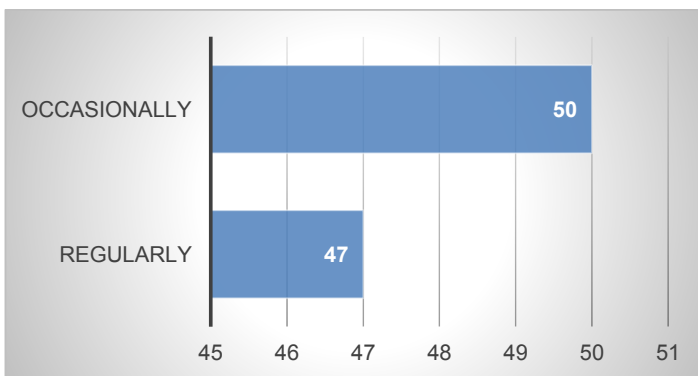


Figure 14. Rate of payment of tax.

Source: Field Survey, January (2019).

From the Figure 14 above, a total number of 50 respondents representing 51.5% of the sampled population, said they pay their tax occasionally whilst the other 47 respondents forming 48.5% of the population, responded that they pay their tax regularly.

### 3.4 Descriptive Statistics Analysis

#### *Profile and tax evasion*

According to the respondents we present some pertinent issues in relation to profile characteristics and tax evasion in the past - question 16A "have you evaded tax before". Globally 30% of the people declared that had evaded tax before, 42% declared that never evade tax before and 28% are not sure (see the next table).

Table 2. Knowledge of tax evasion.

Response	Number Responded	Percentage of Response
Yes	29	29.9%
No	41	42.3%
Not Sure	27	27.8%
Total	97	100%

Source: Field Survey, January (2019).

A sure conclusion could be drawn to the effect that more than half of the total respondents do not pay taxes at all or have been involved in tax evasion in one way or another in the Takoradi District, a situation which has become a major challenge to the Ghana Revenue Authority in meeting its periodic tax revenue target.

#### *Knowledge of tax payment by colleague respondents*

To ascertain if there is any possibility for conspiracy to sabotage the tax system, the researcher asked the respondents whether they are aware if their colleagues in the same business pay their taxes. The following responses were gathered:

Table 3. Knowledge of tax payment by colleagues.

Response	Number of Respondents	Percentage of Response
Yes	39	40.2%
No	28	28.9%
Not Sure	30	30.9%
Total	97	100%

Source: Field Survey, January (2019).

In Table 3 is possible to observe, that out of the 97 sampled population, 39 respondents representing 40.2% answered YES – meaning that they were fully much aware that their colleagues pay their taxes. 28 respondents representing 28.9% also responded NO, a clear indication that they are aware their colleagues do not honor their tax obligations. The remaining 30 respondents making up 30.9% out of the total 97 answered they could not affirm whether or not their colleagues honor their tax obligations. This finding clearly shows that there is no transparency when it comes to disclosing financial positions among the

respondents. It also shows that the traders are not comfortable in discussing matters relating to their finances among themselves. Below is the table for the above findings.

*Degree of Tax Evasion in Sekondi-Takoradi*

The researcher asked the respondents for their perception about the degree of tax evasion in the Sekondi-Takoradi Metropolis and the following responses were given.

Table 4. Degree of tax evasion in Sekondi-Takoradi.

Response	Number of Respondents	Percentage of Response
Very High	15	15.5%
High	23	23.7%
Very Low	13	13.4%
Low	22	22.7%
No Idea	24	24.7%
Total	97	100%

Source: Field Survey, January (2019).

As revealed by the study from the above table, 15 respondents representing 15.5% of the respondents said the extent of tax evasion in the Sekondi-Takoradi Metropolis is very high. 23 representing 23.7% of the 97 total respondents, responded that the extent of tax evasion in the Metropolis is high whilst 13.4% representing 13 respondents also answered very low to the degree of tax evasion in the Metropolis. 22.7% made up of 22 out of the total population of respondents also responded that the extent of tax evasion in the Sekondi-Takoradi is low. In contrast, the last 24 respondents falling in the percentage of 24.7% answered that they have no idea as to the degree of tax evasion in the Sekondi-Takoradi Metropolis.

The issue of tax evasion is very delicate and critical to every economy so if about one-third of a population surveyed attest that the degree of tax evasion is high, then this calls for effective consideration. Thus, it can be seen that about 39% of the respondents admit that tax evasion is high in the Sekondi-Takoradi Metropolis. Although about 36% said tax evasion is low in the metropolis, if close to 50% of the respondents admit to the high level of evasion in the Metropolis then this calls for a cause of alarm. No concrete conclusion could be made on the remaining 24.7% respondents who are probably in line with the earlier response of having no idea whether their colleagues pay tax or not and cannot clearly ascertain whether they themselves are tax evaders.

### Perception of Tax Rate by Respondents

The study also sought to solicit from the respondents their general perception on the current tax rate in the Sekondi-Takoradi as well as in the country in general. Table 3.16 present the views of the sampled respondents.

Table 5. Perception on general tax rates.

Response	Number of Respondents	Percentage of Response
Inadequate	6	6.2%
Fair	37	38.1%
Too High	39	40.2%
Don't Know	15	15.5%
Total	97	100%

Source: Field Survey, January (2019).

From the above Table 4, 6.2% of the population believe that the country's current tax rate is inadequate – vis-a-viz the need for tax adjustment. Then again close to 16% of the sampled population have no idea whether tax rates are too low or too high. 37 and 39 respondents representing 38.1% and 40.2% respectively are of the view that the current tax rates are fair and too high respectively. The respondents claiming the tax rate to be fair may probably be of the view that, it is important for the citizenry to appreciate the constraints the country is facing in terms of economic challenges and accept the need to pay taxes to help the government provide the needs of the people and put the economy on a sound footing. Those holding the view that the tax rates are radically high may be justified in their conviction that they do not see any corresponding or direct benefits from the payment of taxes to the government especially when they consider the huge deficit in the provision of even the basic amenities to the masses. The 'high' preponders may also have compared the tax rate in Ghana to other countries facing the same or similar economic challenges to advance their argument. Therefore, there is no doubt that most of these respondents would not think twice at the least opportunity available to evade taxes.

### Gender vs. tax evasion

Regarding gender (66% males; 34% females) and question 16A (have you ever evade tax before), the percentage of males (29.7%) and females (30,3%) that declared had evaded tax before is similar. Therefore, at first sight the behaviour seems to be analogous. On the other hand, 50% of men declared never evade tax before, contrary to females (27.3%). The “not sure” answer was higher for females (42.4%) against 20.3% of males.

#### Age vs. tax evasion

The age band declaring had “evaded tax before” with higher percentage is 26-30 years. The lower percentage is band age 31-35 (45.5%) and below 25 (25%).

*Education vs. tax evasion.* Concerning education and tax evasion in the past, respondents with higher education levels declare more evasion before: “had evaded tax before” 45% -Tertiary, 29.3%. While respondents with no education and other show a percentage of 23.1% and 21.7%, respectively.

#### Marital status vs. tax evasion

Divorced respondents are those that declared had “evaded tax before” - 40%. Single and married show a percentage of 33% and 27.9%, respectively.

#### Type of business vs tax evasion.

The distribution sector of shows the higher percentage of “evade tax before” - 37.5%, retailing sector 30.3%.

#### Years in Business vs. tax evasion.

The majority declares that did not tax evasion in the past (42.3%) against to 29.9% of those that answered yes. Regarding “yes answers”, those that are in the business in the band of 1-5 years show the higher percentage (58.6%); “year in business” above 6 years also show a percentage of 37.9%; only the “beginners” (“years in business” lower than 1 year) seems to declare an “yes” answer with lower percentage – 3.4%.

#### Causes and effects of tax evasion

The next table shows the main descriptive statistics regarding the answers about causes (questions 1B to 16B) and effects (questions 17B to 20B) of tax evasion.

Table 6. Descriptive statistics for causes and effects of tax evasion.

Statement	Strongly Agree	Agree	Neither Agree/Disagree	Disagree	Strongly Disagree	Mean	Standard Deviation
	1	2	3	4	5		
1. A large proportion of taxes is used by the government for meaningless purposes.	50	18	29	-	-	1,8	0,881
	51,5	18,6	29,9	-	-		
2. It is unfair to pay tax.	27	47	19	3	-	2,0	0,781
	28,1	49,0	19,8	3,1	-		
3. The sales tax rate (%) should be the same regardless of the business one is doing.	26	51	15	2	1	2,0	0,784
	27,4	53,7	15,8	2,1	1,1		
5. Waste and inefficiency in government is high.	64	18	15	-	-	1,5	0,752
	66,0	18,6	15,5	-	-		
6. High corruption in government.	44	24	21	6	2	2,0	1,054
	45,4	24,7	21,6	6,2	2,1		
7. Rich people should pay tax at a higher rate.	66	18	13	-	-	1,5	0,722
	68,0	18,6	13,4	-	-		
8. The Tax system is very complicated (I do not know how to calculate my own tax liability).	56	27	13	1	-	1,6	0,762
	57,7	27,8	13,4	1,0	-		
9. The amount of tax I have to pay is reasonable considering the benefits received.	25	55	12	4	1	2,0	0,803
	25,8	56,7	12,4	4,1	1,0		
10. The government provide enough information about how they use taxpayers' money.	59	24	14	-	-	1,5	0,737
	60,8	24,7	14,4	-	-		
11. Tax agents collect the right amount of tax from us.	2	25	25	19	13	3,2	1,103
	2,4	29,8	29,8	22,6	15,5		
12. There is much education on taxation.	59	17	16	3	2	1,7	0,995
	60,8	17,5	16,5	3,1	2,1		
13. A lot of people do not pay tax that is why I do not pay tax as well.	60	20	17	-	-	1,6	0,777
	61,9	20,6	17,5	-	-		
14. Government receives enough tax so it does not matter if some people evade tax.	25	44	23	4	-	2,1	0,818
	26,0	45,8	24,0	4,2	-		
15. The burden of tax is so heavy that many people are forced to evade it in order to survive.	52	28	16	1	-	1,6	0,791
	53,6	28,9	16,5	1,0	-		
16. Wealthy people evade tax more often than the poor.	54	24	18	-	-	1,6	0,785
	56,3	25,0	18,8	-	-		
17. If we do not pay taxes government would not be able to pay its workers.	62	19	16	-	-	1,5	0,765
	63,9	19,6	16,5	-	-		
18. If we do not pay taxes government would not be able to provide infrastructure.	41	44	6	1	-	1,6	0,656
	44,6	47,8	6,5	1,1	-		
19. Tax evasion would decrease government revenue.	63	19	14	1	-	1,5	0,779
	64,9	19,6	14,4	1,0	-		
20. Tax evasion causes inequality and increase the tax burden on others.	61	20	16	-	-	1,5	0,765
	62,9	20,6	16,5	-	-		
<b>Global mean</b>						<b>1,8</b>	<b>0,816</b>

Note: 1-Strongly disagree; 2-Disagree; 3-Neither agree nor disagree 4-Agree; 5-Strongly agree; SD-Standard Deviation.

Source: Field Survey, January (2019).

### Causes of tax evasion

- In general, people agree that the government uses a large proportion of taxes for meaningless purposes; 51.5% strongly agree and 18.6% agree, and 29.9% neither agree/disagree, respectively.
- 28.1% of the respondents strongly agree that it is unfair to pay tax, while 49.0%, 19.8%, and 3.1% agrees, neither agree/disagree, and disagree.

- On the question of making the sales tax rate equal across board, 27.4% respondents strongly agree, 53.7% respondents agree, 15.8% neither agree/disagree, 2.1% and 1.1% respondents respectively responded disagree and strongly disagree.
- 66.0%, 18.6%, and 15.5% of the respondents respectively strongly agree and neither agree/disagree to the question of whether waste and inefficiency in government in terms of expenditure is high.
- On high corruption in government, 45.5% respondents strongly agree, 24.7%, 21.6%, 6.2% and 2.1% of the respondents respectively agree, neither agree/disagree, disagree and strongly disagree.
- 68.0%, 18.6%, 13.4% of the respondents strongly agree, agree and neither agree/disagree respectively to the question as to whether rich people should pay a higher tax rate.
- Whether the tax system is complicated, 57.7%, 27.8%, 13.4%, and 1.0% of the respondents strongly agree, agree, neither agree/disagree, and disagree.
- 25.8%, 56.7%, 12.4%, 4.1%, and 1.0% of the respondents strongly agree, agree, agree/disagree, disagree, and strongly disagree on whether their tax values are reasonable.
- On the government provision of sufficient information regarding tax expenditure, 60.8% respondents agree, 24.7% respondents agree, 14.4% respondents neither agree/disagree.
- On whether tax agents collect the right amount of taxes 2.4% respondents strongly agree, 29.8% appease responded agree and neither agree/disagree, 22.5% and 15.5% respondents disagree and strongly disagree respectively.
- Whether there is much education on taxation, 60.8% of respondents strongly agree, 17.5% and 16.5% of respondents agree and neither agree/disagree, while 3.1% and 2.1% of respondents disagree and strongly disagree.
- 61.9%, 20.6%, and 17.5% of the respondents strongly agree, agree, and neither agree/disagree to whether they evade tax because many people do not pay tax.
- 26.0% strongly agree, 45.8% agree, 24.0 neither agree/disagree and 4.2% disagree to the question of irrelevance of some people not paying tax since the government receives enough tax revenue.
- 53.6%, 28.9%, 16.5%, and 1.0% of the respondents strongly agree, agree, neither agree/disagree and disagree to higher tax burden due to tax evasion.
- On the question of wealthy people evading tax more than the poor, 56.3% strongly agree, 25.0% and 18.8% responded agree and neither agree/disagree respectively.

In the group of causes of tax evasion, the most relevant are “waste and inefficiency in government is high”, “rich people should pay at a higher rate”, and “government should provide enough information about the use of the taxpayers”.

### Effects of tax evasion

- 63.9%, 19.6% and 16.5% respectively strongly agree, agree and neither agree/disagree on the question that if taxes are not paid government cannot pay its workers.
- On the question of government’s inability to provide infrastructure if taxes are not paid 44.6%, 47.8%, 6.5% and 1.1% strongly agree, agree, neither agree/disagree and disagree respectively.
- 64.9% strongly agree, 19.6% agree, 14.4% neither agree/disagree and 1.0% disagree that tax evasion decreases government revenue.
- On the question of tax evasion causing inequality and increasing tax burden on others, 62.9% strongly agree, 20.6% agree and 16.5% neither agree/disagree.

In the group of effects, all were equal measured by the respondents; only government “would not be able to pay infrastructure” shows a very lower mean (1.6 points).

### Solutions for tax evasion

The descriptive statistics regarding the solutions show that the respondents do not disagree or strongly disagree with the suggested solutions (see next table).

Table 7. Descriptive statistics for Solutions for tax evasion.

Statement	Strongly Agree	Agree	Neither Agree/Disagree	Disagree	Strongly Disagree	Mean	Standard Deviation
	1	2	3	4	5		
1. Tax rates should be reduced to enable everybody to pay.	67	15	15	-	-	1,46	0,751
	69,1	15,5	15,5	-	-		
2. Enforcement of penalties for tax default should be made clearer and public.	56	30	11	-	-	1,54	0,693
	57,7	30,9	11,3	-	-		
3. Priority should be placed on tax education.	74	15	8	-	-	1,32	0,622
	76,3	15,5	8,2	-	-		
4. Government spending should be development oriented to encourage tax payers.	87	2	8	-	-	1,19	0,565
	89,7	2,1	8,2	-	-		
5. Information on taxes should be made available to the public.	78	9	10	-	-	1,30	0,648
	80,4	9,3	10,3	-	-		
6. The tax administration structure should be computerized to eliminate corruption.	64	13	19	-	-	1,53	0,807
	66,0	13,4	19,6	-	-		
<b>Global Mean</b>						<b>1,39</b>	<b>0,681</b>

Source: Field Survey, January (2019).

The solution that shows a lower mean (i.e., strongly agree) is related with the government behaviour “Government spending should be development oriented to encourage taxpayers” and in second position comes “the information on taxes should be available to the public”. Education in taxation is also an important issue for the respondents. The reduction of the tax rates is not the most important solution mentioned by the respondents.

### **3.5 Pearson Correlation Analysis**

To complete the study, the correlations between the items that make up group Causes and Effects (group B) and the overall value of group B were also analysed. It should be noted that variables ‘There is not much education on tax’ and ‘Government receives enough tax so it does not matter if some people evade tax’ were found to be the most important contributions to the causes of tax evasion, presenting a strong relationship. They showed a direct positive relationship with statistically significant values for Pearson’s correlation coefficient of  $r=0,517$  (p-value <5%) and  $r=0,463$  (p-value <5%), respectively.

The same procedure was followed for the solutions group (group C), and the following conclusion was reached: a strong, positive and direct, statistically significant relationship between the global variable of group C with the variables ‘Tax rates should be reduced to enable everybody to pay’, ‘Information on taxes should be made available to the public, and ‘The tax administration structure should be computerized to eliminate corruption’. For each pair of relations the values obtained for the correlation coefficient, respectively:  $r=0.509$  (p-value <5);  $r=0.543$  (p-value <5);  $r=0.634$  (p-value <5).

### **3.6 Results and discussion**

Considering the objectives and the hypotheses\* previously stated, the evidence obtained is as follows (Table 8).

Table 8. Main results.

Label	Objectives or Research Hypotheses	Conclusion	
O <sub>1</sub>	Identify the age bands with more propensity for tax evasion	Age band with more tax evasion: 31-35 (34,5%); 36-40 (27,6%).	
O <sub>2</sub>	Identify the marital status with more propensity for tax evasion	Of 29 respondents that declared committed tax evasion, 58,6% are married.	
O <sub>3</sub>	Identify the type of business with more propensity for tax evasion	The activity sector with more propensity for tax evasion is the retail sector: 65,5%.	
O <sub>4</sub>	Identify the band years in business with more propensity for tax evasion	The businesses with more propensity to tax evasion are businesses established within 1 to 5 years (58,6%).	
		p-value	Conclusion
H <sub>1</sub>	There is an association between variables gender and tax evasion	$\rho=0,039$	Corroborated
H <sub>2</sub>	There is an association between variables education and tax evasion	$\rho=0,135$	Not corroborated
H <sub>3</sub>	There is an association between number of employees and tax evasion	$\rho=0,693$	Not corroborated
H <sub>4</sub>	There are differences by gender regarding causes, effects and solutions of tax evasion	$\rho=0,148$ $\rho=0,867$ $\rho=0,481$	Not corroborated Not corroborated Not corroborated
H <sub>5</sub>	There are differences between the age bands regarding causes, effects and solutions of tax evasion	$\rho=0,496$ $\rho=0,031$ $\rho=0,409$	Not corroborated; Corroborated Not corroborated;
H <sub>6</sub>	There are differences between the education regarding causes and effects and solutions of tax evasion	$\rho=0,496$ $\rho=0,457$ $\rho=0,962$	Not corroborated Not corroborated Not corroborated
H <sub>7</sub>	There are differences between the marital status regarding causes, effects and solutions of tax evasion	$\rho=0,728$ $\rho=0,284$ $\rho=0,755$	Not corroborated Not corroborated Not Corroborated
H <sub>8</sub>	There are differences between the type of businesses regarding causes, effects and solutions of tax evasion	$\rho=0,032$ $\rho=0,428$ $\rho=0,724$	Corroborated Not corroborated Not corroborated
H <sub>9</sub>	There are differences between years in business regarding causes, effects and solutions of tax evasion	$\rho=0,878$ $\rho=0,102$ $\rho=0,073$	Not corroborated Not corroborated Corroborated
H <sub>10</sub>	There are differences between number of employees regarding causes, effects and solutions of tax evasion	$\rho=0,241$ $\rho=0,604$ $\rho=0,773$	Not corroborated Not corroborated Not Corroborated

\* Globally results for causes and effects (i.e., group); Individual results (by a question) are presented below in the discussion comments. From H4 to H10 the results are for causes, effects, and solutions.

Source: Field Survey, January (2019).

Therefore, the evidence obtained is as follows:

**O1.** According to the results the age bands with more propensity are 31-35 (34.5%) and 36-40 (27.6%).

**O2.** The marital status with more propensity for tax evasion are married people (58.6%).

**O3.** the type of business with more propensity for tax evasion are retailers (65.5%).

**O4.** The band years in business with more propensity for tax evasion are 1-5 (58.6%).

**H1.** Since the *p-value* is lower than our chosen significance level ( $\alpha = 0.05$ ), we conclude that there is an association between “gender” and “tax evasion” ( $p=0.039$ ).

**H2.** Since the *p-value* is greater than our chosen significance level ( $\alpha = 0.05$ ), we do not reject the null hypothesis; we conclude that there is not enough evidence to suggest an association between “education” and tax evasion ( $p=0,135$ ).

**H3.** Considering  $\alpha = 0.05$ , we do not reject the null hypothesis; we conclude that there is not enough evidence to suggest an association between the size measured by the “number of employees” and tax evasion and ( $p=0,693$ ).

**H4.** Globally, there are no association by “gender” regarding “causes”, “effects” and “solutions” of tax evasion ( $p=0.148$ ;  $p=0.867$ ;  $0.481$ ), respectively). Individually, there are no association by gender and “causes” and “effects” of tax evasion (we conclude that there is not enough evidence to suggest an association).

**H5.** Due to the violation of the normality assumption, the non-parametric test Kruskal-Wallis was used. We do not reject the null hypothesis; globally, we conclude that there is no association between “age” and the “causes” of tax evasion ( $p=0.496$ ) and the “solutions” for tax evasion ( $p=0.409$ ). However, there is an association between “age” and the “effects” of tax evasion ( $p=0.031$ ).

Individually, we did not find any association between age and *causes* and/or *effects*.

**H6.** Concerning the “education” background, globally, we conclude that there is no association between “education” and the “causes” and “effects” of tax evasion ( $p=0.496$  and  $p=0.457$ ), respectively). The conclusion is the same for “solutions” ( $p=0.962$ ).

Individually, we conclude that there is an association between “education” and “causes” “effects” and solutions in the following cases:

### Causes

(i) 1B “a large proportion of taxes is used by the government for meaningless purposes” (respondents with “tertiary education” agree more, mean: 1.55 +/-0.826); p=0.004.

(ii) 9B “the amount of tax I have to pay is reasonable considering the benefits received”; (respondents with “tertiary education” agree more, mean: 1.70 +/-0.801); p=0.020.

(iii) 13B “a lot of people do not pay tax that is why I do not pay tax”; (respondents with “secondary/technical education” agree more, mean: 1.34 +/-0,656) p=0.011.

(iv) 14B “government receives enough tax, so it does not matter if some people evade tax”; (respondents with “no education” agree more, mean: 1.50 +/-0.798); p=0.014.

(v) 15B “the tax burden is so heavy that many people are forced to evade it in order to survive” (respondents with “tertiary education” agree more, mean: 1.55 +/-0.605); p=0.016.

(vi) 16B “wealthy people evade tax more often than the poor” (respondents with “tertiary education” agree more, mean: 1.45 +/-0.686); p=0.022.

### Effects

(vii) 19B “tax evasion would decrease government revenue” (respondents with “no education” agree more, mean: 1.23 +/-0,599); p=0.016.

### Solutions

(viii) 1C “taxes should be reduced to enable everybody to pay” (p=0.061)

(ix) 5C “Information on taxes should be made available to the public” (p=0.051)

**H7.** Concerning the “marital status”, globally, we conclude that there is no association between “marital status” and the “causes” and “effects” of tax evasion (p=0.728 and p=0.284, respectively). Individually, we conclude that there is a significant association between “marital status” and “causes” (not “effects” and “solutions”):

### Causes

(i) 8B. “the tax system is very complicated” (respondents single agree more, mean: 1.38 +/-0.824); p=0.012.

(ii) 9B. “the amount of tax a have to pay is reasonable considering the benefits received” (respondents divorced agree more, mean: 1.2 +/- 0.422); p=0.001.

(iii) 11B. "tax agents collect the right amount of tax from us" (respondents divorced agree more, mean: 2.5 +/- 0.707); p=0.026

**H8.** Regarding "type of business", globally, we conclude that there is a statistical association between "type of business" and the "causes" of tax evasion (p=0.032). There is no association with "effects". Individually, we conclude that there is a significant association between "type of business" and "causes" of tax evasion (no association with effects and solutions).

#### Causes

2B. "It is unfair to pay tax" (respondents retailers agree more, mean: 1.86 +/- 0.773); p=0.039.

**H9.** Regarding "years in business", globally, we conclude that there is no association with causes and effects of tax evasion. Individually, we conclude that there is a significant association between "years in business" and "effects" of tax evasion (not with "causes" and "solutions").

#### Effects

20B. "tax evasion causes inequalities and increase the tax burden on others" (respondents "up to five" agree more, mean: 1.36 +/- 0.563); p=0.021.

**H10.** Regarding "number of employees", globally, we conclude there is no association with "causes" and "effects of tax evasion. Individually, we conclude that there is a significant association between "number of employees" and "causes" of tax evasion (not with "effects" and "solutions").

#### Causes

7B. "rich people should pay tax at a higher rate" (respondents "10 and above", mean: 1.15 +/- 0.555); p=0.031.

Next, we summarize the main remarks regarding tax evasion (recent years) and causes, effects and solutions.

#### *Tax evasion (in recent years)*

1. Age, marital status, the type of business and the years in business might have impact on tax evasion.
2. The gender factor shows differences in the tax evasion behaviour (between males and females).
3. Education and the size of the small entity measured by the "number of employees", seem not have impact on tax evasion in terms of behaviour (i.e., no differences).

### *Causes*

4. The type of business also shows differences in relation to the group of *causes* of tax evasion.
5. Regarding education, in terms of *causes* for tax evasion, “the use of tax revenue for meaningless purposes”, the “benefits received”, “other people do not pay”, “no matter if other people evade the amount collected is enough”, “tax burden is heavy” and “rich evade more” are the most important *causes* for tax evasion. Education is a factor previously identified by other researchers as Richardson (2006) with an impact on tax evasion.
6. Marital status, in terms *causes* of tax evasion, the “tax system is very complicated” and “the benefits received” and the “tax right amount collected” are the main important differences.
7. Considering the “type business”, “it is unfair to pay tax” is the most important difference.
8. In relation to the size of the entity, measured by the “number of employees”, “rich people should pay at a higher rate” show the most relevant differences.

### *Effects*

9. Age shows differences in relation to the group of *effects* (i.e., globally) on tax evasion.
10. The age plays an important role regarding the *effects* of tax evasion.
- 11 In relation to education, “tax evasion would decrease government revenue” shows the most relevant differences.
12. Concerning “years in business”, “tax evasion causes inequalities and increases the tax burden on others” shows the most relevant differences.

Some of the previous main findings are in line with the vital determinants identified by Jackson and Milliron (1986).

### *Solutions*

There are differences in “years in business” regarding the solutions, only globally.

## Conclusions, Limitations and Future Research

Considering the aim of this study (and his exploratory character), we found the evidence concerning the causes and effects of tax evasion/avoidance in the Sekondi-Takoradi Metropolitan Assembly of the Western Region of The Republic of Ghana (according to the respondent's opinion). People between 31 to 40 years and married people are those that engage more in tax evasion. The retail sector and businesses from 1 to 5 years old are those that show more propensity to tax evasion. There are differences between males and females regarding tax evasion. More females denied committing tax evasion or are not sure about their behaviour. We found no evidence regarding the education profile and past tax evasion events (no differences found). The size of the company, measure by the number of employees, does not shows differences in relation to tax evasion.

Regarding the causes and effects of tax evasion we found the following evidence:

- (i) in relation to gender, no differences were found;
- (ii) in relation to age, there are no differences concerning the causes; however, there are differences regarding the effects;
- (iii) There are no significant differences globally in relation to "education" background. However, individually, about the causes and effects there are differences. The most significant causes are the uses of tax for meaningless purposes, the benefits received are not reasonable taking into account the amount of tax paid; the moral issues – "I do not pay tax because the others do not pay", the amount of tax is enough, therefore, if I do not pay does not matter, the "tax burden is so high that people needs to evade in order to survive" and "wealthy people evade more than the poor". The main effect of tax evasion is the decrease of government revenue;
- (iv) In terms of marital status, globally there are no differences between married and divorced respondents in relation to causes and effects. However, individually, we found differences only in relation to causes of tax evasion: "the complexity of the tax system", "the benefits are no fair considering the tax amount paid" and the "correct amount of tax collected by the tax agents"; no differences were found in effects;
- (v) In terms of "type of business", globally, there are differences only in relation to causes. Individually, we only identified differences in the causes – "it is unfair to pay tax";
- (vi) Globally, we found no differences between "years in business" and the causes and effects on tax evasion. Nonetheless, individually, there are differences regarding effects – tax evasion leads to inequalities and increases the tax burden on others. In solutions, it was also found differences globally (no differences in relation to each one question;

(vii) In the factor size of the small entities, measured by the “number of employees”, globally, there are no significant differences on cause and effects. Individually, the most significant cause of tax evasion is because rich people should pay a higher rate; no significant effects were found.

In summary, the retail sector is more prone to tax evasion and females have a different behaviour from males concerning tax evasion. In relation to cause and effects, education and marital status are the factors that show main differences. We found no different suggestions in the solutions in terms of solutions; however, “Government spending should be development oriented to encourage taxpayers” was the solution with higher preference.

The main limitation of this study is the sample size, and it is a small part of the “population” of the Sekondi Takoradi Metropolitan Assembly. For future research, we suggest research based on the size of the business to reach conclusions for medium and large companies based on a larger sample.

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## APPENDIX 'A'

### INSTITUTO POLITÉCNICO DE BRAGANÇA (ESTiG)

AN EXAMINATION OF THE DETERMINANTS OF TAX AVOIDANCE AND TAX EVASION

A CASE STUDY OF SEKONDI TAKORADI METROPOLITAN ASSEMBLY – GHANA

This study is being conducted in partial fulfilment of the requirements for the award of a Master in Management. Every information received would solely be used for academic purposes and be treated with the necessary confidentiality they require.

#### SECTION A: PERSONAL INFORMATION

Please TICK (✓) most appropriate in the following questions

1. Gender  
(a) Male [ ] (b) Female [ ]
2. Age  
(a) 0-25 [ ] (b) 26-30 [ ] (c) 31-35 [ ] (d) 36-40 [ ]  
(e) 41 and above [ ]
3. Current educational background.  
(a) Secondary/Technical [ ] (b) Bachelor [ ] (c) Tertiary [ ]  
(c) No education [ ] (d) Other [ ]
4. Marital status (a) Single [ ] (b) Married [ ]  
(c) Divorced [ ] (d) Other [ ]
5. Type of business (a) Manufacturing [ ] (b) Service [ ]  
(c) Distribution [ ] (d) Retailing [ ]  
(e) Other: .....
6. How long have you been operating? (a) Less than 1 year [ ]  
(b) 1 – 5 years [ ] (c) 6 – above years [ ]
7. How many stalls do you operate? (a) 1 [ ] (b) 2 [ ] (c) 3 [ ] (d) 4 [ ]  
(e) 5 and above [ ]

8. Number of employees. (a) 1 - 3 [ ] (b) 4 - 6 [ ] (c) 7 - 9 [ ] (d) 10 – above [ ]
9. Please indicate your business daily gross income. (a) Ghc 100 – 300 [ ]  
 (b) Ghc 301 – 500 (c) Ghc 501 – 700 (d) Ghc 701 – 900  
 (e) Ghc 901 and above
10. Are you aware that you have to declare your total income from your operations to the Ghana Revenue Authority (GRA)? (a) Yes [ ] (b) No [ ]
11. Are you registered as a Taxpayer with the Ghana Revenue Authority (GRA)?  
 (a) Yes [ ] (b) No [ ]
12. Are you aware of your responsibility to pay tax on your income from your business?  
 (a) Yes [ ] (b) No
13. If you answered [YES] to question 12 how often do you pay your tax?  
 (a) Regularly [ ] (b) Occasionally [ ]
14. If you answered [NO] to question 12, please give 3 reasons and skip to **Section 'B'**  
 .....  
 .....  
 .....
15. Have you ever evaded tax?  
 (a) Yes [ ] (b) No [ ] (c) Not Sure [ ]
16. Do you think all your colleagues pay tax?  
 (a) Yes [ ] (b) No [ ] (c) Not Sure [ ]
17. To what extent do you think people evade Tax in Sekondi-Takoradi?  
 (a) Very High [ ] (b) High [ ] (c) Low [ ]  
 (d) Very Low [ ] (e) No Idea [ ]
18. How do you perceive the current tax rates? (a) Inadequate [ ]  
 (b) Fair [ ] (c) Too high [ ] (d) Don't Know [ ]

**SECTION B: CAUSES AND EFFECTS OF TAX EVASION**

Please indicate your opinion with the statement below dealing with general issues relating to tax.

Statement	Strongly Agree (1)	Agree (2)	Neither Agree/Disagree (3)	Disagree (4)	Strongly Disagree (5)	No Opinion
1. A large proportion of taxes is used by the government for meaningless purposes						
2. It is unfair to pay tax						
3. The sales tax rate (%) should be the same regardless of the business one is doing						
4. I know the reason to pay tax						
5. Waste and inefficiency in government is high						
6. High corruption in government.						
7. Rich people should pay tax at a higher rate						
8. The Tax system is very complicated (I do not know how to calculate my own tax liability).						
9. The amount of tax I have to pay is reasonable considering the benefits received.						
10. The government provide enough information about how they use taxpayers' money.						
11. Tax agents collect the right amount of tax from us.						
12. There is much education on taxation.						
13. A lot of people do not pay tax that is why I do not pay tax as well.						
14. Government receives enough tax so it does not matter if some people evade tax.						

15. The burden of tax is so heavy that many people are forced to evade it in order to survive.						
16. Wealthy people evade tax more often than the poor.						
17. If we do not pay taxes government would not be able to pay its workers.						
18. If we do not pay taxes government would not be able to provide infrastructure.						
19. Tax evasion would decrease government revenue.						
20. Tax evasion causes inequality and increase the tax burden on others.						

### SECTION C: SOLUTION TO THE CAUSES OF TAX EVASION

Please indicate your opinion with the statements below dealing with general issues relating to Tax

Statement	Strongly Agree (1)	Agree (2)	Neither Agree/Disagree (3)	Disagree (4)	Strongly Disagree (5)	No Opinion
1. Tax rates should be reduced to enable everybody to pay						
2. Enforcement of penalties for tax default should be made clearer and public						
3. Priority should be placed on tax education						
4. Government spending should be development oriented to encourage tax payers						
5. Information on taxes should be made available to the public						
6. The tax administration structure should be computerized to eliminate corruption						

7. Please give 2 comments regarding the tax system in Ghana.

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**Thank you for participating in the survey. Your assistance is well appreciated!!**