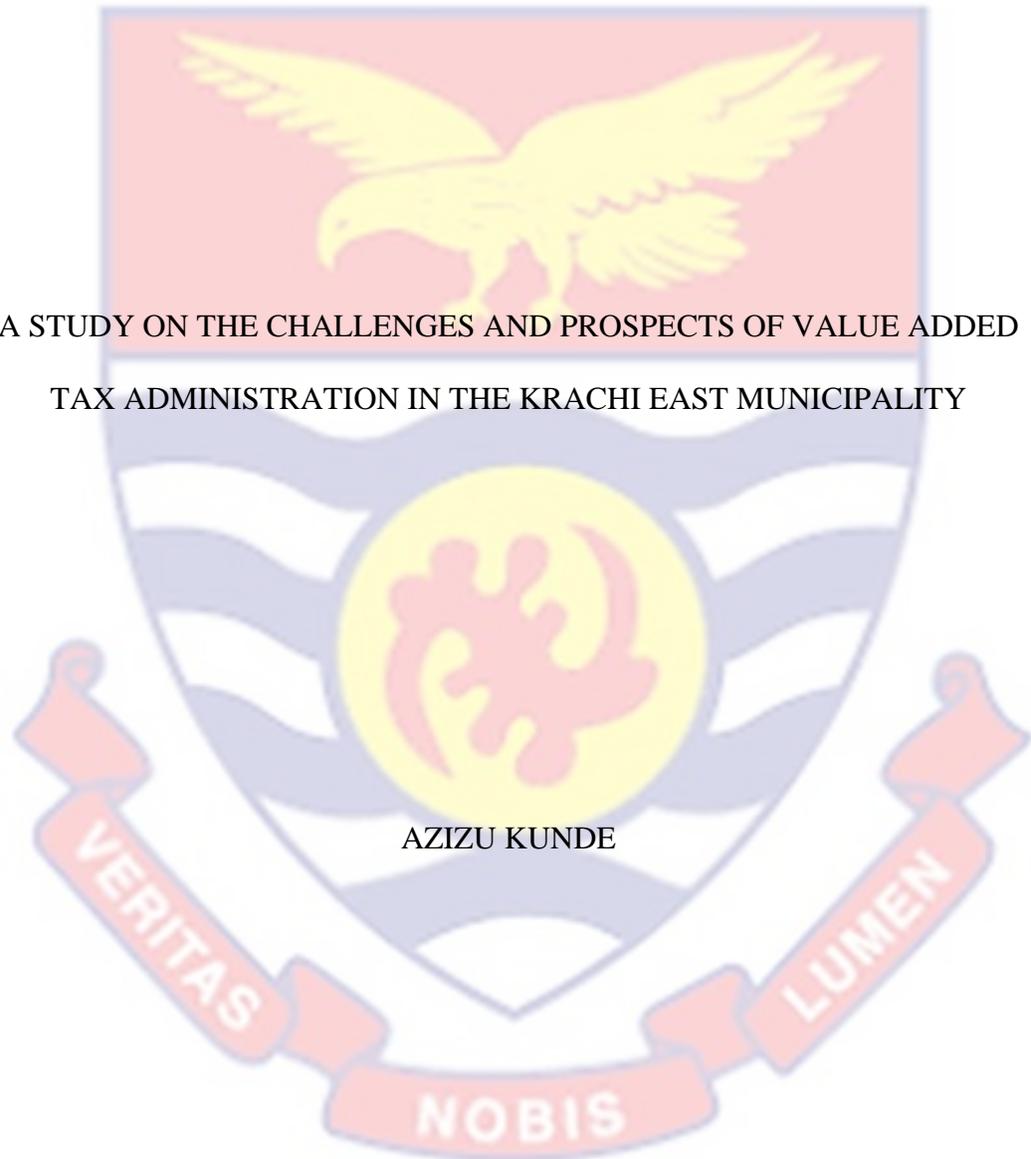


UNIVERSITY OF CAPE COAST

A STUDY ON THE CHALLENGES AND PROSPECTS OF VALUE ADDED  
TAX ADMINISTRATION IN THE KRACHI EAST MUNICIPALITY



2021

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A STUDY ON THE CHALLENGES AND PROSPECTS OF VALUE ADDED  
TAX ADMINISTRATION IN THE KRACHI EAST MUNICIPALITY

BY

AZIZU KUNDE

Dissertation submitted to the Department of Accounting of the School of  
Business, College of Humanities and Legal Studies, University of Cape Coast, in  
partial fulfillment of the requirements for the award of Master of Business

Administration Degree in Accounting

OCTOBER 2021

## DECLARATION

### Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: ..... Date: .....

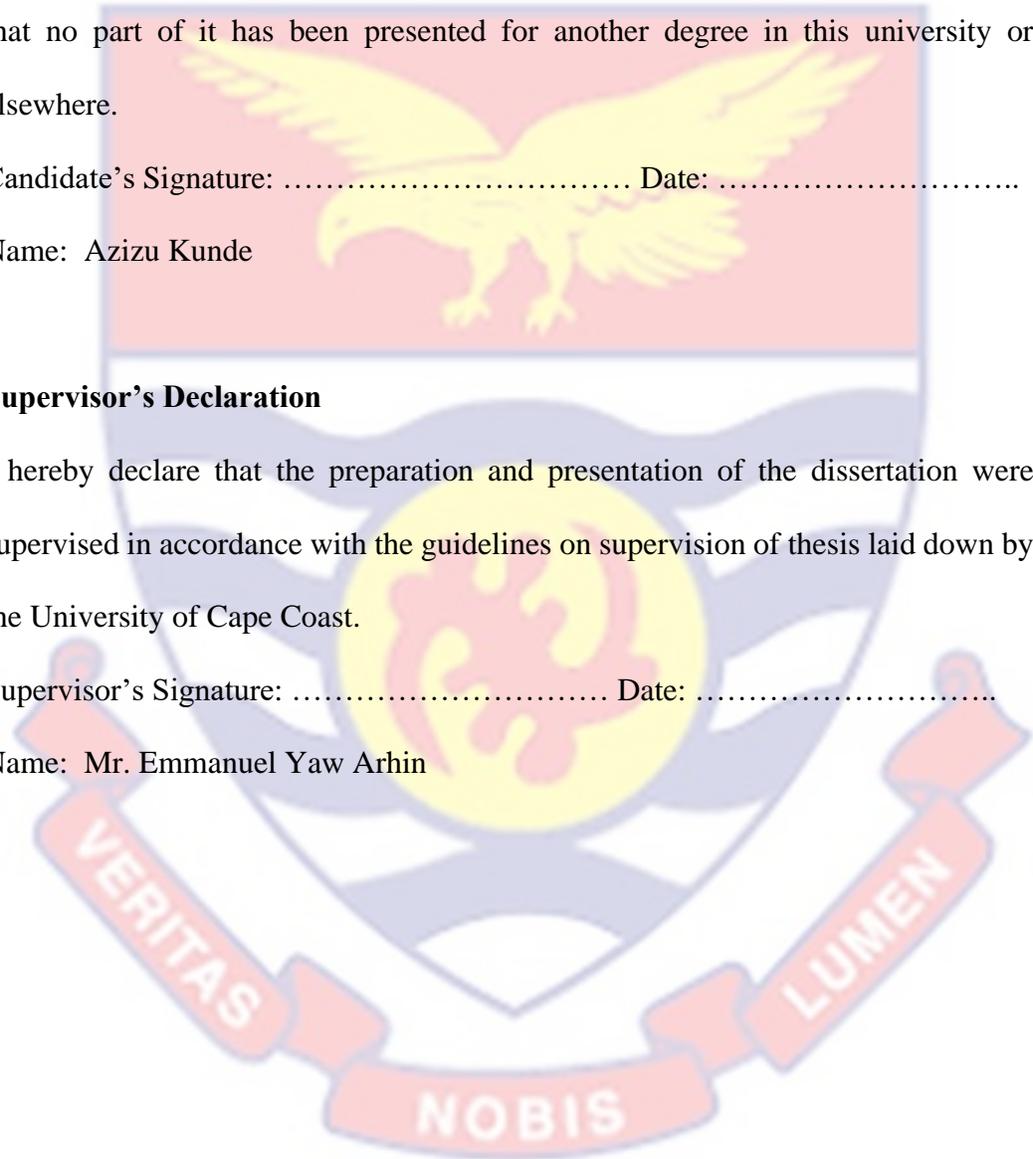
Name: Azizu Kunde

### Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Supervisor's Signature: ..... Date: .....

Name: Mr. Emmanuel Yaw Arhin



## ABSTRACT

The study sought to investigate the challenges and prospects of VAT administration in the Krachi East Municipality of the Oti Region of Ghana. In this study, the researcher employed the descriptive research design and the quantitative approach to enquiry. The target population of the study comprised all VAT registered persons and businesses as well as VAT administrators operating in the Krachi East Municipal. A final sample consisting of 93 VAT registered persons and businesses and 6 VAT administrators were selected for the study. Primary data was collected through administration of structured and semi-structured questionnaires. The data collected was analyzed using SPSS Version 26.0 and presented in the form of frequency tables and charts. The study revealed that there is poor record-keeping among some VAT registered persons and businesses in the Krachi East Municipality. It further revealed that there is infrequent interaction between taxpayers and the VAT administrators in the municipality. The study also found that there are inadequate logistics for VAT administrators in the Krachi East Municipality to carry out their operations. The study recommends the intensification of VAT education to taxpayers within the municipality, regular training of staff and provision of adequate logistics as well as effective monitoring and control.

## ACKNOWLEDGEMENTS

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## DEDICATION

To my son, Kparimah Manu Bright



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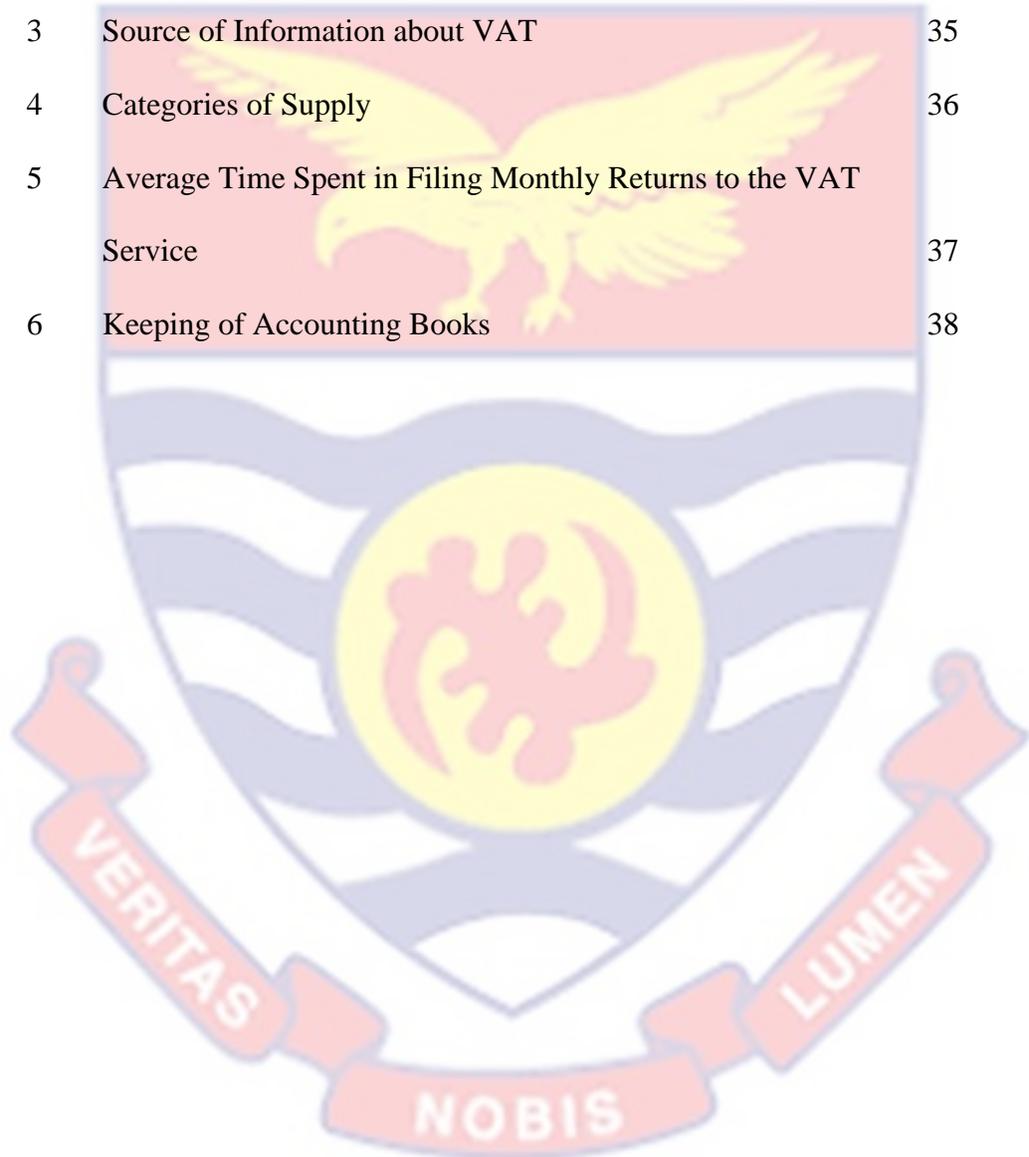
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## CHAPTER ONE

### INTRODUCTION

This chapter presents the background of the study, statement of the problem, purpose of the study, research objectives, research questions, significance of the study, delimitation and limitations of the study, and finally organization of the study.

#### **Background to the Study**

Governments, all over the world, need taxes to fund their economic activities. While taxation is not the only source of government revenue, it is by and large the most important source in nearly all countries (Ospina & Roser, 2017).

There are two broad classes of taxes; direct and indirect taxes. For the purpose of this study, focus will be on Value Added Tax (VAT) which is a sub-category of indirect taxes. Value Added Tax was first introduced in Ghana in March 1995, after passing the VAT bill into law (ACT 486) (Asante, Agyei, Arhin & Adela, 2018). However, due to insufficient public education and misapplication of the law, the VAT ACT was repealed on 14th June, the same year. It was again re-introduced in the year 1998 after the passage of the VAT ACT, 1998 (ACT 546) and the VAT Regulations, 1998 (L.I.1646). This was also repealed and the existing VAT Act, 2013 (Act 870) was introduced (Asante et al, 2018).

VAT, as the name implies, is the taxation of value added in the production-distribution chain. According to Obeng (2018), VAT is an indirect form of tax that is imposed on consumption or the expenditure incurred by consumers on goods and services. It has the following characteristics which distinguish it from other taxes:

It is a general tax on consumption expenditure; it is a tax on the final consumer; it is a multi-stage tax; it is levied on the “value added” created, and not the full value of the product; it is collected by registered businesses that act as agents of the VAT authorities (Ali-Nakyea, 2014). VAT was introduced in Ghana to improve efficiency and equity in tax collection, to expand the tax base, to adopt a uniform basis for collecting the general consumption taxes, to control smuggling, to raise revenue for development (Asante et al, 2018).

In Ghana, a VAT rate of 17.5% was in use (Ali-Nakyea, 2014). This comprised 15% VAT and 2.5% NHIL. Under this Standard Rate System (SRS) or Invoice-credit method, every registered person was required to do three things:

1. Pay VAT (called input tax) on all taxable purchases of goods and services and obtain tax receipts called tax invoice for them.
2. Charge VAT (called output tax) on all taxable sales of goods and services and issue tax invoice for them.
3. At the end of the month, deduct the total input tax from the total output tax and remit only the difference to VAT office.

A peculiar problem associated with the 17.5% SRS was that it worsened the already high inflation that existed as prices of goods and services shot up persistently. In view of this, the VAT flat Rate Scheme (VFRS) was introduced to replace the existing Standard rate. It is a special method for collecting and accounting for VAT/NHIL. Under the VFRS, the combined rate of the tax which was 17.5% (VAT 15%, NHIL 2.5%) has been reduced to a flat rate of 3% calculated on the value of taxable supplies with respect to retailers and wholesalers of goods.

The 3% flat rate, however, does not apply to any form of power, heat, refrigeration or ventilation as provided by the Act. Retailers and wholesalers who account for the value of taxable supplies under the VFRS do not qualify for an input tax deduction. Among other things, the 3% VFRS was introduced to reduce the cost of complying with VAT obligations by simplifying the way small businesses calculate their VAT; to reduce the level of record keeping; to reduce the cost of input cost to operations; to improve tax collection among the informal sectors (Ali-Nakyea, 2014). However, amid the introduction of the VFRS, several issues have been raised by various stakeholders.

The focus of this study is to investigate challenges and prospects of VAT administration within the Krachi East Municipality of Ghana.

### **Statement of the Problem**

Value Added Tax (VAT) has become one of the most effective ways for both developing and developed countries to increase tax income. VAT has not only added dynamism to Ghana's revenue-raising landscape, but it has also taken center stage in the country's fiscal consolidation efforts. In an effort to generate as much revenue as possible for its fiscal mandate, the VAT regime has undergone a number of discretionary reforms (Andoh, 2017). However, after over two decades of its implementation in Ghana, total tax revenue has consistently remained below 30 percent while tax-GDP ratio has persistently remained below 17 percent (Andoh, 2018).

A joint survey conducted by the Ministry of Finance and the Ghana Revenue Authority with the support of Foreign, Commonwealth and Development

Office (FCDO) and in collaboration with the Institute for Fiscal Studies (IFS) London revealed that much of the growth in Ghana's tax revenues since 2000 has come from increased corporate and personal income tax and VAT and similar taxes, though revenue growth from VAT has stagnated more recently (IFS Report R189, 2021). The survey further revealed that Ghana's tax-to-GDP ratio is fairly typical of countries in sub-Saharan Africa. However, considering countries of a similar income level across the world, Ghana's tax revenue collections are relatively low.

Data from the OECD library reveals that Value Added Tax is the backbone of the economies of over 170 nations throughout the world. With the exception of the United States, all members of the Organization for Economic Cooperation and Development (OECD) have implemented VAT as per data from the OECD library. However, because VAT is based on self-assessments raised by VAT agents through regular VAT returns, its success is contingent on voluntary compliance (Grinberg, 2009).

Many developing countries rely largely on consumption taxes for tax revenue because they lack the knowledge necessary to implement direct taxes like personal income tax properly (Bird & Pierre-Pascal, 2006). Because VAT is based on self-assessment, Bird and Pierre-Pascal (2006) concluded that it survives only when voluntary compliance is high. They went on to say that precise bookkeeping is the foundation for any successful VAT assessment. VAT is the suggested tax for nations that need a simpler tax, according to Gjokutaj (2011), although VAT does not always operate effectively in developing countries, mostly because the majority of taxpayers in developing countries lack the skills, attitudes, and information

required for voluntary compliance. The voluntary compliance of taxable persons, according to Gjokutaj (2011), is highly dependent on the trust that exists between tax administrators and taxable persons.

Temesgen (2019) found lack of awareness about VAT laws, procedures not being clear and simple, fraudulent activities by tax officials and the unwillingness of taxpayers to register for VAT as the main challenges facing VAT implementation in Ethiopia. In Ghana, Ayebofo (2016) revealed that VAT compliance is low partly because VAT registration and filing procedures are too complex for the small traders and that many fail to keep proper books of accounts on which VAT assessments are made. The study also revealed that many taxpayers fail to comply because they have negative perceptions about how the government uses tax revenue.

The Government of Ghana has made domestic revenue mobilization a crucial part of its medium-term development strategy, with the goal of tax revenues reaching 20% of GDP by 2023. Improving domestic revenue mobilization in the country is seen as an important means of funding social programmes and public goods, as well as for improving the country's fiscal position. However, as revealed by Mr. Ken Ofori Atta in the 2022 Budget reading, the country's current tax-to-GDP ratio stands at 12 per cent, which falls below the sub-Saharan Africa average of 16.5 per cent and far off the medium-term goal of 20% by 2023. While corporate tax revenues have grown noticeably in recent years, VAT revenues have stalled relative to GDP (IFS Report R189, 2021). There is therefore the urgent need to

strengthen VAT compliance in Ghana by critically looking at the challenges and prospects of its administration.

### **Purpose of The Study**

The purpose of the study is to investigate the challenges and prospects of VAT administration in the Krachi East Municipality.

### **Research Objectives**

The study specifically seeks to achieve the following objectives:

1. To determine the extent of awareness of VAT within the municipality among the business owners.
2. To evaluate the problems of VAT collection in the Krachi East Municipality
3. Assess whether GRA officers within the Krachi East Municipality have adequate equipment to carry out their operations.
4. To determine the prospects of VAT system within the municipality.

### **Research Questions**

The research questions addressed were as follows;

1. What is the level of awareness of VAT system among business owners within the Krachi East Municipality?
2. What are the major problems of VAT collection in the Krachi East Municipality?
3. What is the adequacy level of equipment for GRA officers within the Krachi East Municipality to carry out their operations?
4. What can be done to improve upon the VAT system in the municipality?

### **Significance of the Study**

The fact that the Domestic Tax Revenue Division (DTRD) of the GRA is one of the strongest revenue collectors for the government of Ghana cannot be over emphasized. The DTRD has succeeded in collecting a chunk of revenue for government for development but there is still room for improvement. This study therefore seeks to contribute to the improvement of VAT administration in the Krachi East Municipality and Ghana as whole. It also purports to provide valuable information for policy makers on the VAT system in Ghana. The Government of Ghana, specifically the Ministry of Finance, would benefit from the findings to enhance its revenue mobilization drive to support its budget. In addition, politicians can also use the findings to prosecute their agenda. Finally, the study would serve as a reference document for researchers in academia.

### **Delimitations**

This study focused on the Krachi East Municipality which represents one out of the 260 districts in Ghana. The units of analysis were the VAT administrators and the VAT-registered businesses within the municipality.

### **Limitations of the Study**

Since the study focused on taxation, there was the likelihood that some respondents would not be willing to disclose sensitive information which would enrich the study and also enhance the validity and reliability of the research data. In dealing with this challenge, confidentiality of responses and anonymity of the respondents were assured. Due to the dispersed nature of the respondents, especially the VAT registered persons and businesses, the data collection phase

posed a huge challenge to the study as the researcher had to conduct several follow-ups to have the questionnaires completed and submitted. Also, to enhance the validity of the data collected, the researcher had to explain the contents of the questionnaires in the local dialect to some of the respondents who had low literacy levels.

### **Organization of the Study**

The study is organized into five chapters. Chapter One covers the background of the study, statement of the problem, purpose of the study, research objectives and questions, significance, scope, limitations and organization of the study. Chapter Two focuses on the review of literature on VAT, VAT administration, tax administration and other related concepts. Chapter Three outlines the methodology and organization profile, and describes research design used, population of the study, data collection and sample size, data analysis methods used as well as the study area. Chapter Four covers the analysis, discussion and presentation of results of the study. Chapter Five entails the summary of the findings, the conclusions and recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### **Introduction**

This chapter presents a conceptual review of relevant literature underpinning the study, followed by a conceptual review as well as an empirical review of what various authors have said about Value Added Tax, its prospects and challenges.

#### **Theoretical Review**

In this section, the author discusses tax compliance theories that underpin the study. These are the ability to pay theory, the fiscal psychology theory, and the economic deterrence theory.

#### **Ability to pay theory**

Mill (1848) developed the ability to pay theory. The theory proposes that taxes should be based on the amount of money people earn. Thus, according to the theory, those who are better able to pay should bear the greater burden of taxation regardless of the benefit they will get in return. In consonance with the ability to pay theory, Kendrick (1939) says that money for the government should come from “him that hath” instead of “him that hath not”. Kendrick (1939) further reveals that the justification of ability to pay is on grounds of sacrifice. Thus, the payment of tax is seen as a deprivation to the taxpayer.

#### **Economic deterrence theory**

The economic deterrence theory was developed by Becker (1968) as a criminology theory. This theory is premised on the perception that an individual

will be deterred from committing a crime if the benefit of the crime is outweighed by the consequence of committing the crime. The economic deterrence theory is built on the belief that all individuals are aware of the consequences associated with criminal behaviour. Thus, it is presumed that taxpayers will act contrary to the law after evaluating the uncertain advantages of a successful evasion against the risk of being caught and punished. Kendrick (1939) reveals that deterrence can be achieved through punitive and persuasive approaches. Under the punitive approach, effective imposition of tougher penalties and reducing the probability of non-detection will deter a taxpayer from committing activities related to tax evasion. Under the persuasive approach, Kendrick (1939) advocates for activities relating improved taxpayer education concerning their duties, rights and obligations, simplifying the tax system and facilitating taxpayers in filing their tax returns and making payments.

### **Fiscal psychology theory**

According to the fiscal and social psychology theory, the greater the taxpayer's attitude in the payment of taxes, the greater their motivation in paying taxes (Strumpel,1966). A taxpayer's motivation to comply with tax laws relates to the taxpayer's perception and attitude of the tax system (Strumpel,1966). The theory pays attention to psychological variables such as moral values, ethical values and the fairness of the tax system.

## Conceptual Review

### The concept of taxation

Taxation is described as “the levying of obligatory contributions by public authorities possessing tax jurisdiction to defray the expenses of their activities” (Ali-Nakyea, 2014). The taxpayer receives no specific benefit. The money raised is utilized by the government to produce particular goods and services, build infrastructure, and maintain law and order. Taxation, according to Agyemang-Duah (2011), is "the demand by the central or local government for a compelled payment of money by people of a country other than as payment for some specified service or as a penalty for some specific infraction."

Benefits of taxation include reducing wealth inequalities, restricting certain types of consumption, such as alcoholic beverages and cigarettes, protecting domestic industries, and controlling certain aspects of the country's economy, such as the balance of payments, investment, and productivity. Taxation has undergone a variety of revisions in all economies where it is used, and Ghana is no exception to this trend. “In the Netherlands, for example, personal income taxes have recently been exposed to extensive reform attempts; a major modification took place in 1990, and another reform took effect on January 1, 2001,” Caminada (2001) stated.

Some countries have attempted to protect the poor by exempting or zero-rated foods under a value added tax (VAT) and by raising the threshold of taxes on personal income, urban property and agricultural land. The tax reforms in both situations are characterized by an expansion of the tax base, lower tax rates, and a flattening of the rate structure. Tax reforms in developing nations, according to

Musgrave (1988), encompass broad questions of economic policy as well as specialized challenges of tax system design and administration. Among the more specific tax issues, the composition of the tax structure, as well as the design of its primary components, must be considered.

Broadening the bases, according to Musgrave (1988), may raise the taxation threshold and result in fewer and lower tax rates. However, due to several obstacles, tax administration in less developed countries has been ineffective. According to Tanzi and Zee (2000), developing countries face significant obstacles in establishing effective and efficient tax systems. The economy's structure, the tax administration's limited ability, the lack of or poor quality of essential data, and the political system are all problems.

### **Canons of taxation**

In his book "The Wealth of Nations," Adam Smith, a British economist, articulated four tax canons. "The obvious fairness and utility of these maxims have recommended them to the attention of all countries," he added (Smith, 1937). In modern Economics, the principles stated below are extremely important.

Equity: Every state's subject is to contribute to the government's support in proportion to their individual abilities; that is, in proportion to the revenue that they each enjoy under the state's protection. Horizontal equity means that everyone who buys the same amount of goods pays the same tax. As a result, those with the same income pay the same amount of tax. Vertical equity: progressive taxation philosophies tax unequally positioned taxpayers based on their ability to pay. Those with higher incomes are taxed more than those with lower incomes.

Certainty: The tax that each individual is required to pay should be predictable rather than arbitrary. The date of payment, the method of payment, and the amount to be paid should all be clear and obvious to the contributor and everyone else.

Convenience: Every tax should be imposed at a time or in a manner that is most likely to be convenient for the taxpayer.

Economy: Every tax should be designed to take and keep as little money out of people's pockets as possible over and above what it brings into the state's public budget. In terms of costs, tax compliance and administration should be as low as possible.

### **The concept of VAT**

VAT is a tax on the value added at various stages of the manufacturing and distribution of a product or service. In this way, it is comparable to a retail sales tax, which would only be collected at the point of sale (Shome & Spahn, 1996).

According to the VAT Act, 2013 (Act 870), the term “Value Added” refers to increase in value of goods and services at each stage of production or transfer of goods and services. Thus, Value Added Tax is basically a tax levied on the value added at each stage of production of goods or rendering of services.

VAT is a tax on the final consumption of goods or services. Although it is collected at every stage of manufacturing or distribution, it is eventually borne by the consumer. Every stage of the chain of transfer or sale of products and services until it reaches the ultimate consumer receives a tax credit for tax paid earlier in the chain. VAT is a tax charged on the sale of goods and services by

businesses that are registered (those with annual turnover above some threshold level or who choose to register voluntarily).

It covers all sales, whether to private individuals or businesses (in contrast to the retail sales taxes levied in the US, for example, which aims to tax sales to final consumers only). VAT is a tax on consumers that is levied on supplies of goods and services made by a taxable person in the course of furthering of a business carried on by him, according to Pritchard (2009).

A correctly administered VAT is equivalent to a similar single-stage sales tax (Quarshie, 2009). Although German industrialist Dr. Wilhelm Von Siemens introduced the notion in 1918, Maurice Lauré, Joint Director of the French Tax Authority and Director General of Imports, was the first to adopt VAT on April 10, 1954 (Quarshie, 2009). With the exception of Japan, the invoice-credit form of VAT is the global basis for all national level VAT accounting. Registered firms use this strategy to offset the VAT they were charged on purchases (input VAT) against the responsibility (output VAT) on their sales, remitting only the net amount due.

If this cycle of output tax and input credit is maintained, no net income is collected through the taxation of intermediate goods sales (business-to-business sales), leaving final consumption as the tax's ultimate basis. Exports are generally zero-rated, but all imports are subject to full VAT. This is to ensure that the VAT only applies to domestic consumption, in line with the destination principle and in opposition to the origin principle of taxes, which is taxation based on the site of production (Crawford et al, 2010).

Denmark was the first European country to expand VAT to the retail sector, despite not being a member of the European Economic Community (EEC). France and Germany followed. Several developing countries have also increased their focus on VAT as a means of streamlining their tax systems. Nigeria, Senegal, Côte d'Ivoire, Morocco, and Tunisia are among these developing countries.

### **Value Added Tax in Ghana.**

In October 1992, the Government of Ghana instituted a project office tasked for the design and implementation of a tax to replace the sales tax regime that had been in existence since 1965. After two years of careful planning by a technical committee, a supervisory body to this committee and consultants from Crown Agents (UK), Parliament passed the Value Added Tax (VAT) Act, 1994 (Act, 486) in November 1994.

The VAT Regulations (Legislative Instrument No.1598) were subsequently passed by the House in February 1995. The instruments actually became effective on March 1995 after a 21-day statutory notification period. Though the VAT Act became effective on January 1, 1995, actual implementation of the tax commenced on March 1, 1995 (Quarshie, 2009).

In a manner similar to what happened when Income Tax was first introduced in 1931, the VAT was fiercely resisted and government was forced to suspend its implementation after only three months of existence. In May 1995, Parliament moved with dispatch to re-open debate on the fate of what had become Ghana's first real effort at implementing a comprehensive domestic indirect tax regime. This

move by Parliament became necessary following demonstration by the public as a result of the perceived cascading impact of the VAT system (Adom, 2016).

The decision eventually taken by the House to repeal the laws clearly contradicted the modern trend in global tax reforms, and appears to have taken many informed technical advisors by surprise. Two separate laws, the Customs, Excise and Preventive Service Management (Amendment) Act 1995, (Act 500) and the Service Tax Act 1995, (Act 501) were passed to replace the VAT law and regulations. These two laws effectively restored the previous sales and other indirect tax regimes to their original status (Adom, 2016).

### **Reasons for the introduction of VAT**

Several reasons existed for the introduction of VAT to replace the Sales and Service Taxes. The main reasons for introducing VAT include:

1. Adopting a uniform basis for collecting the General Consumption Taxes (GCT).
2. Expanding and diversifying the tax base.
3. Improving the efficiency and equity in revenue collection.
4. Making tax administration and compliance simpler.
5. Controlling and curtailing smuggling. (Quarshie, 2009).

The VAT was fiercely resisted at the early stages of its implementation because;

1. The initial VAT rate of 17.5% was considered too harsh. For instance, the VAT was among others, to replace the sales tax, which was at 15% and covered fewer transactions.
2. Public education on the new tax system was not sufficient.

3. Personnel of the VAT Service and persons who were to act as agents of the Service were not sufficiently trained to handle all aspects of the new tax efficiently. For example, there was lack of uniformity in assessment of tax.
4. The threshold was too low [annual turnover of ₵25 million (now GH₵ 2,500)] and therefore persons who were not capable of administering the VAT became taxable persons.
5. The introduction of the VAT worsened the already high inflation that existed by then as prices of goods and services shot up and there were agitations from the general public. (Adom, 2016).

#### **The reintroduction of VAT**

After the above complaints had been addressed and other precautions taken, the Value Added Tax was successfully reintroduced in 1998. The Value Added Tax Act, 1998 (Act 546) reintroduced the Value Added Tax System to replace the then existing Sales and Service Taxes. The distinctive feature about the two tax systems was that the VAT System was to be charged at 10% whereas the Sales and Service was at 15% each.

#### **Accounting for VAT**

Presently, the taxable traders account for VAT under two accounting systems namely the Standard Rate and the VAT Flat Rate Schemes.

#### ***Standard rate scheme (Invoice-credit method)***

Under the invoice-credit method, a registered person or enterprise making taxable supplies accounts for VAT for an accounting period which is usually one calendar month. The amount of tax payable to tax authorities is the difference

between the total VAT collected from customers on sales (Output VAT) and the total VAT paid on purchases and expenses (Input VAT).

### **VAT flat rate scheme**

The VAT Flat Rate Scheme is a VAT collection/accounting mechanism that applies a marginal tax rate of 3%, representing the net VAT payable, on the value of taxable goods supplied. It is an alternative to the invoice-credit method which charges a given percentage on sales (in this case 3%) for each transaction without recourse to input tax deduction. The meaning of a “flat tax” is somewhat ambiguous in political debates and in the economic literature, but generally, a flat rate tax system has two key features: a very broad tax base and one fixed rate (Caminada, 2001).

It is a special method for collecting and accounting for VAT/NHIL. Under the VFRS, the combined rate of the tax which was 17.5% (VAT 15%, NHIL 2.5%) has been reduced to a flat rate of 3% calculated on the value of taxable supplies with respect to retailers and wholesalers of goods.

### ***VAT Flat rate scheme in Ghana***

Ghana’s tax system has seen a number of reorganization and restructuring since its introduction. These several adjustments have brought about the VAT Flat Rate Scheme. Government, in its vision of bringing rapid development to the nation and reducing poverty on a sustainable basis as articulated by the GPRS I & II documents, has over the years consistently pursued tax reform policies geared towards the simplification of the compliance requirements of tax legislation in general.

Coincidentally, in 2005, Ghana Union of Traders Association (GUTA), one of the leading trade associations in the country, in a ten-point resolution to the VAT Service, copied to the Ministries of Finance and Trade seeking for the co-operation and involvement of the two ministries to address the problems and frustrations that their membership faced at the retail level in their effort to comply with the requirements of the standard VAT system. GUTA, in the resolution, also proposed a special flat scheme for all retailers with the objective of simplifying the tax accounting system and widening the tax net to encompass the entire retail sector.

It was against this background that a VAT Service/GUTA working group was constituted with a mandate to come up with a special scheme for the informal/retail sector that was simpler and easier to operate. These antecedents culminated in the proposal by the Minister of Finance and Economic Planning in the 2006 Budget Statement and Economic Policy that a special flat rate scheme for the informal/retail distributive trade sector would be evaluated for implementation in the course of the year.

### **Reasons for the introduction of the VAT flat rate scheme**

Among other things, the 3% VFERS was introduced to reduce the cost of complying with VAT obligations by simplifying the way small businesses calculate their VAT; to reduce the level of record keeping; to reduce the cost of input cost to operations; to improve tax collection among the informal sectors (Ali-Nakyea, 2014).

Moore (2004), in commenting on Slovakia's tax structure, stated that the single-rate VAT should be particularly helpful in addressing long-standing

problems with refunds. Given the wide range of commodities subject to the lower rate, it had been possible in some sectors, for example construction, to claim refunds on inputs at the higher VAT rate and sell output taxed at the lower rate.

According to Watts (2017), the VAT flat rate scheme is designed to simplify the calculation of VAT due for small businesses. As well as simplifying the calculation, the flat rate scheme may also save the business money, particularly if the business supplies services rather than goods. However, use of technology must be combined with political will and effective organization if it is to yield its potential for greater revenue.

How tax authorities discharge responsibilities entrusted to them is referred to as VAT administration. These responsibilities include taxpayer identification and registration, invoicing, filing and payment requirements and control of filings and payments, refunds, audits and penalties (Janstcher, 1990). The rise of VAT is a spectacular fiscal phenomenon. Within a rather short span, this tax had exploded from its basic form to become the state-of-the-art tax on goods and services all around the globe. Today VAT has come to be acclaimed more and more as the most efficient, broad based and revenue-productive system of indirect taxation.

In recent times VAT has been increasingly adopted by many developing countries around the world that share the same policy objectives of development and social-economic stability and are subject to the same constraints that may affect the efficiency of the tax administration. There can be no doubt about the significant advantages gained from the introduction of VAT. This is borne out by many of the

studies carried out in countries which have introduced it, showing a growth in revenue yield and stimulation of the economy. If a developing country needs to review its taxation strategy, the use of a VAT as a first step should be given serious consideration. The widespread use of this tax in highly industrialized and developing nations alike indicates that it has a basic effectiveness that cannot be ignored.

However, VAT is not a simple tax, and needs care in its introduction and administration. Thus, if a country decides to adopt VAT, then the opportunity should be taken to upgrade the government department which is being made responsible for its administration. The benefits of all the introductory work (improved procedures, forms design, computer systems, training, publicity campaigns, and so on) can then not only produce a better performance of the tax itself but can also serve as a valuable guide and example to be used to carry out improvements in the working arrangements of other taxation regimes in the country. Furthermore, an effective VAT can, in time, lead to improvements in record keeping and reporting by businesses which benefit the whole stakeholders; for instance, tax administrators and taxpayers.

VAT revenues are undermined by numerous privileges and low tax compliance due to manipulations and/or outright fraud causing inadequate tax collection and high tax refunds claims. Besides, there are both strong concerns about the vulnerability of the VAT system to corruption and complaints from businesses about delays in refunding. Notable among these challenges is the weaknesses in how VAT administrators discharge their duties. With respect to this,

Tanzi and Pellechio (1995) note that poor tax administration would change the manner in which taxation affects government's policy objectives, namely economic stabilization, resource allocation and redistribution of income.

The poor performance of taxes is likely to be due to weak tax administration mostly in developing countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion and total distrust between tax administrators and taxpayers. In these countries, the design of VAT attributes ought to consider the tax administration dimension and the socio-economic realities of the developing country in question (Bird and Gendron 2005). With respect to the significance of tax administration, Bird and Gendron (2005) note that tax administration dimension ought to be placed at the centre, not periphery, of tax reform. Bird and Gendron (2005) further assessed how VAT administrators in developing countries perform their duties and how the effective taxpayer requirements differ from the legislation. Specifically, the analysis focuses on practices of different developing countries with respect to taxpayer identification, invoicing, filing and payment process, control of filing and payments, refunds, audits and penalties.

The assignment of responsibilities to tax administrators ought to be seen as an element that must interact and be compatible with the rest of the design of a decentralized financial system. The administration of tax collection in Ghana is monitored by three bodies: The Internal Revenue Service (IRS) and value Added Tax Service (VATS) now collectively known as Domestic Tax Revenue Division (DTRD), and the Ghana Customs, Excise and Preventive Service (CEPS) now

Customs Division. In December 2009, the three tax revenue agencies: CEPS, IRS, VATS and the Revenue Agencies Governing Board (RAGB) Secretariat were merged in accordance with Ghana Revenue Authority Act 2009, Act 791.

The Ghana Revenue Authority (GRA) thus replaces the revenue agencies. The main conclusion is that VAT avoids most of the negative features of the sales tax and excise taxes. It removes cascading, allowing the tax content of any product to be known with greater degree of certainty and thus leading to better resource allocation decisions by tax administrators as the investment decisions can be taken independent of the tax policies. The self-policing and cross-checking properties of VAT as well as its collection in stages, leave less incentive for evasion. If there is no frequent change in tax policies by the tax administration, investors can therefore operate in a certain and stable tax environment. VAT simplifies tax administration and increases efficiency in resource tax environment. VAT simplifies tax administration and increases efficiency in resource allocation.

### **Empirical Review**

Konadu et al. (2011) sought to unearth the challenges of the Value Added Tax (VAT) administration and the prospects of VAT as a valuable tool for policy formulation for tax mobilization in Ghana. The study was conducted using the mixed approach to inquiry with questionnaire and interview guide as the data collection instruments. The study revealed that the VAT system in Ghana runs on three key pivots – consumers, agents and the VAT Service. It revealed that each of the stakeholders has its own problems. Thus, while consumers lack or have little education on the entire operations of VAT, agents, on the other hand have no

intention of charging VAT since they want to remain competitive. The study further revealed that the VAT Service lacks the logistics and manpower to check infractions in relation to the VAT law.

Ayebofo (2016) examined the various compliance challenges facing VAT administration in Ghana. In this study, semi-structured interviews were conducted with VAT administrators and taxable persons to ascertain their perceptions on the major challenges confronting compliance and how best to address them. The study found that VAT compliance is low partly because VAT registration and filing procedures are too complex for the small traders. The study also revealed that most businesses fail to keep proper books of accounts on which accurate VAT assessment could be done. In addition, it was found that many taxpayers fail to comply because they have negative perception about how the government uses tax revenue. The study recommended the implementation of electronic VAT registers; simplification of VAT registration and filing procedures, decentralization and regular VAT audits.

In a study which sought to find the challenges of VAT administration in the Kumasi Metropolis of Ghana, Kwarteng et al (2012) used questionnaires and interviews to gather data. The study revealed tax administrators do not have adequate logistics needed in the performance of their supervisory and monitoring roles. Other findings included the VAT staff having little knowledge in accounting and taxation, taxpayers not keeping proper accounting records, and the educational level of majority of the taxpayers being low.

In examining small business owners' knowledge of Value Added Tax obligations to the Government of Ghana, their opinions on Ghana's Value Added Tax system, and their attitudes towards the payment of Value Added Tax, based on a cross-sectional survey, Saeed (2020) employed a snowball sampling technique in selecting 328 respondents for the study. Simple percentages and frequency tables were employed for the data analysis. The study revealed that most Ghanaian small business owners do not understand their Value Added Tax obligations; There is also some tendency on the part of the owners to evade tax. It was further revealed that Ghana small business owners do not understand the basic procedure in the assessment, collection and enforcement of Value Added Taxes due to the state.

Awunyo-Vitor and Mbawuni (2015) examined the drivers of Value Added Tax compliance by traders in the Kumasi Metropolis of Ghana. Data for the study were obtained from a sample of 244 retail traders through the use of structured questionnaires. The study revealed that level of education, years of experience of the owner of the business, and knowledge of penalty for non-compliance significantly influence traders' decision to comply with Value Added Tax.

### **Chapter Summary**

This chapter began with the review of theories underpinning the study. This was then followed by a conceptual review concluded with an empirical review of what other researchers have found about the topic of this study.

## CHAPTER THREE

### RESEARCH METHODS

#### Introduction

The study seeks to investigate the challenges and prospects of VAT administration in the Krachi East Municipality of Ghana. This chapter presents the research design, the study area, population, sampling technique and sample size, sources of data, and the data analysis and processing techniques adopted.

#### Research Design

Creswell and Clark (2017) define research design as the techniques for collecting, analyzing, interpreting and presenting data in scientific studies. This research is designed to study VAT administration in Krachi East Municipality: Prospects and Challenges. The researcher makes use of descriptive survey. In a descriptive survey, a researcher is solely interested in describing the situation or the case under the research study. It is a theory-based design method which is created by gathering, analyzing, and presenting collected data (Creswell & Clark, 2017). This allows a researcher to provide insights into the why and how of research. Descriptive design helps others better understand the need for the research.

Creswell and Clark (2017) reveal that descriptive surveys are designed to portray accurately the characteristics of particular individuals, situations or groups. It is used as a needs assessment tool to provide information on which to base sound decisions and to prepare the background for more constructive programmes of educational research. The data gathered in a survey are usually responses to predetermined questions that are asked of respondents. The researcher

adopted the quantitative approach to enquiry in order to analyze the data collected objectively.

### **Study Area**

The Krachi East Municipal is one of the eight (8) districts of the Oti Region of Ghana and was previously one of the 25 districts making up the Volta Region of Ghana. The Municipality is located at the North Western part of the Oti Region and lies between latitudes  $7^{\circ} 40'N$  and  $8^{\circ} 15'N$  and longitudes  $0^{\circ} 6'E$  and  $0^{\circ}20'E$ . It has a total surface area of  $2,528\text{km}^2$  with water covering about 15%. The administrative capital of the region is Dambai.

The researcher chose the municipality for this study on the grounds of proximity and cost. What's more, although there are 260 districts and municipals in Ghana, the choice of Krachi East Municipality is representative because the municipalities and districts in Ghana have the same organizational structure as established in accordance with Ghana Revenue Authority Act 2009, Act 791.

### **Population of the Study**

The target population for this study comprised all VAT administrators, VAT registered enterprises in the Krachi East Municipality. This target population was chosen because it constitutes the units of analysis for the study. It comprised 6 VAT administrators and 122 registered persons and businesses as obtained from the Krachi VAT sub-office.

### **Sampling Procedure**

VAT administrators, VAT registered persons and registered businesses were selected as key respondents for the research. In arriving at the sample for the study, Yamane's sample size formula was used to select sample size for VAT

registered enterprises and since the population of the VAT administrators was small, all of them were selected. The Yamane sample size formula provides an easy way of calculating sample size with 95% confidence interval and a margin of error

of 5% using the equation  $n = \frac{N}{1+N(e)^2}$

Where:  $n$  = sample size  
 $N$  = Total population  
 $e$  = Margin of error of 5%

Sample size of VAT Registered Enterprises was calculated as follows:

$$n = \frac{122}{1 + 122(0.05)^2}$$

$$n = 93$$

$$\begin{aligned} \text{Thus, final sample size} &= n + \text{Total number of VAT administrators} \\ &= 93 + 6 \\ &= 99 \end{aligned}$$

The researcher adopted the simple random sampling technique in selecting the sample of VAT registered enterprises used in the study. This sampling technique was chosen in order to give the respondents an equal chance of participation in the survey. With respect to the VAT administrators, since their number was small, the census technique was used in selecting the sample size.

#### **Data Collection Instrument**

Primary data was solicited from the respondents through the administration of questionnaire and interview guide. Close-ended questionnaires were used to collect primary data from the VAT registered persons and businesses while interview guides were used to solicit data from the VAT administrators. The

questionnaire was made up of three sections (A to C). The first section dealt with the demographics of the respondents. The second section was aimed at eliciting responses concerning the level of awareness of the VAT system while the third section focused on eliciting responses having to do with VAT compliance and challenges associated with it. The interview guide was also divided in four sections (A to D). Section A dealt with background information; Section B looked at VAT collection channels; Section C dealt with problems associated with VAT collection while Section D focused on the effect of VAT on revenue mobilization.

### **Data Collection Procedures**

In order to ensure a high response rate, the data collection instruments were self-administered by the researcher. There was a discussion held with each respondent on agreeing to a convenient time to administer the data collection instruments. In all cases, the researcher supervised the data collection process to ensure that respondents had good understanding of all items on the research instruments. The data collection process lasted from September to October, 2021.

### **Data Processing and Analysis**

Data collected from respondents were edited and processed using Statistical Package for Social Sciences (SPSS) Version 26.0. With the SPSS, the researcher edited, coded and tabulated the data using frequency tables and charts as the main instruments of the widely available Microsoft Excel software.

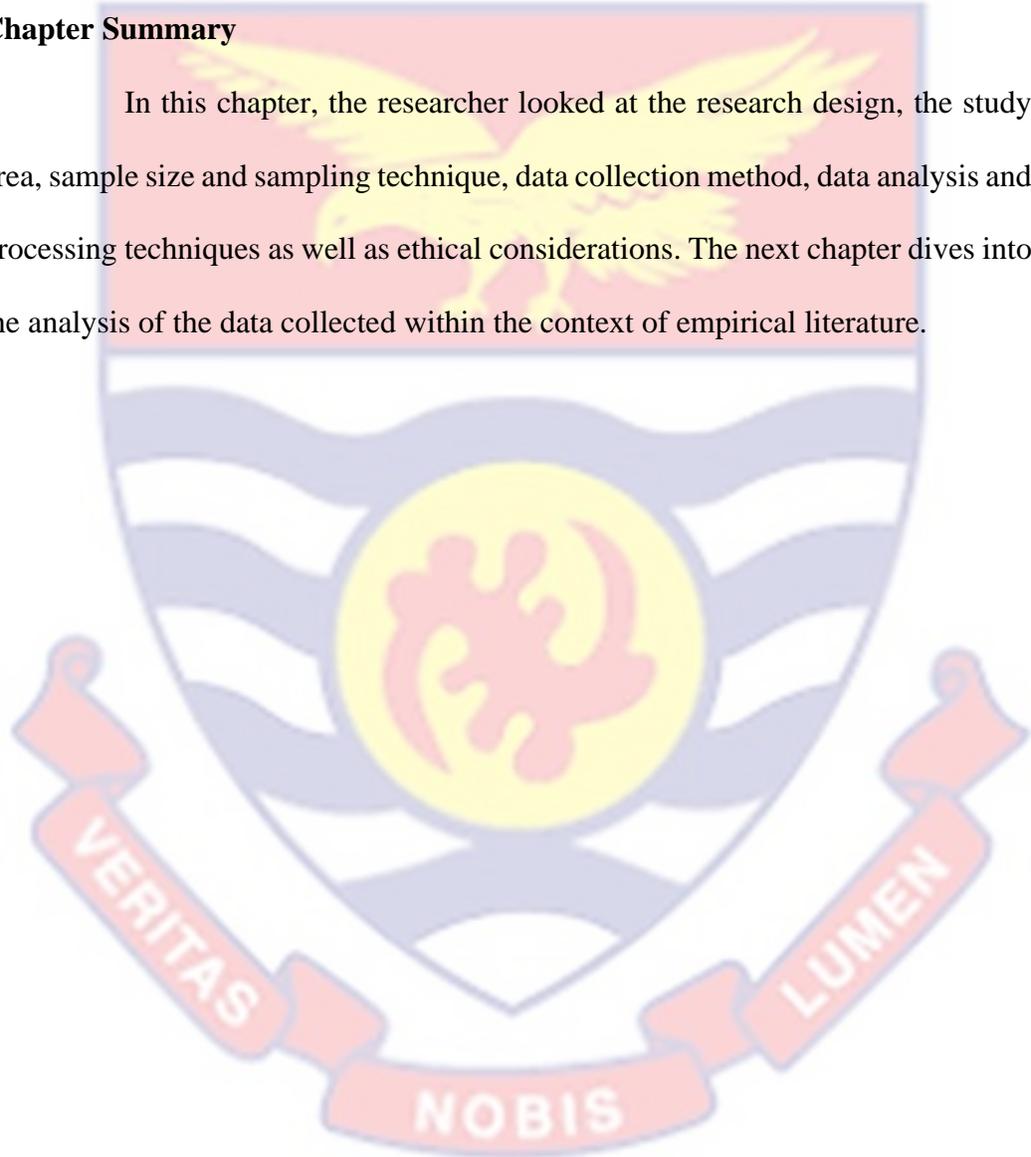
### **Ethical Consideration**

Ethical clearance was sought from the Institutional Review Board of the University of Cape Coast before the data collection process began. In collecting the

data, respondents were informed of the purpose of the study and they were assured of the anonymity of their responses. They were further informed that their responses would only be used for academic purposes and would not be shared with third parties without their consent.

### **Chapter Summary**

In this chapter, the researcher looked at the research design, the study area, sample size and sampling technique, data collection method, data analysis and processing techniques as well as ethical considerations. The next chapter dives into the analysis of the data collected within the context of empirical literature.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### Introduction

This chapter is dedicated to the presentation, interpretation, analysis of the data collected and, discussion of results in the context of empirical literature. The purpose of the study is to investigate the challenges and prospects of VAT administration in Krachi East Municipality. In this study, the descriptive research design and quantitative approach to enquiry were employed. Structured questionnaire was the data collection instrument used in this study. SPSS version 26.0 was the main statistical software used to analyze the data. The results are presented in the form of tables and charts.

The questionnaires were administered to 6 VAT administrators as well as 93 VAT-registered enterprises. All the 99 questionnaires were successfully administered, thus representing a 100 percent response rate.

#### **Results: Questionnaires Administered to VAT Registered Persons and Businesses**

##### **Background information**

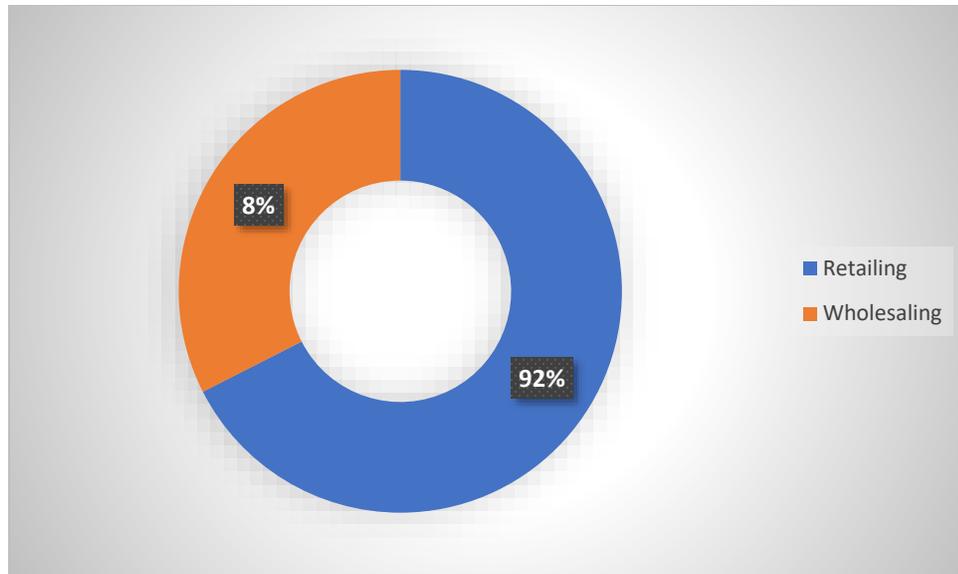
This section sought to elicit responses about the educational level of the respondent and the category of business under which the respondent operates.

**Table 1: Level of Education**

Level of education	Frequency	Percentage	Cumulative frequency
ICA/ACCA/CIMA(Professionals)	0	0.00%	0.00%
University /Polytechnic	10	10.75%	10.75%
Senior High/Technical	30	32.26%	43.01%
Junior High/Middle School	43	46.24%	89.25%
Never attended school	10	10.75%	100.00%
<b>Total</b>	<b>93</b>	<b>100.00%</b>	

Source: Field survey (2021)

From Table 1, it can be observed that none of our respondents had a professional education background. Respondents with Junior High/Middle School educational background constituted the highest percentage of 46.24%. It can also be seen from Table 1 that 10.75% of our respondents had no formal education. However, because the questionnaires were interviewer-administered, the author was able to explain everything thoroughly to their understanding before recording their responses.



*Figure 1: Category of business*

Source: Field survey (2021).

Figure 1 shows that 92% of the respondents were retailers and 8% were wholesalers. It can thus be inferred that the Krachi East Municipality is dominated by retailers than wholesalers, and by extension, more retail than wholesale enterprises are captured by the Krachi East VAT sub-office.

#### **Level of awareness of the VAT system**

This section sought to elicit responses concerning ease of interaction with the GRA, source of information about VAT, and categories of VAT supplies.

**Table 2: Ease of Interaction with the VAT Service**

Freq. of interaction	Frequency	Percentage	Cumulative frequency
Strongly Disagree	48	51.61%	51.61%
Disagree	34	36.56%	88.17%
Neutral	5	5.38%	93.55%
Agree	5	5.38%	98.93%
Strongly Agree	1	1.08%	100.00%
Total	93		

Source: Field survey (2021)

As evident in Table 2, the largest proportion of the respondents constituting 51.61% expressed strong disagreement to having easy interaction with the GRA. 36.56% expressed disagreement, while 1.08% expressed strong agreement to having easy interaction with the GRA.

The results reveal that a cumulative percentage of 88.17% of the respondents disagree to having easy interaction with the GRA. Thus, it is no surprise that 24.73% of the respondents did not know the category of their supplies as shown in Figure 1. These results agree with the findings of Konadu et al. (2011) which was a study to explore the challenges of VAT administration and the prospects of VAT as a valuable tool for policy formulation. The study revealed that most taxpayers lack or have little education on the entire operations of VAT. Thus, in terms of the first objective this study sought to achieve – to determine the extent of awareness of VAT among business within the Krachi East Municipality – it can

be said that there is a relatively low level of awareness on VAT operations among business owners in the Krachi East Municipality.

**Table 3: Source of Information about VAT**

Source	Frequency	Percentage
Attending VAT seminars	13	13.98%
Reading VAT booklets	5	5.38%
Through business associates	32	34.41%
Through the internet	6	6.45%
Through the traditional media	37	39.78%
Total	93	

Source: Field survey (2021)

As shown in Table 3 above, when respondents were asked where they got their VAT-related information, 39.78% said they get such information from the traditional media (i.e., including radio and television), 34.41% get it through business associates, 6% get it through the internet, and 5% get their information from VAT booklets. The results indicate that taxpayers rely so much on the traditional media and business associates in getting VAT-related information as against the internet.

**Table 4: Categories of Supply**

Category	Frequency	Percentage	Cumulative frequency
Standard-rated	35	37.63%	37.63%
Exempt	14	15.05%	52.68%
Zero-rated	6	6.45%	59.13%
Mixed supplies	15	16.13%	75.26%
Do not know	23	24.73%	100.00%
Total	93		

Source: Field survey (2021)

From Table 4, it can be observed that 37.63% of the respondents deal in standard-rated supplies, 15.05% deal in exempt supplies, 6.45% in zero-rated supplies, 16.13% in mixed supplies, and 24.73% did not know the category of their supplies.

#### **Compliance with and challenges with the VAT system**

This section sought to elicit responses regarding the time spent in filing VAT returns, the amount paid as monthly returns, and whether the respondents keep books of account.

**Table 5: Average Time Spent in Filing Monthly Returns to the VAT Service**

Average time spent	Frequency	Percentage	Cumulative percentage
Less than 20 minutes	12	12.90%	12.90%
Between 20 - 40 minutes	42	45.16%	58.06%
Between 40 - 60 minutes	25	26.88%	84.94%
60 minutes and above	14	15.05%	100.00%
Total	93		

Source: Field survey (2021)

From Table 5, it can be observed that 12.90% of the respondents take less than 20 minutes in filing monthly returns to GRA. Also, 45.16% of the respondents spend between 20 and 40 minutes of their time in filing monthly returns while 15.05% spend more than 60 minutes of their time in that regard.

The results reveal that majority of the respondents (84.94%) spend less than 60 minutes in filing monthly VAT returns. Thus, since the process of filing monthly returns is not too time-consuming, it is expected that VAT compliance will be boosted when adequate enforcement mechanisms are put in place.

**Table 6: Keeping of Accounting Books**

	Frequency	Percentage	Cumulative frequency
Yes	71	76.34%	76.34%
No	22	23.66%	100.00%
Total	93		

Source: Field survey (2021)

From Table 6, 76.34% of the respondents indicated that they keep accounting books whereas 23.66% said they do not keep any proper books of account. In line with the second objective of this study – to evaluate the problems of VAT collection in Krachi East Municipality – the results reveal that 23.66% of the respondents do not keep proper books of accounts. The results from the interview with the VAT administrators also reveal low literacy levels among some of the VAT agents operating within the municipality which make the process of VAT administration quite herculean.

Also, the results reveal that the fact that some of the VAT agents do not have permanent places of business, coupled with their degree of illiteracy, causes problems. In the computation of the taxes due, there are often multiple errors and omissions. Others would just refuse to follow the rules when it came to taxes. This agrees with Ayebofo (2016) which examined the various challenges facing VAT administration in Ghana. The study revealed that most businesses fail to keep proper books of accounts on which accurate VAT assessment could be done. It also revealed that, due to the low literacy levels among the traders, VAT compliance is low partly because VAT registration and filing procedures are too complex for them. The results also agree with Kwarteng et al (2012) which revealed taxpayers as not keeping proper accounting records and the educational level of majority of the taxpayers being low.

The fourth objective of this study was to identify the prospects of the VAT system within the Krachi East Municipality. The study reveals that majority of the

respondents (i.e. 76.34% as shown in Table 4) keep accounting records. Thus, with adequate admonition and enforcement mechanisms, it is expected that the number of business owners who keep accounting records in the municipality will improve with time. This will facilitate accurate VAT assessment and collection.

### **Results: Questionnaires Administered to VAT Administrators**

Six administrators of the GRA were interviewed using an Interview Guide. The following findings were made upon interrogation. According to the VAT administrators, taxpayers can file their monthly VAT returns by visiting the VAT office or through electronic means., the only medium through which retailers can file returns is to visit their premises. According to them, the electronic method was introduced to provide an alternative to the physical means of paying VAT which is a sometimes a disincentive to VAT payment since taxpayers have to sacrifice business hours to file their returns at the tax office.

### **Challenges of administering the scheme**

Interviews with 6 VAT administrators in the Krachi East Municipality brought to light the following challenges:

#### ***Poor record keeping***

Traders, according to regulators, do not keep proper records that may make determining the correct amount to file and pay as taxes easier. As a result, traders have been filing false returns. The issue about the failure to keep proper books of accounts was revealed by Estifanos and Temesgen (2019) as major challenge in VAT administration.

#### ***Inadequate logistics***

Having the right thing, at the right place, at the right time is what logistics is all about. The Ghanaian people have long complained that most government institutions lack the necessary logistics to carry out their responsibilities. This research demonstrated that the GRA is no exception. Despite the existence of a computerized database of all registered businesses, implementing ICT into revenue collection remains a hurdle.

The reason for this is that computers and intranet networks inside the service are unavailable. The only alternative is to manually organize revenue collection in the absence of this. As a result of this shortcoming, service people were questioned about how taxes due to the service are tracked. As expected, software packages are available, although only for a small portion of the services.

When officials from the GRA were questioned, it was discovered that they lacked the necessary logistics, such as employees, vehicles, and stationery, to carry out their duties. As a result, the service's attempts to ensure the scheme's smooth execution are hampered. The transportation of VAT officials in the collection of revenue during a normal working day is an issue because only one or two cars are used for virtually all of the service's operations, therefore some VAT officials are expected to work on their own. With such a big number of agents, it is impossible to say how many will be visited in the time allotted.

The third objective of this study was to assess whether VAT officers within the Krachi East Municipality have adequate equipment to carry out their operations. When officials from the VAT Service were questioned, it was discovered that they lacked the necessary logistics, such as employees, vehicles, and stationery, to carry

out their duties. As a result, the service's attempts to ensure the scheme's smooth execution are hampered. The transportation of VAT officials in the collection of revenue during a normal working day is an issue because only one or two cars are used for virtually all of the service's operations, therefore some VAT officials are expected to work on their own. This is in agreement with the results of Kwarteng et al. (2012) which sought to find the challenges of VAT administration in the Kumasi Metropolis of Ghana. The study revealed that tax administrators do not have adequate logistics needed in the performance of their supervisory and monitoring roles.

### ***Returns***

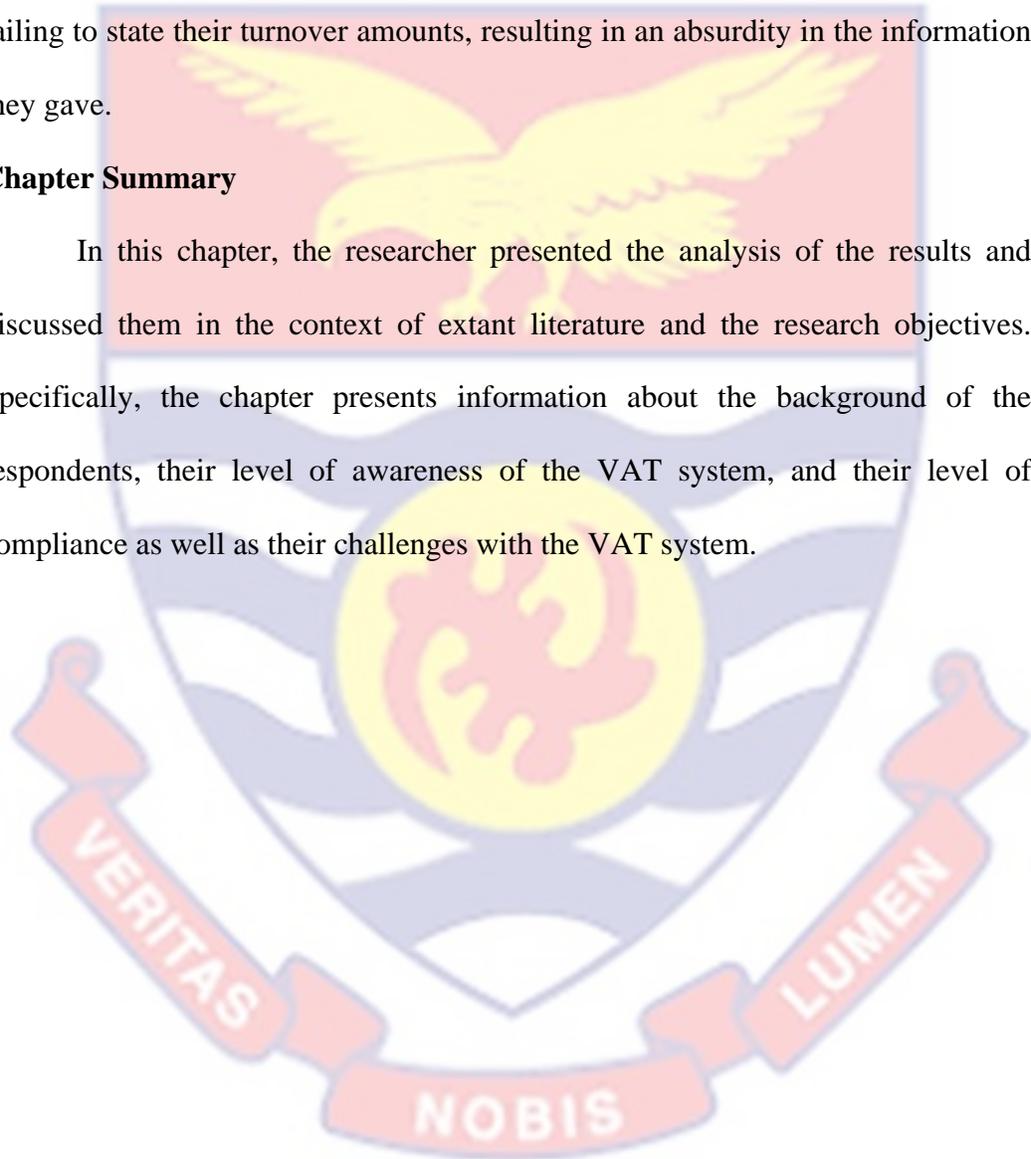
Although the GRA has its own set of difficulties, it is made worse by the agents with whom they should be collaborating. The fact that some of their agents do not have permanent places of business, along with their degree of illiteracy, causes problems. In the computation of the taxes due, there are often multiple errors and omissions. Others would just refuse to follow the rules when it comes to taxes. These results are in consonance with the study of Saeed (2020) which revealed that lack of understanding of the basic procedure employed in assessment, collection and enforcement of VAT have a part to play as far as the attitude of taxpayers in paying VAT is concerned. Distress actions, penalties, and court orders have all been utilized by the GRA to punish some agents who have broken tax rules. The GRA faces significant hurdles as a result of the agents' records.

When questioned about the challenges they face when auditing clients' records, the majority of respondents said that some organizations do not keep records at all

and other traders are unwilling to cooperate. Other VAT authorities related incidents in which some records were altered and some declarations were completely incorrect. This was reflected in the data acquired from businesses, with the majority claiming to have kept the required books under VAT regulations but failing to state their turnover amounts, resulting in an absurdity in the information they gave.

### **Chapter Summary**

In this chapter, the researcher presented the analysis of the results and discussed them in the context of extant literature and the research objectives. Specifically, the chapter presents information about the background of the respondents, their level of awareness of the VAT system, and their level of compliance as well as their challenges with the VAT system.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### Introduction

This is the concluding chapter of the work. The chapter presents the summary of the entire research process, followed by summary of the findings as well as conclusions drawn from the study. The chapter then presents the recommendations based on the findings and ends with suggestions for future studies.

#### Summary of the Research

The general purpose of this study was to investigate the challenges of VAT administration in the Krachi East Municipality. Specifically, the study sought to achieve the following objectives:

1. To determine the extent of awareness of VAT within the municipality among the business owners.
2. To evaluate the problems of VAT collections in Krachi East Municipality
3. Assess whether GRA officers within Krachi East have adequate equipment to carry out their operation.
4. To determine the prospect of the VAT system within the municipality.

In this study, the researcher made use of descriptive design and quantitative approach to inquiry. The study was conducted in the Krach East Municipality which is one of the eight districts in the Oti Region of Ghana. The population of the study comprised 6 VAT administrators and 122 registered persons and businesses. Using

Yamane (1967) sample size formula, the final sample size in respect of registered persons was determined to be 93. The study included all the 6 VAT administrators and so the total sample employed in this study was 99. The study made use of primary data which was collected using questionnaires and interview guides administered to the VAT registered persons and VAT administrators respectively. Statistical Package for Social Sciences (SPSS) Version 26.0 was used for the data analysis.

### **Summary of Findings**

Following the rigorous analysis of the data collected using the Statistical Package for Social Sciences (SPSS) Version 26.0, the study made some revelations about the challenges and prospects of VAT administration in the Krachi East Municipality. A summary of the findings in line with the objectives of the study are presented as follows:

1. Pertaining to the first objective, the study revealed that there is poor record-keeping among some VAT registered persons and businesses in the Krachi East Municipality.
2. With regard to the second objective, the study found that there is infrequent interaction between taxpayers and the administrators of VAT in the municipality, thus limiting the level of awareness and education of taxpayers on how the VAT system actually operates.
3. Regarding the third objective, the study found that there are inadequate logistics for VAT administrators in the Krachi East Municipality to carry out their operations.

4. In relation to the final objective, the study revealed that with adequate admonition and enforcement mechanisms, the number of business owners who keep accounting records in the municipality will improve with time, thereby facilitating accurate VAT assessment and collection.

### **Conclusions**

In investigating the challenges and prospects of VAT administration in the Krachi East Municipality, the study came out with the following key findings:

1. The study revealed that there is poor record-keeping among some VAT registered persons and businesses in the Krachi East Municipality.
2. The study also showed that there is infrequent interaction between taxpayers and the administrators of VAT in the municipality.
3. The study finally found that there are inadequate logistics for VAT administrators in the Krachi East Municipality to carry out their operations.

These findings agree with most of the empirical literature reviewed in the study. If these findings are taken into consideration, it will go a long way to help boost VAT compliance in the Krachi East Municipality.

### **Recommendations**

Against the backdrop of the key findings above, the following recommendations are made:

#### ***Education***

It is recommended that the GRA intensify education on VAT to the general public in terms of how important VAT is to the economy, how much VAT is

charged on every item purchased and sold, who is responsible for charging VAT, among others.

### ***Training of Staff and Provision of Adequate Logistics***

It is recommended that from time to time, training programmes be held for the staff in order that they will be well equipped to administer their duties satisfactorily. This will ensure that the risk of losing VAT revenue will be minimized. Also, adequate logistics should be provided for the VAT administrators to facilitate and optimize their operations within the municipality.

### ***Effective Monitoring and Control***

The internal control systems put in place in the VAT sub-office in the municipality should be strengthened through proper supervision in order to ensure that staff and VAT agents perform their duties in an efficient and effective manner.

### **Suggestions for Further Research**

This study sought to investigate the challenges and prospects of VAT administration in the Krachi East Municipality. One key area of VAT that has been underexplored is the impact of the VAT Flat Rate Scheme on compliance and tax revenue generation in Ghana, hence it is recommended that research on the subject be directed in this direction.

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APPENDIX A

UNIVERSITY OF CAPE COAST

COLLEGE OF HUMANITIES AND LEGAL STUDIES

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING

QUESTIONNAIRE FOR REGISTERED ENTERPRISES

The purpose of this questionnaire is to solicit data on the prospects and challenges of VAT administration in the Krachi East Municipality. This is an academic exercise and the confidentiality of any information provided by respondents would be strictly observed. I would therefore be most grateful if you could answer the following questions. Please tick (✓), list or state where applicable.

**SECTION A: BACKGROUND INFORMATION**

1. Age: 18-25 [ ] 26-35 [ ] 36-45 [ ] 46 and above [ ]
2. Gender: Male [ ] Female [ ]
3. Level of education.
  - a. ICA/ACCA/CIMA (Professionals) [ ]
  - b. University /Polytechnic [ ]
  - c. Senior High/Technical [ ]
  - d. Junior High/Middle School [ ]
  - e. Never attended school [ ]
4. Which category does your business fall under?
  - a. Retailing [ ]
  - b. Wholesaling [ ]

**SECTION B: LEVEL OF AWARENESS OF THE VAT SYSTEM**

**Please indicate your level of agreement with the following statements**

5. I have easy	Strongly	Disagree	Neutral	Agree	Strongly
interaction with the	Disagree				Agree
VAT Service					

6. I get information	Strongly	Disagree	Neutral	Agree	Strongly
required to	Disagree				Agree
enable me pay					
my returns on time					

7. VAT officials	Strongly	Disagree	Neutral	Agree	Strongly
organise tax	Disagree				Agree
education to					
sensitize me					

8. Which of the following categories of supply can you classify your goods/ services?
- a. Standard-rated [ ]
  - b. Exempt [ ]
  - c. Zero-rated [ ]
  - d. Mixed supplies [ ]
  - e. Do not know [ ]

9. How did you know about the VAT system?

(Please tick all that apply)

- a. Attending VAT seminars [ ]
  - b. Reading VAT booklets [ ]
  - c. Through business associates [ ]
  - d. Internet [ ]
  - e. Through the media (i.e. TV, newspapers, radio) [ ]
- Others, Please specify.....

**SECTION C: COMPLIANCE WITH AND CHALLENGES WITH THE VAT SYSTEM**

10. Please indicate the regularity of your tax payment on the scale below

Very Regular	Regular	Neutral	Not Regular

11. What are your monthly returns to the VAT Service?

Below GH¢ 100	Between GH¢100 and GH¢500	Between GH¢501 and GH¢1000	Between GH¢1001 and GH¢1500	Above GH¢1500

12. What was the average time spent when filing monthly returns?

Less than 20 minutes	Between 20 and 40 minutes	Between 40 and 60 minutes	Above 60 minutes

13. Do you keep accounting books?

- a. Yes [ ]
- b. No [ ]

If YES, which of the following books do you keep?

- a. Purchases Day Book (Input VAT) [ ]
- b. Sales Day Book (Output VAT) [ ]
- c. Both [ ]

14. How does VAT affect the prices of the goods/ services you offer?

- a. Increase in prices [ ]
- b. Decrease in prices [ ]

15. How does VAT affect your business?

- a. Increase my profit [ ]
- b. Decrease my profit [ ]
- c. Does not affect my profit [ ]

16. Do you issue invoice/ receipts when you sell goods or render services?

- a. Yes [ ]
- b. No [ ]

17. Do you know how to file the VAT returns?

a. Yes [ ]

b. No [ ]

18. Have you ever defaulted in the submission of your VAT returns?

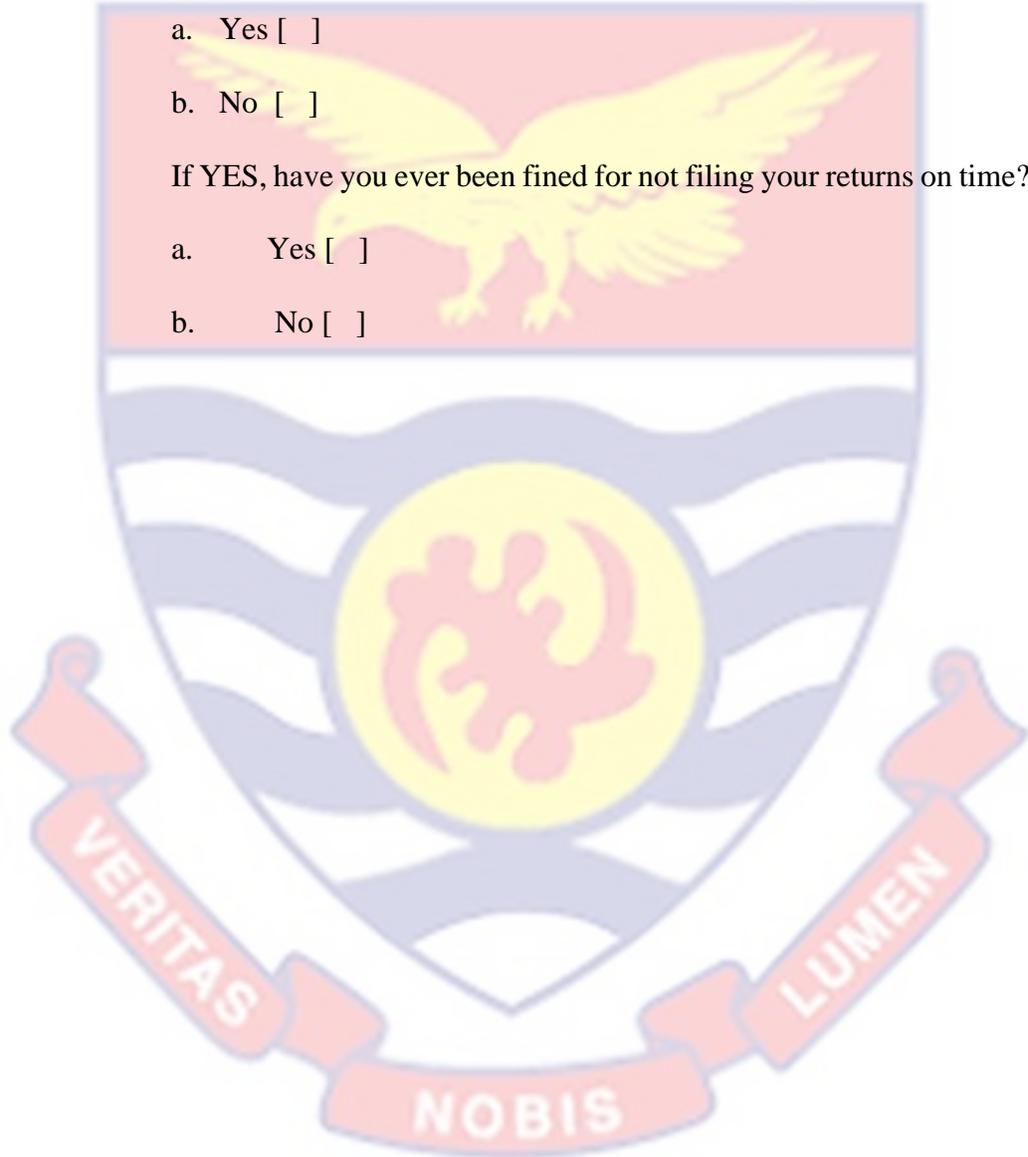
a. Yes [ ]

b. No [ ]

If YES, have you ever been fined for not filing your returns on time?

a. Yes [ ]

b. No [ ]



**APPENDIX B**

**UNIVERSITY OF CAPE COAST**

**COLLEGE OF HUMANITIES AND LEGAL STUDIES**

**SCHOOL OF BUSINESS**

**DEPARTMENT OF ACCOUNTING**

**QUESTIONNAIRE FOR VAT ADMINISTRATORS**

The purpose of this questionnaire is to solicit data on the prospects and challenges of VAT administration in the Krachi East Municipality. This is an academic exercise and the confidentiality of any information provided by respondents would be strictly observed. I would therefore be most grateful if you could answer the following questions. Please tick (✓), list or state where applicable.

**Section A: Background Information**

1. Age: 18-25 [ ] 26-35 [ ] 36 -45[ ] 46 and above [ ]
2. Gender: Male [ ] Female [ ]
3. Educational level:
  - a. ICA/ACCA/CIMA (Professionals) [ ]
  - b. University /Polytechnic [ ]
  - c. Senior High/Technical [ ]
  - d. Junior High/Middle School [ ]
  - e. Never attended school [ ]

4. How long have you been a tax official?

a. 1-5 years [ ]

b. 6-10years [ ]

c. 15years and above [ ]

**Section B: VAT Collection Channels in Ghana**

5. Tax officials have a unified administrative system, technical capability and logistics to deal with volume and complexity when collecting VAT?

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

6. What channels are used in collecting VAT from enterprises in the Krachi East Municipality?.....

.....

**Section C: Problems in the Collection of VAT in Ghana**

7. In your view, do you think the tax administration has well-designed mechanisms for VAT collection that have been properly implemented by the tax officials?

a. Yes [ ]

b. No [ ]

c. Indifferent [ ]

8. If no, what are the hitches as far as the mechanisms for VAT collection is concerned?.....

.....

9. How are these hitches managed by the tax authorities?.....

**Section D: the Effects of VAT on Revenue Mobilization**

10. How would you rate effectiveness of strategies deployed to monitor tax compliance and evasion? a. High [ ]

b. Low [ ]

c. Average [ ]

d. Indifferent [ ]

12. Are there benefits of VAT collection in nation building?

a. Yes [ ]

b. No [ ]

c. Indifferent [ ]

**Section E: The Benefits of VAT Collection in Nation Building**

13. Do you agree that, there are benefits of VAT collecting in nation building?

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

14. In your opinion, what do you think should be done to enhance the mechanisms for VAT collection in Ghana?

.....

.....

.....



Thank You