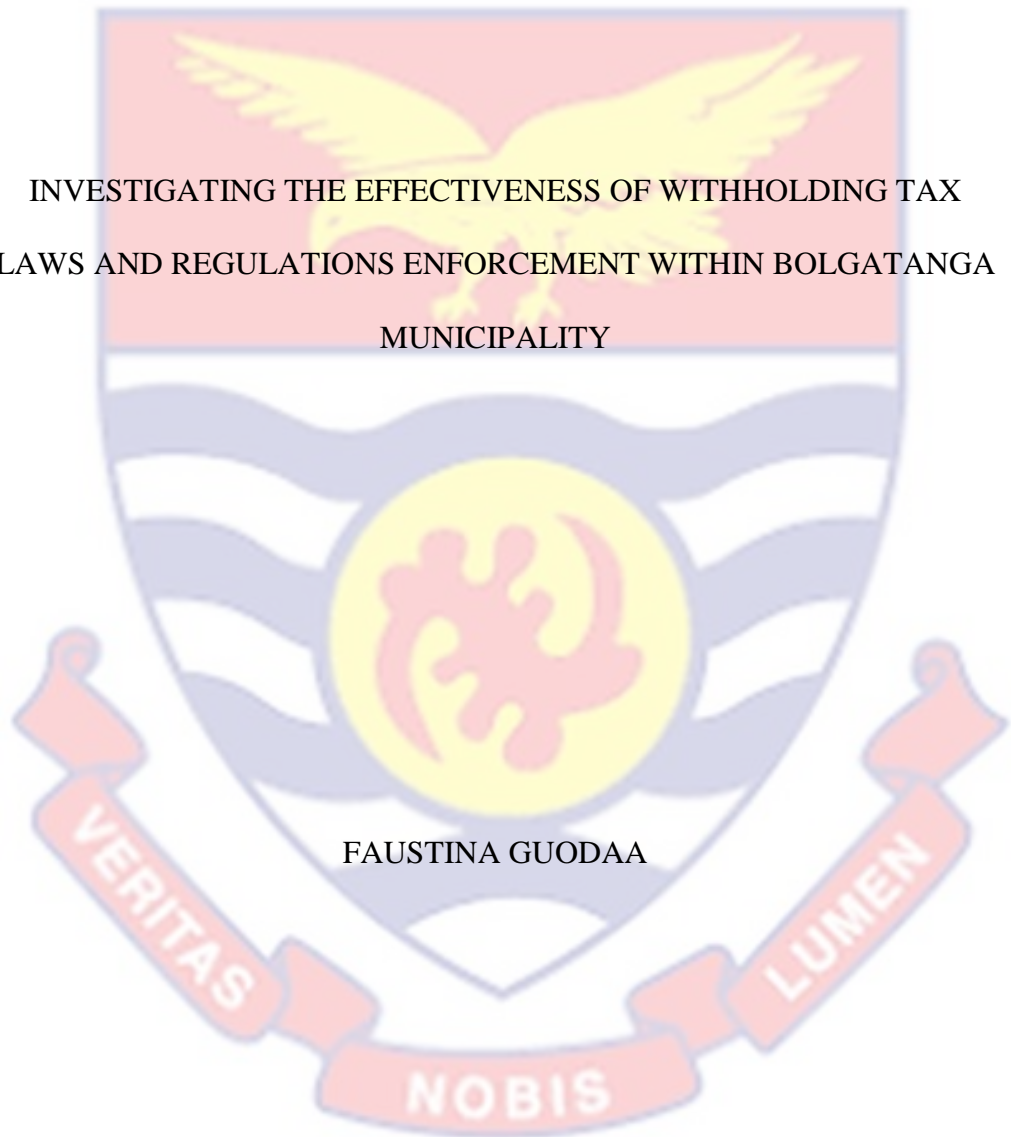


UNIVERSITY OF CAPE COAST

INVESTIGATING THE EFFECTIVENESS OF WITHHOLDING TAX  
LAWS AND REGULATIONS ENFORCEMENT WITHIN BOLGATANGA  
MUNICIPALITY



FAUSTINA GUODAA

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UNIVERSITY OF CAPE COAST

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MUNICIPALITY

BY  
FAUSTINA GUODAA

Dissertation submitted to Department of Accounting, School of Business,  
College of Humanities and Legal Studies, University of Cape Coast In  
partial fulfilment of the requirement for the award of Master of Business  
Administration degree in Accounting

NOVEMBER 2021

## DECLARATION

### Candidates Declaration

I hereby declare that this dissertation is the result of my own original research and that it has not been presented for another degree in this University or elsewhere.

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

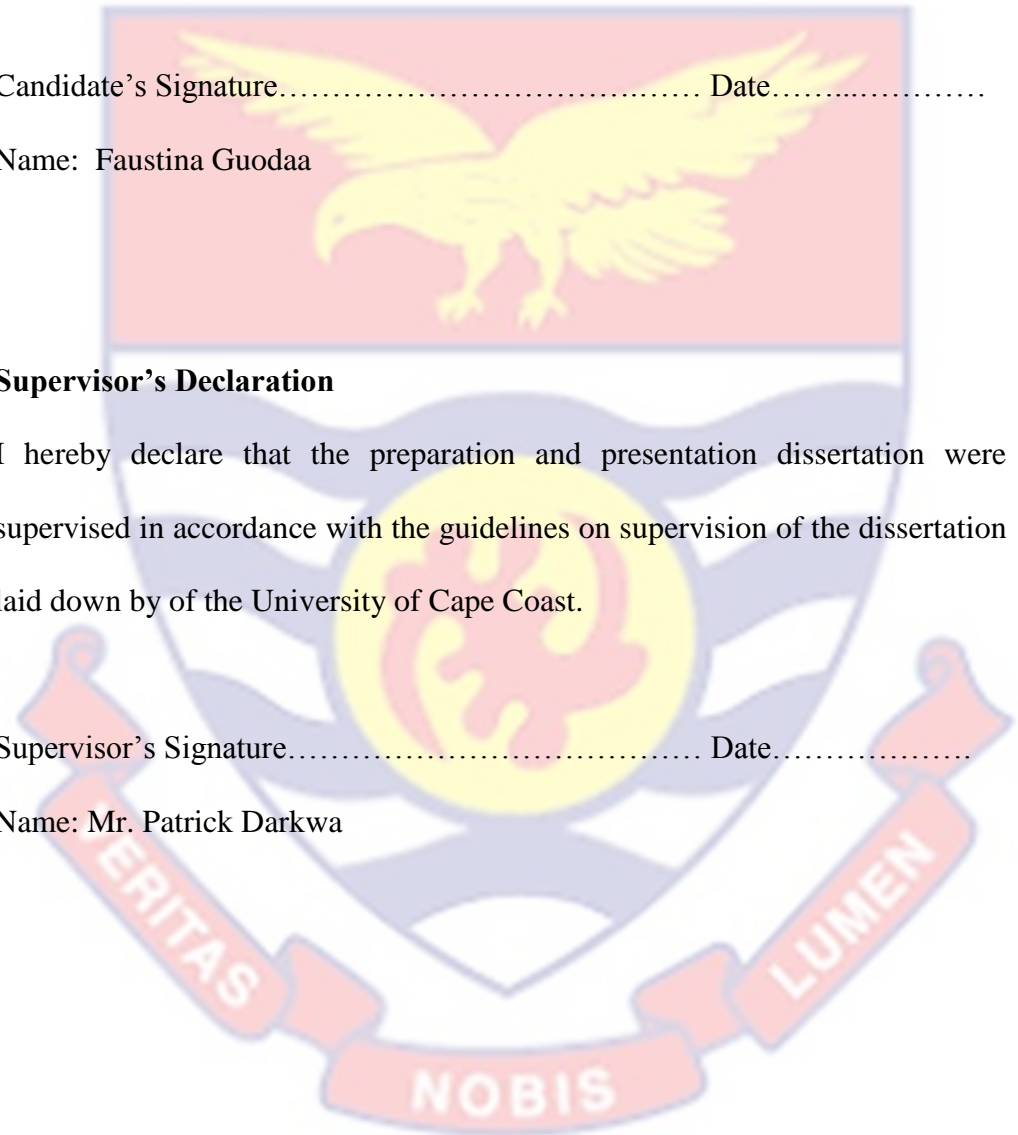
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### Supervisor's Declaration

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

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

Name: Mr. Patrick Darkwa



## ABSTRACT

The study investigated the effectiveness of withholding tax laws and regulations enforcement within Bolgatanga Municipality. Methods were applied that included both quantitative as well as qualitative methods. There were 185 Small and Medium Scale Enterprises (SMEs) in Bolgatanga Municipal selected to participate in the research using a simple random sample approach. Another method was used to choose seven withholding tax agents and two GRA officials. The major data source was a questionnaire. Statistical software called as Statistical Product for Service Solution was used to analyse the survey data, which included percentages, frequencies and mean and standard deviations. Rather of relying on interview instructions, theme analysis was employed to analyse the qualitative data acquired. According to the research, respondents saw withholding tax as a hardship or a high tax that would deter them from starting or expanding their firms. In addition, there was a lack of public knowledge about withholding taxes and a bad relationship between tax officials and recipients. Bolgatanga's small and medium-sized enterprises (SMEs) are unfamiliar with withholding tax. Accurate withholding tax collection may be hindered by a lack of education on withholding tax, the GRA office being distant from the taxpaying public, the high illiteracy rate among merchants and the difficulties in identifying taxpaying public. Training workshops or seminars or conferences for the taxpaying public on withholding tax are advised by GRA authorities in order to educate and teach taxpaying public on how to calculate it, submit it, the difference between withholding tax and VAT among other issues.

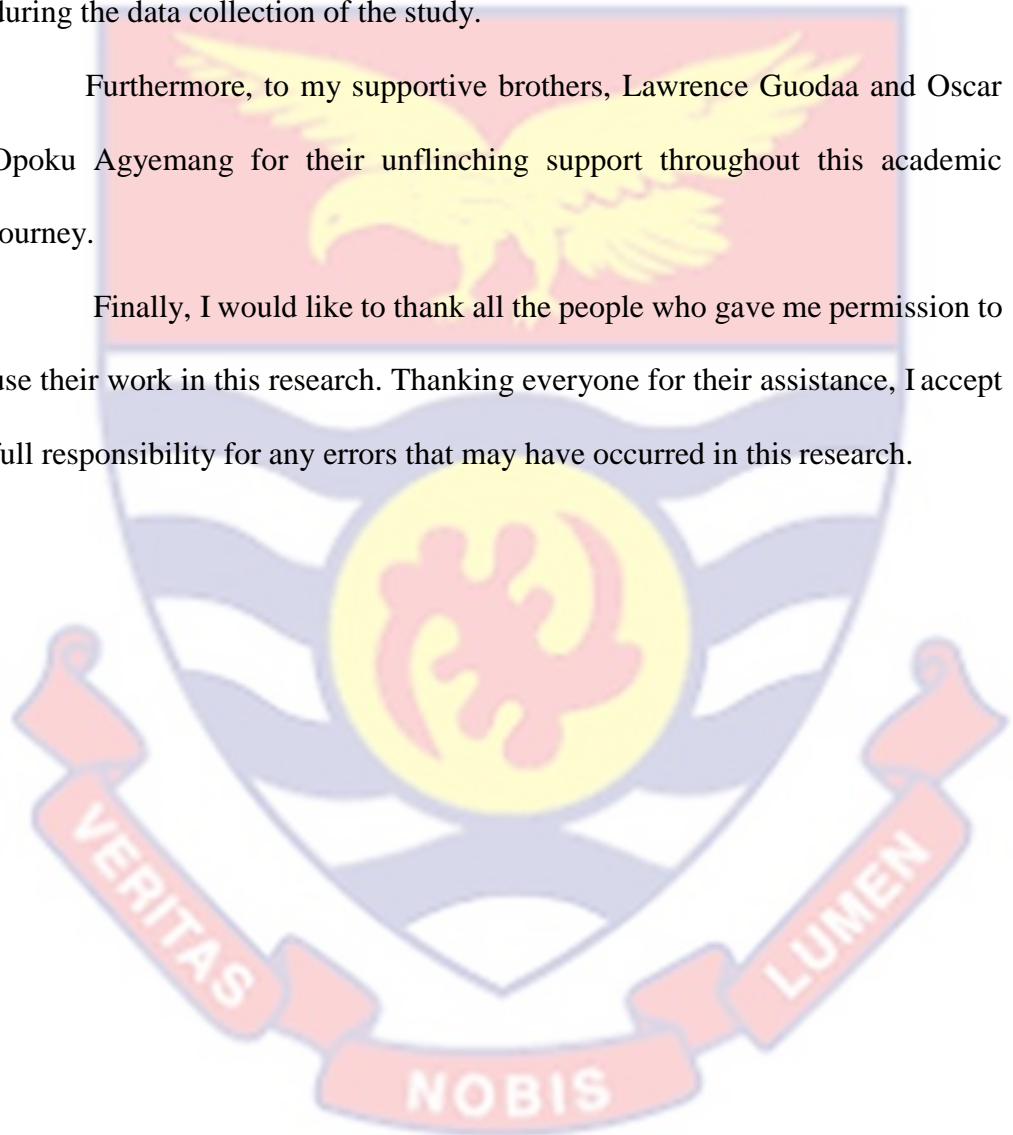
## ACKNOWLEDGEMENT

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Finally, I would like to thank all the people who gave me permission to use their work in this research. Thanking everyone for their assistance, I accept full responsibility for any errors that may have occurred in this research.



## DEDICATION

To Rev. and Mrs. Eastwood Anaba, my supportive husband, Mr. Mbah Awuni

Israel and my lovely children Ivan, Ivanna, Israella and Justina.



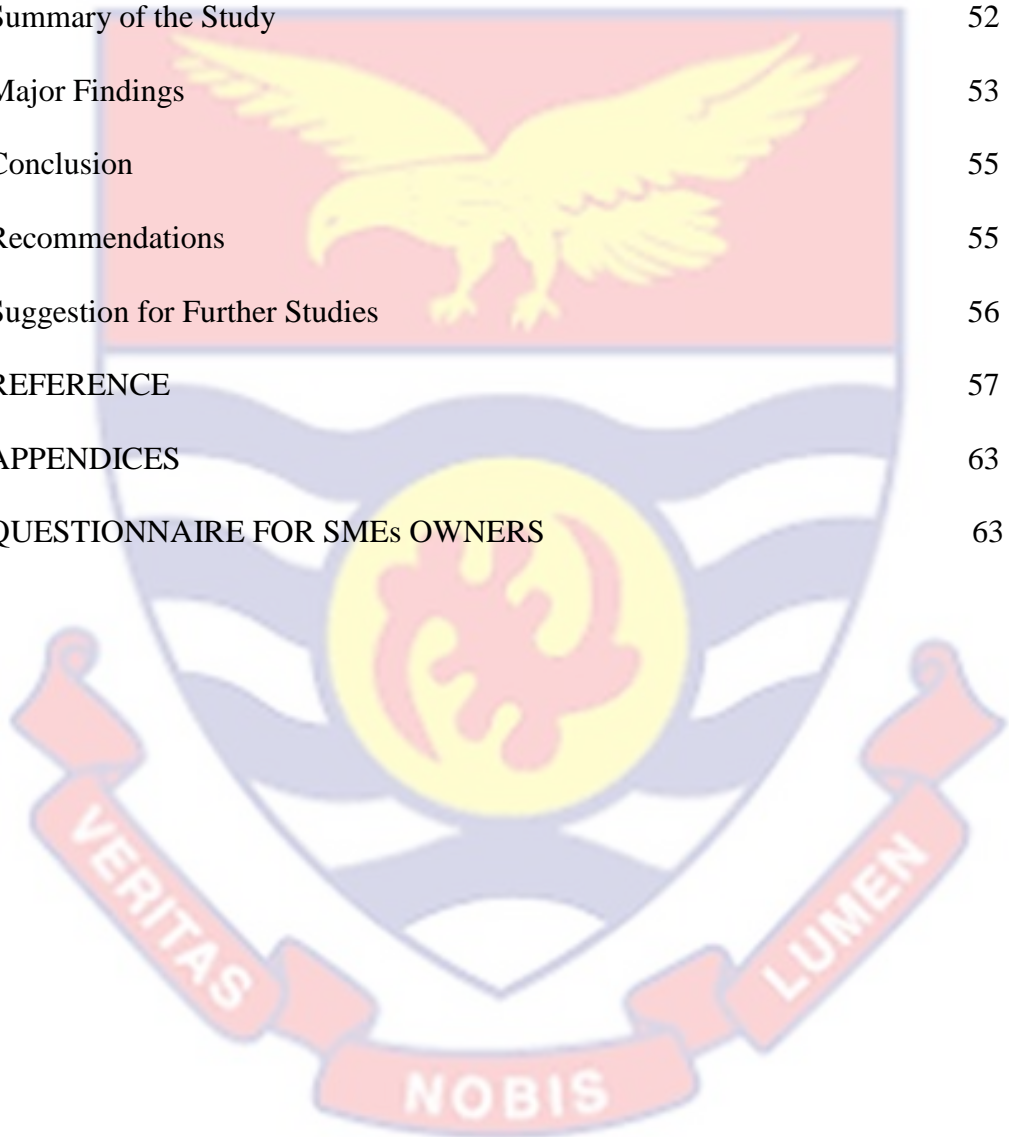
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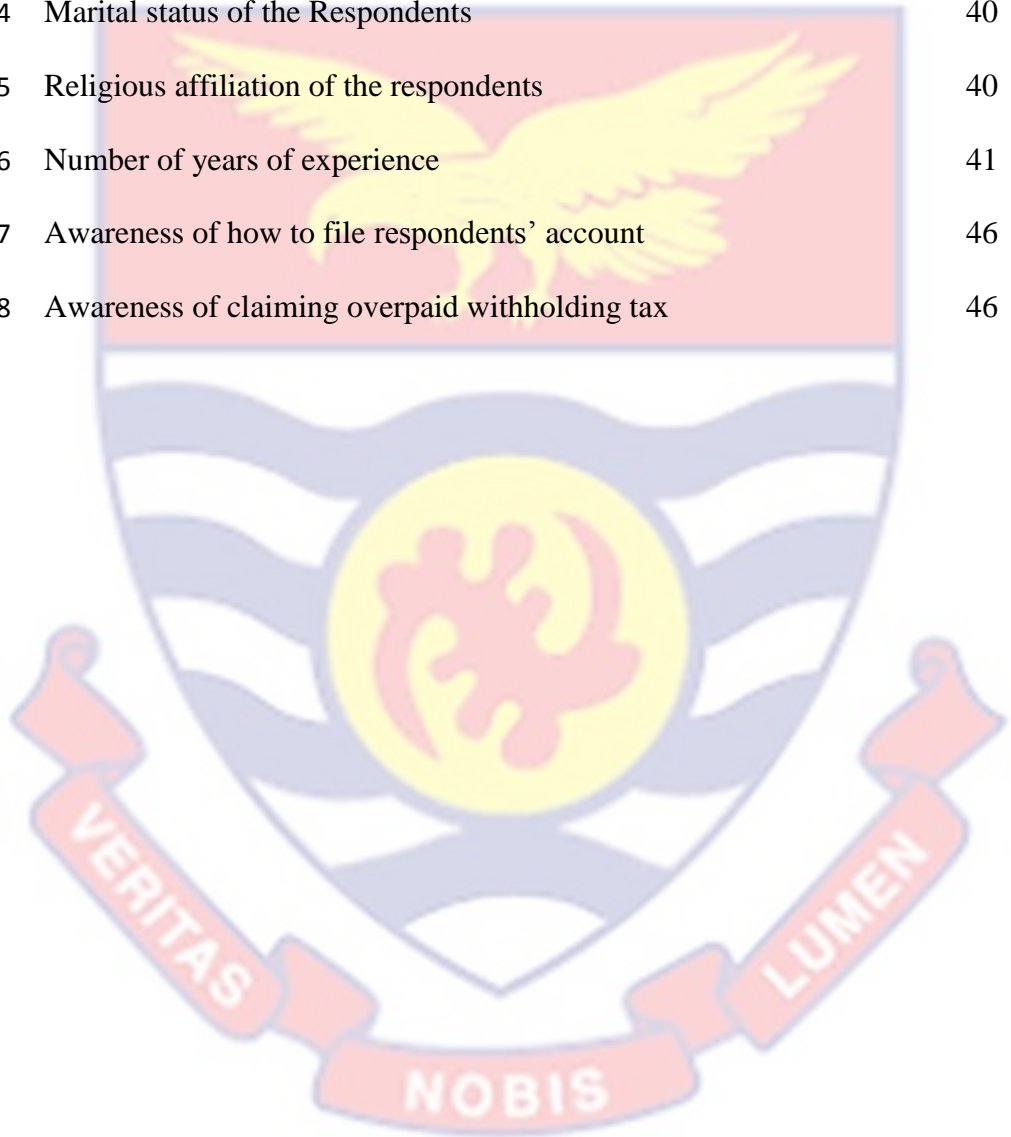
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## ABBREVIATION

CEPS	Customs, Excise and Preventive Service
DTRD	Domestic Tax Revenue Division
GRA	Ghana Revenue Authority
IRA	Internal Revenue Act
IRS	Internal Revenue Service
NBSSI	National Board for Small Scale Industries
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay as You Earn
PwC	PricewaterhouseCoopers
SMEs	Small and Medium scale Enterprises
SSNIT	Social Security and National Insurance Trust
VAT	Value Added Tax
WHT	Withholding tax



## CHAPTER ONE

### INTRODUCTION

#### Background to the Study

Taxes remain one of the integral avenues through which many countries in the developed and developing world rely on for socio-economic growth and development. In reality, taxes are widely recognized as one of the most important sources of income for governments all over the world, including Ghana, and are collected at a high rate. Government's revenue is suggested as largely having a direct influence on socio-economic development of every economy (Banful, 2009). Many developmental projects are financed through various tax systems revenue (Atawodi & Ojeka, 2012). Thus, revenue generated from taxation provides a considerable source of funding for government expenditure. Everywhere around the world, payment of tax is largely compulsory for citizens. Even though people are aware of the relevance of taxes in improving their living standards many of them fail to honour their tax responsibilities as citizens (Ahmed, Seyoum, Kedir & Kedir, 2015).

According to Bird and Zolt (2005), tax evasion has been one of the most difficult difficulties in tax administration, notably in the developing world, as well as in the industrialized world, particularly among self-employed individuals (Alm et al., 2004). In view of these challenges, many countries across the globe have been using withholding tax as an important tool to enforce tax compliance to be able to mitigate tax evasion, especially among many small and medium scale enterprises (SMEs) within the informal sector. Thus, withholding tax mechanisms provides an opportunity for government to improve revenue mobilization and broadening the tax net.

Withholding tax (WHT) is one of the taxes under Ghana Revenue Authority (GRA). It is a sum that is stated in the act and which must be deducted as tax by a specific person (Authority Person) at the moment the payment is made. For example, when banks pay interest to customers, the bank must deduct WHT from the interest payment if the bank is responsible under the Ghana Revenue Authority Act 2009. (Act 791). It is suggested that revenues generated from withholding taxes remains one of the cardinal sources of 'direct tax' receipts due to factors such as the flexibility and easier way of collecting the taxes through the Withholding Tax agents (Khan, 2012). Though the withholding tax system seems easier for revenue bodies to collect direct tax revenue, the withholding tax process is suggested to be likely confronted with operational challenges (Atawodi & Ojeka, 2012).

Companies that operate under the company's code in Ghana are empowered by the Internal Revenue Act, 2000 (Act 592) to withhold prescribed taxes on behalf of the Commissioner General, and pay over to him/her taxes withheld or that which should have been withheld within the stipulated 15 working days by law. Also, section 163(3) of the Financial Administration Act, 2003 (Act 654), directs heads of government departments to ensure that taxes due on works done, goods supplied and services rendered are deducted and paid to the GRA. For instance, the Commissioner-General of GRA has mandated some individuals as VAT withholding agents to withhold seven percent of VAT on behalf of payees (PricewaterhouseCoopers [PwC], 2019).

Notwithstanding the strict laws enshrined in the Internal Revenue Act, 2003 (Act 654), and other regulatory instruments, the withholding tax agents and payees seem not to respond to the dictates of the laws or act accordingly. It

is perceived that suppliers of goods and services sometimes resist and prevent accountants from deducting the prescribed withholding taxes from amount due them. According to Khan (2012) taxes withheld are treated as a burden, and hence, are passed on to the final consumer(s). Thus, the author further intimates that, the withholding tax regime, in its current form, is a redefinition of the 'direct tax' system.

In Ghana, and like many other countries, withholding tax rates are applied on the gross payments due by payees (Internal Revenue Act, Act 592). This means that the profit generation potentials of payees are overlooked. As point out by Vance (2005), withholding tax allows the government to confiscate the wealth of its citizens. As payees' funds are temporarily reduced by the withholding tax system, they may be forced to borrow, normally at unanticipated high interest rates, from their bankers to fund their business activities. These costs may eventually be transferred onto the prices of their products.

Though there are severe penalties in the Internal Revenue Act, Banful (2009) opines that, largely, very little effort is made to enforce actions against breaches of such laid down regulations. It is also perceived that tax education and sensitization programmes are low. This could account for the failure of the tax administrators to ensure the enforcement and compliance of the tax laws to its fullest extent. As a consequence, most individuals may not know their responsibilities under the tax laws, let alone appreciate the implications of their actions or inactions.

## Statement of the Problem

Governments thrive on taxation because it facilitates the provision of public amenities and infrastructure, without which public expenditure, capital accumulation as well as economic growth suffers (Chen, 2003). Tax laws and other regulatory instruments provide withholding tax agents and payees certain rights and obligations. But it seems that most withholding tax agents and payees have compliance problems, often resulting from the inadequate knowledge of the provisions of the tax laws and/or deliberate approach to outwit the system put in place.

The Commissioner General of the GRA and his representatives are mandated by the tax laws and regulations to levy and collect the required taxes as well as the overall administration, education and enforcement of all the tax laws and regulations (Ohemeng & Owusu, 2015). The inadequate knowledge on tax compliance and/or the deliberate attempt to overlook such tax laws and regulations by withholding tax agents and payees, in my own opinion, are the major factors that contribute to such behaviours in outwitting the system therefore are some of the subjects that require urgent solution to enhance efficient tax system for socio-economic development.

Moreover, several studies have been conducted to understand compliance of taxes in Ghana. For instance, a study conducted by Bruce-Twum (2014) emphasized on gift tax compliance in the Accra-Tema Metropolis using a quantitative approach. The study concluded that tax compliance rate is very low, and factors such as educational level was considered to influence non-compliance. Similarly, Antwi, Inusah & Hamza. (2015) in their study on how demographics impacts tax compliance of SMEs in the Tamale Metropolis using



a survey added that marital status and type of business one is operating are other factors that influence non-compliance. Also, Nsor-Ambala (2015) studied how the ethical levels of people predict tax compliance among taxpayers using survey and experimental methodologies. The author concluded that people with high ethical values are more tax compliant than those with low ethical values. In addition, a more recent study conducted by Ameyaw et al. (2016) on the relationships between tax policy and SMEs compliance in Accra using survey, concluded that there are adverse impacts of tax policies on SMEs compliance, in the country, Ghana.

Notwithstanding the afore-mentioned studies, very little information is available in literature on withholding tax in the informal sector, particularly among SMEs in Ghana, especially the Bolgatanga Municipality. Against this backdrop, the study explores the complexities of withholding tax in the informal sector by investigating the effectiveness of withholding tax laws and regulations enforcement within Bolgatanga Municipality.

### **Purpose of the Study**

The primary objective of this study is to investigate the effectiveness of withholding tax laws and regulations enforcement within the Bolgatanga Municipality.

### **Objectives of the Study**

The specific issues the study seeks to address are to:

1. ascertain the perception of payees on withholding tax and its effects on organizations within Bolgatanga Municipality.
2. examine the attitude of payees within the withholding tax collection process in Bolgatanga Municipality.

3. examine the challenges that impede the effective implementation of withholding tax in the Bolgatanga Municipality.

### **Research Questions**

1. What is the perception of payees on withholding tax and its effects on organizations within Bolgatanga Municipality?
2. What is the attitude of payees within the withholding tax collection process in Bolgatanga Municipality?
3. What challenges impede the effective implementation of withholding tax in the Bolgatanga Municipality?

### **Significance of the Study**

This study intends to unravel the challenges militating against the effective implementation of withholding taxes. The Ghana Revenue Authority (GRA) will have more insight into the problems resulting from the withholding tax collection process. The authority will know the withholding tax issues that disturb the withholding agents and payees. This will enable GRA to put in place measures to address them. The study will also assist payees to understand why they have to cooperate with the tax withholding agents and allow them to deduct the prescribed taxes. Also, it will enable payees to understand the importance of taxation to the national economy. Payees will again understand the synergistic importance in collecting their tax credit.

The study will reveal to the tax withholding agents the regulatory framework that underpins the withholding tax system. The tax agents will appreciate their legally mandated duty to withhold the prescribed taxes as well as the sanctions for non-compliance. Policy makers will get to know the performance of the withholding tax system and the impact of existing laws and

regulations on the performance of the system. This knowledge will help them craft appropriate laws and regulations to improve the system. Furthermore, the study will contribute to knowledge on withholding tax administration and enforcement in Ghana. It will make it clearer to researchers and academicians the areas covered on the topic and enable them to determine areas where further research will be beneficial to the economy. Last but not least, the study will contribute methodologically through the use of a mixed method approach aimed at quantifying and qualifying the issues under investigation.

### **Delimitation**

The delimitation of a study encapsulates the scope of the study. It takes into consideration the contextual or geographic and theoretical boundaries within which a study covers. The study will be confined to only withholding tax payees, particularly those in SMEs, withholding tax agents and officials from GRA. Also, the study will be limited to only issues concerning the effective implementation of withholding tax system. Finally, the study will be contextually restricted to the Bolgatanga Municipality of Ghana.

### **Organisation of the Study**

The study is divided into five sections. Table of contents Specifically, chapter one focuses on the introduction, with particular attention paid to the study background, issue statement, study goals, research questions, importance of the investigation, scope of the study, and structure of the study, as well as the study's limitations and limitations. The second chapter is dedicated to a survey of relevant literature in the field. Extensive review is provided on the theoretical and empirical studies underpinning the study. Several theories are reviewed and discussed to explain important variables underpinning the study. Chapter three

presents the approaches and methods used for the entire research work. After describing the survey technique (which includes both qualitative and quantitative components), the study goes on to discuss the research design, sampling process and size, instruments and data collecting methods, data analysis and ethical considerations, and finally the results of the study. Chapter Four is devoted to the presentation and discussion of the findings from the quantitative and qualitative data analysis, respectively. The summary of important results, as well as the conclusion and suitable policy suggestions, are the emphasis of Chapter Five.

### **Chapter Summary**

This chapter gave the background of the study by investigating the effectiveness of withholding tax laws and regulations enforcement within the Bolgatanga municipality. It further outlined the main objective focusing on the perception of payees and challenges after the statement of the problem had been divulged. The statement of the problem presented similar works on this area of study and concluded with the need for a further study in this area. The chapter continued with research questions of the study, significance and delimitation of the study and finally concluded with how the study would be organized.

## CHAPTER TWO

### LITERATURE REVIEW

#### Introduction

This section focuses on the relevant literature regarding the effective implementation of withholding tax system in Ghana. Specifically, it reviews the theories such as deterrence theory, psychology theory and ability to pay theory that underpinned the study. Also, concepts such as Taxation, SMEs, Payee, withholding tax, withholding Agent, PAYE, principles of taxation among others. Furthermore, benefits as well as challenges of implementing effective withholding tax system are elaborated.

#### The World's History of Taxation

The payment of taxes by citizens of a nation as well as non-citizens has been around since the beginning of time. The act of dodging taxes has also been around since the beginning of time itself. As a result, governments throughout the world have enacted laws and regulations to monitor and regulate tax revenue collections and revenues. Since the advent of taxation, these regulatory methods have resulted in a more civilized system.

When moving products from one location to another, merchants were required to pay poll tax and other taxes in the ancient world (Webber & Wildaysky, 1986; Douglas, 1999). Perpetrators who were discovered to be smuggling commodities or moving items without paying taxes were sentenced to prison time or both. This was done in order to guarantee that taxpayers paid the appropriate amount of tax. When Paul addressed the citizens of Rome in Romans 13:7, he was urging them to pay taxes to the authorities in order for them to rule. Taxation is acknowledged in both the Old and New Testaments of

the Bible, as was shown in (Romans 13:7). During the historical period of the Roman Empire, the tax collectors became rogue when the role was turned over to cold-blooded exploits, which included the use of criminal gangs to guarantee that the colonials had paid their taxes to Caesar on schedule.

However, this required the necessity to pay taxes in the Middle East, which eventually expanded across the rest of the globe. Ancient Mesopotamian city-states, Mauryan India, China's Han and Shina civilizations, and the Bronze Age civilizations of Sub-Saharan Africa all possessed well-developed systems of financial management that were quite similar to one another. These governments, while being widely distributed at the time, had answers to the issues of sustaining monarchs that were comparable to one another. Other taxes of a similar kind were imposed, and the revenues raised were utilized for similar objectives. Since the beginning of taxation, governments all across the globe have collected just a few different sorts of taxes (Webber & Wildaysky, 1986).

In recent years, governments have grown more adaptable in their tax collection efforts, resulting in a significant rise in the amount of income produced. As a result, the burden on the taxpayers has grown as a result of the growth in their spending. As conflicts became more frequent and costlier, the tax burden grew as a consequence. In 1404, the English sought to collect real taxes based on the salaries of the people. The British introduced the first income tax in 1800 to raise funds for the fight against Napoleon. This was the beginning of what we know as the modern income tax. The tax was removed shortly after

World War II, and all records were destroyed by the Chancellor of the Exchequer. The court discovered copies of the tax documents that had been lost.

These records were destroyed for the second time, and the Pay as You Earn (PAYE) system was implemented just before the outbreak of World War II. In the study, it was discovered that only around a fifth of the working population paid income tax. By 1948, it was discovered that more than 90 percent of the working population was paying income tax (Rose & Karran, 1987). It was quickly adopted by other nations, including the Netherlands, Germany, Sweden, and Switzerland, and it began to expand. After the Civil War ended in 1862, the Supreme Court of the United States (Supreme Court of the United States) supported the government's first income tax, which was implemented in 1862.

The government discovered that there were financial costs associated with assistance and as a consequence, income tax was employed to react to the situation in question. This system was revived in 1864 when it was discovered that it was producing positive results due to the fact that a higher rate was imposed on high-income earners than on low-income earners. However, it was revoked a second time in 1872. The next is history of taxation in Ghana.

### **A Brief History of Taxation in Ghana**

The Income Tax Ordinance (1943), commonly known as Ordinance No. 1, was the first tax legislation passed in this nation. This has experienced a number of transformations throughout the years. This was the first amendment, which was approved in 1961 by Act 68. Acts 178 and 197 were passed the next year as a consequence of this decision. Between 1961 and 1963, a number of additional taxes were enacted, including the Property Tax, the Airport Tax, the Hotel Customers Tax, the Standard Assessment, and the Excess Profit Tax.

The PAYE was created for the first time in 1963. When a number of new tax types were introduced to the Income Tax system in 1963, the term "Income Tax" was changed to "All Taxes Other Than Income Tax." The next two pieces of legislation were the SMCD5 in 1975 and the Income Tax Decree No. 78 in 1966. Commissioners were responsible for assessing and collecting taxes under the 1975 Income Tax Decree.

It was in 1986 when the Internal Revenue Code of 1986 was signed into law (PNDCL, 143) Because of this, there was a structural movement, and the civil service department was renamed the public service department as a consequence of this. This resulted in the establishment of the Internal Revenue Service (IRS), which was governed by a separate Board of Directors. The Internal Revenue Code (Act 592) of 2000 was amended in 2002, and the changes took effect in 2003. (2006). (Ali-Nakyea et al., 2008). Ghana's Revenue Authority (GRA) was formally founded in 2009 by the Ghana Revenue Authority Act, which was signed into law by President Mahama (Act 791). Taxation services, including those of the Internal Revenue Service (IRS) and Value Added Tax (VAT), are currently handled by the Domestic Taxation Revenue Division (DTRD).

The GRA has established a new Management Support Unit (MSU), which is chaired by the Commissioner-General and comprises the commissioners of the DTRD, CEPS, and MSU. The MSU is responsible for providing management support to the GRA (Ohemeng & Owusu, 2013).



## **Theoretical Review**

The study employed the following theories in order to better understand the issues at hand: deterrence theory, psychological theory and ability to pay theory.

### **Deterrence Theory**

The deterrence theory emphasizes compliance through stringent measures. The theory says that taxpayers are utilitarian who want to maximize their moral value while also being affected by economic considerations such as profit maximization and the likelihood of being discovered. Consequently, the taxpayers meticulously examined every possibility accessible in connection to tax compliance, and maybe identified alternate pathways to determine whether or not they were attempting to cheat tax. They also consider the possibility of being discovered as well as the ramifications of not complying with the law, and then choose the alternative strategy that maximizes their predicted after-tax earnings after correcting for the risk (Milliron & Toy, 1988). As a result, according to the hypothesis, increasing the consequences for noncompliance is necessary in order to enhance compliance. A theoretically positive link between tax penalty and tax compliance is proposed, in which an increase in tax penalty might possibly lead to an increase in tax compliance, and vice versa. This relationship is further supported by empirical evidence (Fischer, Wartick, & Mark, 1992).

### **Psychology Theory**

In an attempt to deeply understand tax compliance issues from different perspective has led to a largely paradigm shift from the deterrence economics approach to a social psychological approach. The Psychology theory explains

that tax compliance is psychologically driven (Lewis, 1982). As a result, there are psychological elements that may impact whether or not taxpayers comply with their tax duties. Individual taxpayers' moral and ethical standards are among these considerations. According to the argument, a taxpayer may be able to comply even in the absence of increased monitoring and enforcement (Lewis, 1982). While the deterrence theory stresses increasing penalties as a remedy to noncompliance difficulties, the psychology theory places a greater focus on altering individual attitudes about taxation and taxation systems. As a result, effective tax education is a key tool in influencing taxpayers' attitudes about taxation. It is hypothesized that more tax education would result in lower tax noncompliance, and vice versa (Allport, 1989).

#### **Ability to Pay Theory**

The Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste Say (1767-1832), and the English economist John Stuart Mill (1806-1873) were the first to offer this scientific idea of the sixteenth century. The idea asserts that the amount of taxes that should be charged on a person is determined by their income or their capacity to make payments, and that the amount of taxation that should be levied on an individual is determined by their ability to pay. Progressive tax is therefore predicated on this principle, and when taxable income rises, the tax rate rises in lockstep, as well (Jones & Rhoades, 2011).

As a consequence, according to the idea, persons who have more income or wealth and can genuinely afford to make tax payments should be taxed at a higher rate of taxation than individuals who have less money, resulting in the fairest tax system possible. It has been widely implemented in developed

countries with uneven income distributions, such as the United States. It has been established that equity of sacrifice may be quantified in absolute, proportional, and to some degree, marginal terms; nonetheless, the theory lacks a reliable means of determining this equity of sacrifice.

The implication of the theory therefore, extends to the taxes and tax systems therefore helping in increasing government revenue. The theory also has social consequences that are intertwined with economic effects. The criteria guiding the choice of taxes that was adopted as well as their rates of application was leads to different social implications as a result of divergent economic effects. However, it is vital to highlight that this hypothesis does not represent VAT in its entirety, despite the fact that people earn a variety of different amounts. So the hypothesis fails to account for differences in payee abilities, instead subjecting everyone to the same level of VAT. Because it catches a lesser amount of an individual's income even when their income increases, according to Jones and Rhoades (2011), VAT is considered regressive.

### **Conceptual Review**

#### **Taxation**

There is no singular acceptable definition for tax (Messer & Owen, 1987). Several authorities have different ways of defining or explaining tax. However, it is vital to highlight that this hypothesis does not represent VAT in its entirety, despite the fact that people earn a variety of different amounts. So, the hypothesis fails to account for differences in payee abilities, instead subjecting everyone to the same level of VAT. Because it catches a lesser amount of an individual's income even when their income increases, according to Jones and Rhoades (2011), VAT is considered regressive.

From the definitions, this study operationalize tax as a compulsory levy collected from individuals who are actively employed in a country to the government for the purposes of ensuring an enhancement in the quality of lives of citizens through equitable distribution of the national resources.

### **Concept of SMEs**

Limited and medium-sized companies (SMEs) are businesses that are privately owned and operated, employ a small number of people, and earn a modest amount of revenue. The most frequent sorts of small businesses are privately owned firms, partnerships, and sole proprietorships. There is no universally accepted definition of a small or medium-sized business. Numerous definitions for small and medium-sized businesses have been devised to suit academic criteria. Interestingly, the several definitions used globally to classify businesses as small or medium-sized prioritize the headcount (number of employees) and asset base of the business when categorizing them as small or medium-sized (Osei-Assibey, 2013).

In comparison, other research articles have sought to produce a standard definition via the use of a range of various approaches, the most often used of which is the worker count approach. Each country's legal definition of "small sized company" differs, ranging from less than 15 employees under the Australian Fair Work Act 2009 to fewer than 500 employees in the United States, which qualifies a business for the Small Business Administration Program. They are owned and operated by a single person, with the owner/manager making all major decisions. The entrepreneur often has a limited formal education and limited access to the use of current technologies.

Numerous more studies go into further detail about the distinctive features of SMEs. Numerous researches on small and medium-sized firms (SMEs) have shown that the characteristics of SMEs are relatively similar across a broad variety of countries. The European Commission (2003) defines small and medium-sized firms (SMEs) as those with fewer than 250 workers, annual sales of less than EUR 50 million, and annual balance sheet total of less than EUR 43 million.

According to the Cameroon Center for Assistance to Small and Medium-Sized Enterprises (CAPME), a small and medium-sized enterprise (SME) is defined as a business that is wholly owned and managed by Cameroonians, has a turnover of at least 1,000 million CFA, total investment of no more than 500 million CFA, and short-term outstanding cash credit of no more than 2 million CFA in 1989. (1997, Enquobahrie). The National Development Bank (NDB) defines small and medium-sized firms (SMEs) in Sierra Leone as those with a total investment of between Le500,000 and Le1 million, excluding land costs but including working capital.

As a result, even in Ghana, it has become clear that the definition of SMEs is evolving in response to the changing environment, and that this tendency is reversing. Because the definition is more durable in a stable economic environment, the research defines small scale enterprise as any firm with a capital base of between GHC1000 and GHC100 and an average workforce of one to fifteen workers. A small-scale firm is defined as one with a capital base of between GHC1000 and GHC100 with an average workforce of one to fifteen workers. This choice of definition is appropriate since it is based on the Bank of Ghana's definition (Aryeetey, 2001).

In Ghana, the most often used definition of a small and medium-sized company (SME) is the number of employees. However, when it comes to applying this criterion, substantial difference exists over the arbitrariness and cut-off points used by various official records, sparking some dispute (Dalitso & Quartey, 2000). According to the Bank of Ghana, a small-scale business is defined by its sales volume (turnover) and the amount to which it invests in plant and equipment. SMBs are defined as firms with fewer than 29 people and capital expenditures on equipment and machinery that do not exceed \$100,000 in the United States. There is evidence that small enterprises employ 85 percent of Ghana's manufacturing workforce (Aryeetey, 2001).

The Ghana Statistical Service (GSS) defines small businesses as those with less than 10 employees, whereas medium and large-sized businesses have more than ten employees. In Ghana, on the other hand, the National Board for Small Scale Industries (NBSSI) classified enterprises as SMEs based on their "fixed assets" and "number of employees." Small-Scale Enterprises are defined by the NBSSI as firms with less than nine workers, plant and equipment (excluding land, buildings, and cars), and annual sales of less than ten million Cedis (US\$ 9506 at the 1994 exchange rate) (Aryeetey, 2001).

Osei et al. (2003) divide SMEs into four categories: micro enterprises (those with less than six employees); very small enterprises (those with fewer than six employees); small enterprises (those with fewer than ten employees); and large enterprises (those with more than ten employees) (those with fewer than 50 employees).

According to Mensah (2005), the Ghanaian private sector was expected by the Ministry of Trade and Industry to consist of around 80,000 registered

limited liability companies and 220,000 registered partnerships (MOTI). In Ghana, small and medium-sized businesses (SMEs) are defined as follows: I Micro enterprises – these are businesses with fewer than five employees and fixed assets (excluding real estate) valued at less than \$10,000; small and medium-sized enterprises (SMEs) – these are businesses with fewer than six employees and fixed assets valued at less than \$100,000; and medium-sized enterprises (SMEs) – these are businesses with fewer than 99 employees and fixed assets valued at less than \$1 million (Mensah, 2005).

Additionally, there are other characteristics and characteristics that may be connected with significant firms functioning in the Ghanaian economy. On the other side, the critical challenge or job has been identifying how to recognize and label these firms as SME. SSNIT is an excellent illustration of a real-world problem to examine (Mensah, 2005). According to his study, the Ghanaian private sector is highly uneven in terms of size and classification, with 90 percent of enterprises employing less than 20 people and a small number of large-scale organizations. As a consequence, SMEs are defined for the purposes of this study as enterprises with less than 50 workers. This set of criteria is reflective of the reality in Ghana and enables the study to include a larger number of companies.

### **Withholding tax**

Withholding tax is the process of deducting or collecting tax at the source that has historically taken the form of an advance tax payment (Khan, 2011). Abdallah (2005) also defines withholding tax as an amount of tax that an agent of the Commissioner General is required to withhold from a payment to a payee for a transaction that is under the law subject to tax.

### **Withholding Agent**

Withholding tax agent is exactly the same in all tax jurisdictions. In Ghana, the term "withholding agent" refers to a person who is obligated to withhold tax on behalf of the tax authorities (Section 93: IRA, Act 592).

### **PAYE**

Pay As You Earn (PAYE) is withholding tax applied on employment income. By this system tax is deduction from individual's pay before they receive the pay (IRA, Act 592). Agyemang (2005) also posit that PAYE is a system whereby employees pay income tax on their salaries, wages, directors' fees, commissions, bonuses and other cash benefits associated with their employment, usually on monthly basis as and when these benefits are paid on them.

### **Payee**

Payee means the same in exactly all withholding tax jurisdictions. In Ghana, the term "payee" refers to an individual who receives payments from which tax is supposed to be deducted (Section 93: IRA, Act 592).

### **Year of Assessment**

This section examines the fiscal year in which the government collects taxes (Abdallah, 2008). It is the national fiscal year, which is typically one year in length, during which all income earners are required to pay tax. The assessment year for the majority of nations corresponds to the calendar year. Since 1983, Ghana has observed the same-year calendar from 1st January to 31st December (Section 24: IRA, Act 592). It was formerly from 1st July to 30th June.



## **Principles of Tax**

Any effective tax system should exhibit some qualities. Adam Smith proposed four concepts referred to as "the canons of taxation" in his book "Wealth of Nations" (Hardwick et al. 1994). These are elaborated below:

### **Equity**

The tax system, in accordance with this idea, should be equitable to those who are obligated to pay taxes (Atianeere, 2013). Citizens should contribute to the government on a sliding scale according to their financial means. The amount of money paid as tax should be proportional to the respective incomes of the taxpayers (Atianeere, 2013). Pay as you earn (PAYE), with the graduated rates and steps, largely follows this principle (Atianeere, 2013).

### **Certainty**

This principle admonishes that people should know with absolute certainty the amount of tax they have to pay, the time of payment and what form the taxes are to be paid to the government. Additionally, the government should be assured of the tax revenue it will receive. This also implies that the withholding agents should know the payments they should subject to withholding tax and the respective rates to use. Section 81 through to section 93 of the Internal Revenue Act, 2000 (act 592) set fourth detail requirements of the withholding tax system in Ghana. all companies incorporated in Ghana, as well as institutions and government agencies, ought to be reasonably aware of their withholding responsibilities.

The pay-as-you-earn method of employment income taxation exemplifies the canon of certainty, since the progressive tax table reveals how each employee's tax due is determined. For all stakeholders associated with tax

systems, especially the tax withholding system, to be certain of the tax collection process and or their tax liabilities, frequent tax education and sensitization is needed.

### **Convenience**

This idea suggests that a good tax system should be easy for both the government and the taxpayer to manage. The tax collection procedure should be simple enough for most taxpayers to comprehend and comply with. The withholding tax system supports the principle of convenience; the total tax payable is spread and collected in instalments or piecemeal (Atianeere, 2013).

### **Economy**

According to this idea, the administration expenses, collection costs, and enforcement costs of a tax should be reasonable in proportion to the tax's revenue. Because withholding agents handle the actual collection and transfer of the taxes withheld in bulk to the tax authority, the expense of collecting withholding taxes is small for the tax authority. The withholding tax collection procedure, on the other hand, has an unfavourable effect on both withholding agents and payees. Several scholars have said that withholding tax enables the government to steal the wealth of its citizens, while others, such as Khan (2012), have stated that many firms see withholding tax as an expenditure and pass on the burden to their consumers.

### **Empirical Review**

#### **Challenges of Implementing Effective Withholding Tax System**

According to Bird (2003), the real quantity of income that a government receives relies on the efficiency with which its tax administration is carried out. Ineffective tax administration, undoubtedly, would lead to inadequate mobilization of tax revenue. Various administrative barriers have been

identified as militating factors to efficient tax administration. As an example, Kangave (2005) claims that not only do less developed countries face an uphill battle in bringing individuals and businesses into the tax system, but they also face challenges such as a lack of administration staff with low skills, widespread illiteracy among taxpayers, a lack of logistics, and a lack of reliable data.

Tanzi and Zee (2000) underlined that a lack of proper training facilities and opportunity contributes to the issue of inexperienced and untrained people. They also reiterated that the majority of training provided in developing countries is of a broad character, and does not always correlate to the specific reform methods being implemented by tax administrations. According to Kayaga (2007), the prevalence of illiteracy has an unavoidable impact on tax administration since taxpayers are unable to submit returns or document their income sources and expenditures because they lack the necessary skills. Tax authorities would have a difficult time collecting tax income from these kinds of taxpayers, based on the premise that they are difficult to find.

Another hindrance to successful tax administration is a lack of contemporary technology, particularly computers, to make the taxing procedure more convenient for taxpayers (Kayaga, 2007). The total computerization of the offices of the Ghana Revenue Authority is still a mirage. Furthermore, Kayaga (2007) asserts that, like Uganda, most poor nations relied on manually inputting taxpayer data into record books and maintaining a large quantity of tax information in print until very recently. Even with the development of contemporary technology, a lack of financial resources to acquire equipment means that a significant percentage of tax officers continue to rely on manual procedures for entering tax information that are very inefficient.

As is the case in the United States income tax system, where filing taxes is entirely optional, enforcement of the tax law is carried out largely via random audits, with fines being applied if it is revealed that a taxpayer has underreported taxable income (Scotchmer & Slemrod, 1988). They argued that the majority of research on optimum tax enforcement concentrate on the frequency of audits and the penalty for tax evasion, respectively. However, according to the findings of a modified thesis prepared for distribution to the Internal Revenue Service (IRS, 1996), the deterrent effect of audits in the general population is approximately 11 times as large as the adjustments proposed by the audits themselves, but nonfilter notices, information document matching, and return preparation assistance are more cost-effective in terms of boosting revenue.

PAYE returns must be submitted by the 31st of March each year in Ghana, according to the Internal Revenue Act, 2000 (Act 592). Approximately how many employers are in compliance with this regulation, and approximately how many enforcement actions have been launched? If you make false and misleading representations, aiding and abetting, failing to pay taxes, or failing to file tax returns, you might face serious penalties under the Internal Revenue Code (Act 592). (Banful, 2009). Those working for the tax authorities who directly or indirectly solicit or receive a payment or incentive in connection with their activities may be subject to penalties under the Internal Revenue Code (Sections 152 and 153 of the Internal Revenue Code, respectively) (Act 592). However, there are relatively few enforcement measures taken against anyone who break any of these rules (Banful, 2009). Basically speaking, in order to ensure that the government has enough revenue to carry out its activities, the tax authority must do the following: (a) ensure an efficient tax collection system without necessarily adding additional burdens to the taxpayers; (b) educate

everyone in the country on the importance of paying taxes; (c) improve tax administration, which means that the tax authority must ensure that all eligible taxpayers file tax returns; and (d) reduce the number of tax officials on the payroll (Banful, 2009).

### **Benefits of withholding systems**

For small/medium-sized enterprises and self-employed taxpayers, the Forum on Tax Administration (2009) noted a variety of advantages of the withholding and reporting regimes, which include the following:

In general, agreements for withholding taxes at the source are considered to be the cornerstone of a fair and successful income tax system (Huizinga, & Nielsen, 2003). Imposing a requirement on independent third parties such as employers and financial institutions to withhold a certain percentage of tax from distributions of income made to taxpayers diminishes, if not completely eliminates, their capacity to understate such earnings for the purposes of tax assessment (Callen, & Callen, 2004). In addition to being a more cost-effective method for both taxpayers and the revenue body to transact the payment of taxes, it also helps to reduce the incidence of unpaid taxes that might otherwise arise when taxpayers properly report their income but are unable to pay some or all of the tax assessed to their account (Huizinga, & Nielsen, 2003).

Secondly, the timely returns by tax payers of amounts withheld to the appropriate revenue agencies maintain a steady flow of funds into the government's coffers and aid in fiscal planning and management (Huizinga, & Nielsen, 2003). To finish off, the term "information reporting obligations" refers to a legally mandated requirement on the part of income payers to report to the appropriate revenue body relevant information (for example, the name and identification number of payees, the amount and date of payment), either as part

of a withholding regime or as a separate stand-alone requirement in relation to a prescribed category of payments (Viswanathan, 2017). Using such reports in conjunction with tax data, the revenue agency is able to check the amount of income claimed by taxpayers on their tax returns, to discover possible disparities, and to identify non-fliers, among other things (Callen, & Callen, 2004).

A more recent development, particularly in the Scandinavian nations, has seen the use of information (and other taxpayer-related information) kept by revenue agencies to create tax returns, using the idea of "pre-filling" to do this (Bentley, 2018). Pre-filled tax returns, in its most sophisticated version, reduce the majority of the work needed by taxpayers—primarily employees and investors—to complete their yearly tax return, therefore significantly reducing their compliance burden (Bentley, 2018). In addition, while the imposition of withholding and/or reporting obligations on third parties such as employers clearly imposes a burden (such as compliance cost) on them, these costs are generally considered to be far outweighed by the benefits they engender to the overall performance of the tax system, particularly in terms of substantially higher levels of voluntary compliance that can be achieved with the tax laws, as previously stated (Callen, & Callen, 2004).

The following summary of revenue bodies' responses were drawn from their submissions to the forum (Forum on Tax Administration, 2009) when they were asked to identify the objective of the withholding and information reporting regimes.

- i. Improved compliance and risk detection: According to a number of revenue agencies, the primary goal was to deter non-compliance, particularly in areas of the economy that were open to cash transactions

and/or had been found to exhibit significant non-compliance, as well as to provide knowledge of transactions that might pose compliance risks.

- ii. The regime attempted to put the treatment of self-employed people, in terms of their tax payment and collection, in line with provisions for employees who undertake identical jobs, but under different legal assumptions, according to one revenue authority (thus as an employee or independent contractor).
- iii. Management of the budget: according to some, maintaining a steady stream of money and making regular tax payments were crucial factors.
- iv. Reduce the compliance burden: one organization said that their withholding system was designed to reduce the end-of-year tax payment burden that would otherwise be imposed on taxpayers if the regime were not in place.
- v. Correction to the law: one revenue agency said that the withholding regime permitted it to target payments for services that were not easily contained under its withholding system (for example, payments for services that were not provided by 'workers' as such), among other factors.

Withholding taxes at a high rate are likely to have a negative impact on the operational performance of most organizations (Abdallah, 2008). This is because the withholding tax is a payment on account and is applied on the gross payments, which means it does not take into account the expenses associated with such payments. As a result of the foregoing, the cash flow of most businesses would be negatively impacted because they would receive amounts that were less than what they had anticipated or budgeted for based on the invoices they had issued as a result of a withholding tax being applied against

their anticipated inflow.

It is likely to dissuade tax officials from putting in their best effort (Brauner & Baez Moreno, 2015). Thus, if the system works well and efficient, tax officers may tend to relax in their efforts to collect more taxes through monitoring as they are likely to be content with inflows from withholding taxes forgetting that these are not always final taxes. Furthermore, it might result in the confiscation of certain firms' assets by the tax authorities. This arises where, the tax being a payment on account, businesses end up with huge sums of overpayment of taxes by way of the withholding taxes at the end of their financial period and the refund is not expedited by the revenue agencies (Brauner & Baez Moreno, 2015).

PricewaterhouseCoopers organized a pre-budget forum to collect inputs from the private sector for the 2010 budget. It was revealed that, similar to the withholding tax problem, companies sometimes return to the government more in VAT than they actually charged on values created during the financial year, but the government does not actually refund these funds (Myjoyonline, 2009). Participants were told by Mr. Seth Tekper, who was then the Deputy Minister of Finance, however, that the government will try to resolve the issue of VAT refund, which is crucial and primarily affects supporting enterprises.

### **Chapter Summary**

The findings of research on the influence of tax law and regulation were discussed in detail in this section. When it comes to withholding tax, its laws and regulations have a significant impact on revenue mobilization. Sections 2 and 3 assessed whether or not withholding tax had an impact on tax revenue, and how difficult it is to evaluate revenue performance. The methodology section follows.



## CHAPTER THREE

### RESEARCH METHODS

#### Introduction

This area of the study is largely concerned with the specific procedures and approaches that were implemented in the course of conducting this research. The whole chapter thoroughly outlines the methods by which these tactics are used, as well as the extent to which they contribute to the achievement of the stated goals. The section contains in-depth information on the research design, the population, the sample, and the sampling methodologies that were used in the course of conducting this study, which is particularly noteworthy. Additional information is supplied on the data gathering process as well as the method of analysis.

#### Research Approach

The research had a mixed strategy, which meant that both quantitative and qualitative methodologies were utilised in this investigation. This approach harnesses the weakness and strengths of both approaches. In other words, the findings of the quantitative results will be used to complement that of the qualitative results to ensure a more holistic understanding of the issues under investigation (Creswell & Plano Clark, 2010). According to Johnson and Onwuegbuzie (2004), using a mixed method approach goes a long way to provide in-depth understanding of a study to enhance the conclusions of a study. It was decided to employ the convergent parallel strategy of the mixed approach, which is commonly used because of its ease. The strategy will allow for the gathering of quantitative and qualitative data simultaneously with separate data analyses (Creswell & Plano Clark, 2010).

## Research Design

The design involves the researcher's overall approach for responding to the research questions, which is outlined in the research questions (Saunders & Lewis, 2012). There are many distinct sorts of research designs, and many academics categorize them in a variety of ways to make sense of them. Case studies, experiments, surveys, action research, ethnography, grounded theory, and archival research are all cited by Saunders and Lewis as forms of research to be used in educational settings (2012). According to Bryman and Bell (2015), there are five basic types of research designs: cross-sectional or survey design, experimental design, longitudinal design, comparative design, and case study design.

The amount to which the researcher has influence over real social activities, the form of the inquiry, and the focus placed on current rather than previous acts are all factors to consider when selecting a study design, according to Yin. Because of the investigator's limited control over real social acts and the researcher's strong emphasis on present rather than previous behaviours, the study adopts a cross-sectional survey methodology for its investigation.

It is necessary to adopt a descriptive research design in this study due to the nature of the aims of the investigation. A systematic and pre-planned method for conducting descriptive research on a study population is necessary in order for the data acquired to be statistically evaluated. In order to precisely explain an attitude, viewpoint, or behaviour expressed by a group of individuals on a given phenomenon, this sort of study is often conducted (Robson, 1993). Research that is descriptive in nature is described as research in which a responder is required to choose from a pre-set of possibilities. The categorization of replies into predefined choices will result in statistically

significant information being derived from the responses.

### **Population**

Amadehe and Gyimah (2002) explain a target population as the larger population that meet a certain defined criteria on which the sample of a study is based on. In this study, tax officials, organizations mandated to withhold taxes and organizations and individuals (SMEs owners) whose incomes are withheld at source were contacted. A total of 344 of them were identified by the Bolgatanga Municipality and this formed the population of the study.

### **Samples and Sampling Procedure**

A sample, according to Hair (2000), is defined as the selection of a group of persons or units of analysis from a selected research population for further investigation. Sampling, on the other hand refers to the procedures that are adopted to select a section of the targeted population of a study (Anthony-Krueger & Sokpe, 2006). This research uses purposive sampling techniques to choose employees of the Ghana Revenue Authority and withholding agents, while simple random sampling was used to identify the individuals who would be included in the study.

According to Kraska and Neuman (2011), sampling is defined as the process of selecting a subset of a specific population from which to conduct scientific research. The act or process of selecting an appropriate sample that will serve as a representative portion of a research population in order to ascertain parameters or characteristics of the whole study population, according to Lenth and Hjsgaard (2011), is defined as follows: A study's outcome is influenced by the size of the sample used in it, according to Lenth and Hjsgaard

(2011). Given the nature of the study and the need for a significant amount of data, the simple random sampling methodology is the most appropriate way for picking samples from a large number of individuals. For populations with a high degree of homogeneity, the basic random approach is used. For the purposes of this study, the population includes all administrative staff members of the Ghana Health Service, and a list of these persons may be prepared from which random numbers can be generated to use in the process of selection. The sampling procedure that has been created may be able to defend against the use of an unrepresentative sample while also ensuring that there are sufficient sample points to allow for a separate analysis of each subgroup of participants to be conducted. Simple random selection ensures that each item or respondent in the sample has an equal chance of being picked, preventing bias from emerging in the study's findings. Using the Yamane sample size determination formula, which is shown below, and the population size information supplied above, the sample size is computed.

$$S = \frac{N}{\sqrt{1 + Ne^2}} = \frac{344}{\sqrt{1 + 344(0.05)^2}} = \frac{344}{1.86} = 184.656797 = 185$$

where e signifies the margin of error (0.05), N is the size of the population, and S denotes the size of the sample. According to the calculations, a sample size of at least 98 workers was required for the study. Due to these limitations, researchers were unable to meet the required minimum sample size. Questionnaires were administered to this sample size, which was then used to draw conclusions. It has been found that a sample size of 185 persons corresponds to a percentage of more than 50% of the population in the study. A sample size of more than 50 percent, according to Wong, Wiley, Johnson,

O'Brien, and Haussler (2012) (2012), is necessary to provide findings that can be accepted since they reflect a large percentage of the population.

### **Data source and type**

The major data source for this investigation was a primary source of information. Primary data refers to the responses that the researcher gathered on the field from the respondents through administration of structured questionnaire in order to solicit for the expected data for the purpose of the study. Data from the primary sources was obtained from payees, tax withholding agents and officials from the Ghana Revenue Authority. The study also relied on other secondary sources of information including books, journals, pamphlets, reviews and annual reports from the Ghana Revenue Authority.

### **Data Collection Instruments**

Data collection methods involve the approaches that are employed to collect data while research instruments are the tools that are used to gather both qualitative and quantitative data (Frankel & Wallen, 2000). This research intends to utilize a mixture of tools such as questionnaires and interview guide through surveys and interviews respectively. The questionnaires were administered to payees while interview guide was administered to officials from the Ghana Revenue Authority as well as withholding tax agents. The questionnaires as well as the interview guide were structured according to the objectives of the study.

The first part of the questionnaire focused on the socio-demographic characteristics of the respondents of the study. This was important to understand the dynamics of the social and demographic issues of the research participants. Examples of such characteristics included age, gender, educational level among

others. The second part of the question focused on payees understanding of taxes and tax withholdings. The third section delved into the attitude of payees towards tax withholdings. The fourth section elicited responses from respondents on the factors influencing noncompliance of tax. The fifth section centered on the challenges impeding the effective implementation of withholding taxes by tax agents. The final section will focus on how adequate tax withholding education and enforcement are within the study area.

### **Data Collection Procedure**

An introduction letter was acquired from the College of Distance Education, which explained the aim of the instrument, the need for individual involvement, the anonymity and confidentiality of respondents' replies, and the procedures for submitting responses. It was required to seek approval for the administration of the instrument after making contact with the SMEs owners/managers, as well as with the tax administrators and withholding tax agents.

Qualifying questions were presented to the chosen respondents in their respective places of work. The presence of the researcher was necessary as it enabled the establishment of rapport between the researcher and the respondents, which facilitated complete understanding of the questionnaire by explaining areas respondent might not understand. The surveys were completed and returned to the researcher on the same day that they were presented to them. A total of two weeks' worth of treatments were given between 11:30 am and 3:00 pm each day, seven days a week. Given that most of the respondents were at work, the timing was ideal since it coincided with their lunch break. As a

result, the researcher was able to administer the instrument to them without interfering with their busy schedules, which was very beneficial.

### **Ethical Consideration**

Ethical considerations are regarded as important ingredient in the entire research process. According to Strydom et al. (2005), ethics refers to the process of conforming to established standards and demonstrating consistency with laid down principles and procedures. The researcher also assured participants of their anonymity and confidentiality, particularly during the data collection. The consent of the research participants was sought before the data collection exercise, and those who want to voluntarily take part in the study was recruited as participants for the study. Participants were also assured of their right to decline answers to questions they may deemed sensitive or emotional. In addition, the fundamental goal of the research will be communicated to participants, giving them the option to decide whether or not they choose to continue participating. Finally, respondents have the opportunity to opt out of the study during the data collection process. In the event of such circumstances, the incomplete questionnaire of such individual(s) will not be included, and a different participant was recruited as a replacement.

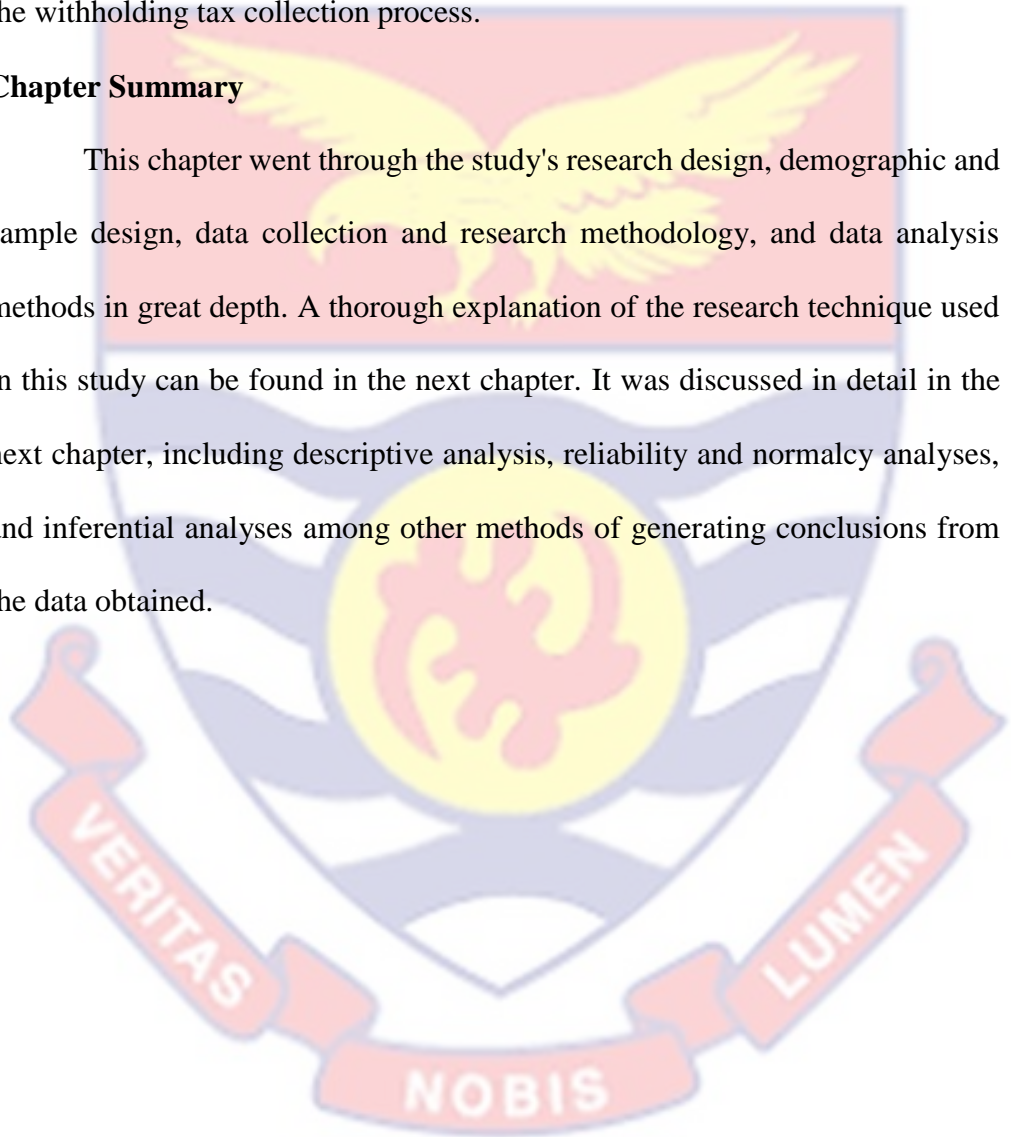
### **Data Processing and Analysis**

Data analysis describes the procedures that are used to evaluate set of collected data using appropriate statistical tools to be able to find answers to research problems (De Vos et al., 2005). The data for this study will be quantitatively and qualitatively analysed. When it comes to quantitative data, the SPSS statistical software will be used to analyse it using both descriptive and inferential statistics, whilst the qualitative data was analysed utilizing

content analysis of the interviews. Tables, graphs, frequencies, percentages, averages, and standard deviations were all used to show the descriptive data. The inferential statistics involved the use of a logistic regression to test the hypotheses of the difference and relationships between the gender orientation of respondents and educational levels respectively, and payees' attitudes within the withholding tax collection process.

### **Chapter Summary**

This chapter went through the study's research design, demographic and sample design, data collection and research methodology, and data analysis methods in great depth. A thorough explanation of the research technique used in this study can be found in the next chapter. It was discussed in detail in the next chapter, including descriptive analysis, reliability and normalcy analyses, and inferential analyses among other methods of generating conclusions from the data obtained.





## CHAPTER FOUR

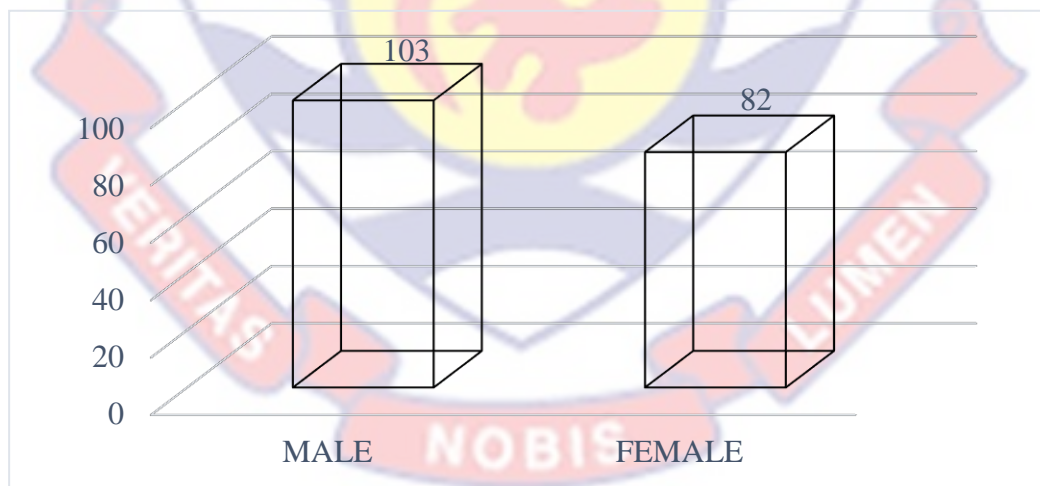
### RESULTS AND DISCUSSION

#### Introduction

The findings of the research are presented and discussed in this chapter. The study was to examine the challenges of implementing withholding tax system among SMEs in Bolgatanga Municipality. Since the study was a descriptive survey, simple percentage, frequencies, means and standard deviations were used to describe the data which have been collected. It was mainly based on the questionnaires administered to the respondents with some interviews. The returning rate (76.1%) was 185 out of the 243 sent out to all potential respondents.

#### Demographic characteristics of the Respondents

Here, respondents' sex, age, marital status and education are included as well as their religious affiliations and years of experience in the industry.

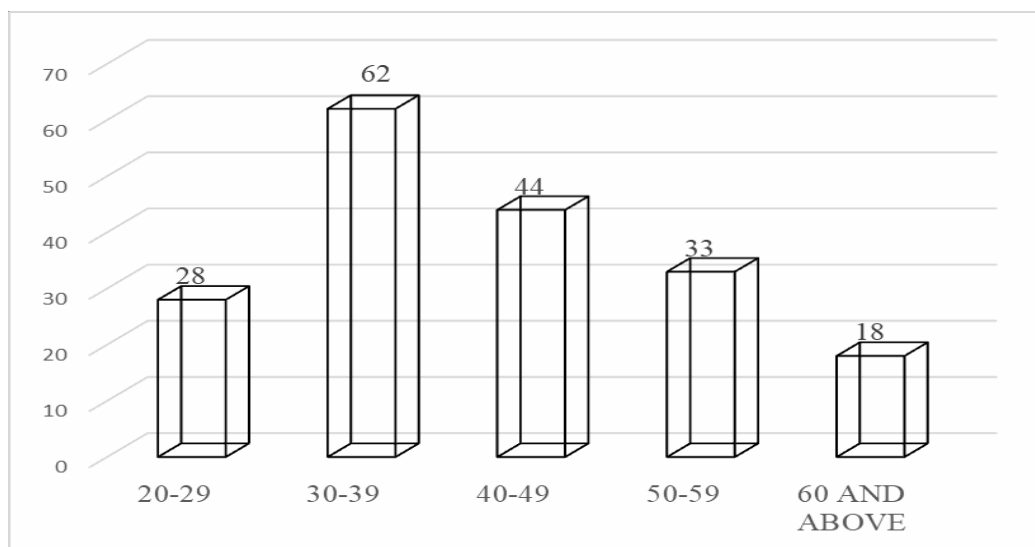


**Figure 1: Sex of the Respondents**

**Source: Field survey, Guodaa (2020)**

According to Figure 1, 82 (44%) of the respondents were females while 103 (56%) were males. This indicates that most of the participants in this

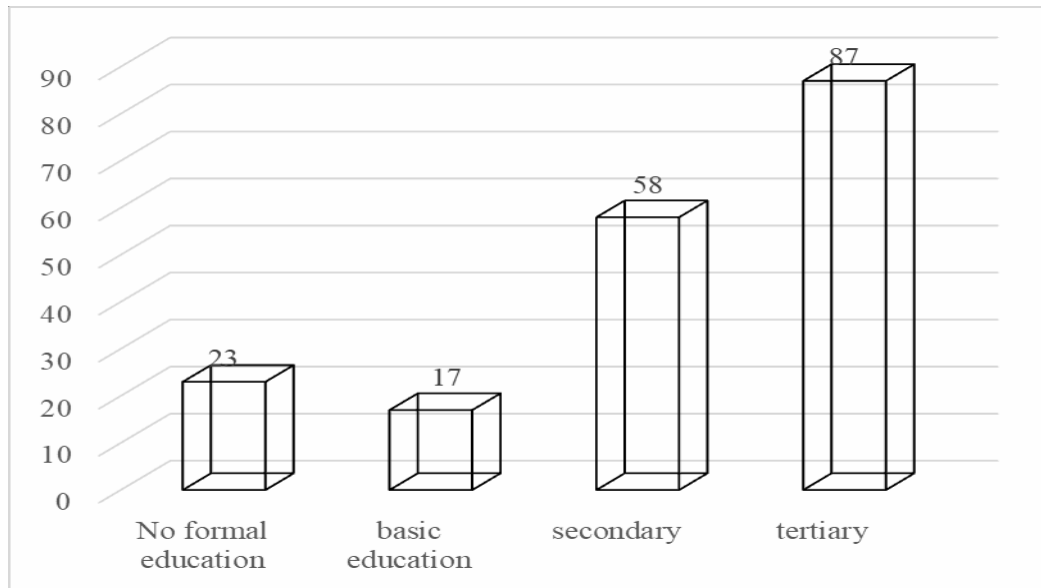
research were men. This is a reflection of the gender dimensions of the total population in the Bolgatanga Municipal. Also, businesses are largely masculine dominated in the Bolgatanga Municipal and for the entire Upper East Region.



**Figure 2: Age-group of the respondents**

**Source: Field survey, Guodaa (2020)**

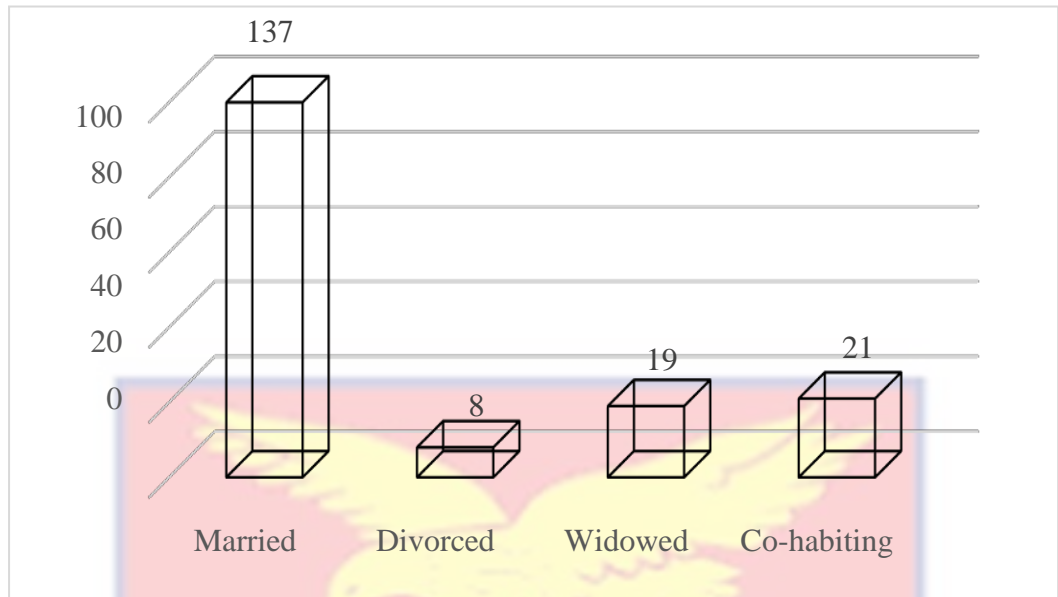
From Figure 2, out of 185 respondents, majority of the respondents (62 or 39.2%) were between 30-39 years. Forty-four respondents, which represent 23.8 percent, were between the ages of 40 – 49 years. Also, thirty-three of the respondents (17.8%) were between the age bracket of 50 and 59 while 28 of the respondents (15.1%) were aged 20-29 years. A small proportion of the respondents (18 or 9.7%) were aged 60 years and above. As a result, the vast majority of those polled were younger than 50 years old. These age group were active and energetic for businesses activities.



**Figure 3: Educational level of the Respondents**

**Source: Field survey, Guodaa (2020)**

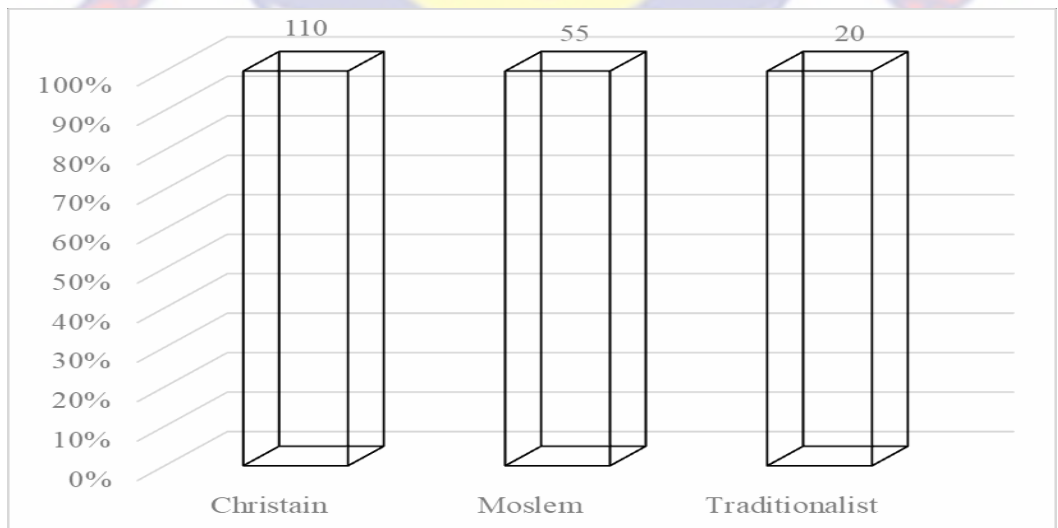
On educational background of the respondents as presented in Figure 3, majority of the respondents (87 or 47%) out of the total population of 185 were tertiary graduates. This was followed by senior high leavers (58 or 31.4%) while basic school leavers were 17(9.2%). However, 23 (27.1%) of the respondents had no formal education. This indicates that the vast majority of respondents had some kind of formal education and were able to read and reply to the questions in the survey. Moreover, having formal education has the potential to enhance respondents understanding of tax payment and withholdings. However, interview schedule was conducted for few of the respondents who could not read nor write.



**Figure 4: Marital status of the Respondents**

**Source: Field survey, Guodaa (2020)**

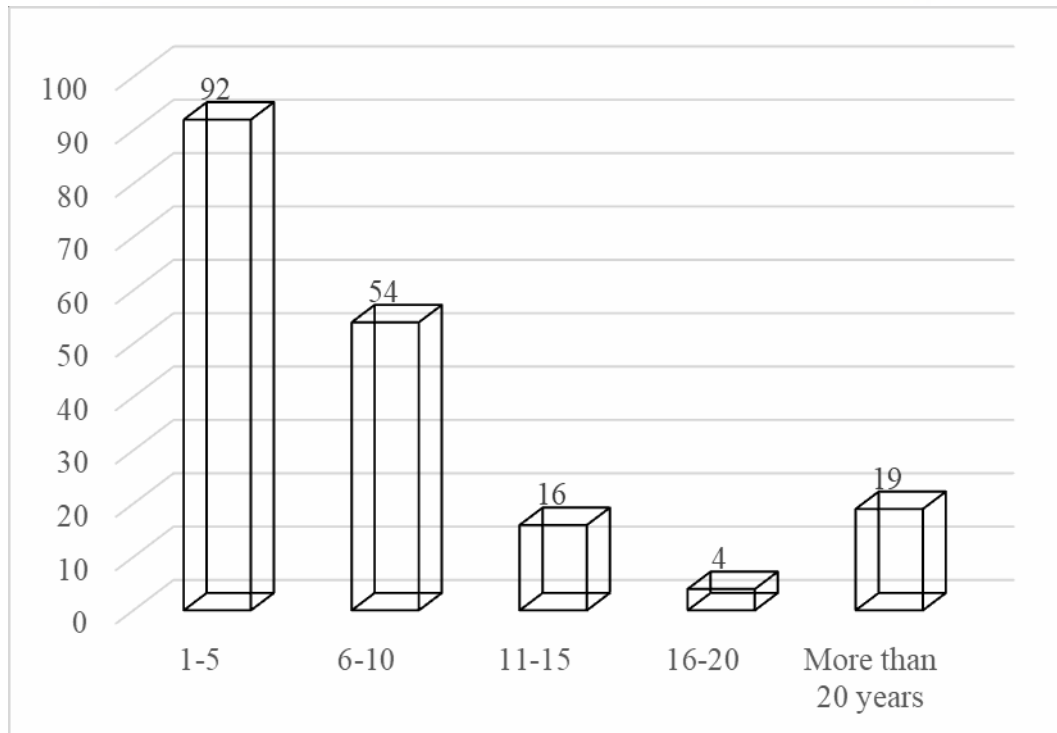
Figure 4 depicts the marital status of the respondents. The result shows that 137 (74%) respondents out of the total of 185 were married. This was followed by those co-habiting (21 or 11.4%). Nineteen respondents (19 or 10.3%) were widowed while 8 (4.3%) were divorced. Thus, majority of the respondents were married.



**Figure 5: Religious affiliation of the respondents**

**Source: Field survey, Guodaa (2020)**

Figure 5 shows that most of the respondents (110, 59.5%) were Christians, followed 55 (29.7%) of the respondents who were Moslem and 20 (10.8%) of the respondents were traditionalist. This is consistent with religious distribution in Ghana. The 2010 Population and Housing Census agreed to this fact that Christians dominate in this Region and the nation as a whole.



**Figure 6: Number of years of experience**

**Source: Field survey, Guodaa (2020)**

Regarding the number of years worked, Figure 6 shows that 92 (49.7%) of the respondents had been working between 1-5 years, followed by 54 (29.2%) of the respondents who have worked between 6-10 years while 19 (10.3%) of the respondents have worked for more than 20 years. The rest are 16 (8.6%) for those 11-15 years of working experience and 4(2.2%) for those who have worked for 16-20 years. It's possible that their employment experience may have a role in their comprehension of tax withholdings. Hence, it is expected that respondents should be familiar with the tax system of Ghana.

**Perception of payees on withholding tax in Bolgatanga Municipality**

Objective one sought to examine the perception of tax payers (payees) on withholding tax. Data were gathered on respondents’ perception about willingly deduction of withholding tax, tax rate, tax education as well as rapport with tax authority and the result is presented in Table 1.

**Table 1: Perception of payees on withholding tax**

Statements	%	of Means	Std. Dev.
It is important to allow withholding agents to deduct the prescribed withholding taxes from gross payments due you (payee) before paying	62(33.5)	2.957	1.179
Withholding tax rate is high for me	66(35.7)	3.097	1.187
The tax authority organizes tax education programmes for the taxpaying public very often	35(18.9)	2.7081	0.973
Tax authority has good tax rapport with the taxpaying public (including payee)	36(19.5)	2.622	0.982

**Source: Field survey, Guodaa (2020)**

Table 1 shows that 62 (33.5%) of the respondents agreed that it is important to allow withholding agents to deduct the prescribed withholding taxes from gross payments due you (payee) before paying you the net amount while 66.5 percent disagreed to this notion. It implies that majority of the respondents do not see the essence of allowing withholding agents to deduct the prescribed withholding taxes from their gross payment. This could largely affect tax accumulation for socio-economic development.

Also, with regards to the tax rate, 66 (35.7%) of the respondents rated withholding tax rate as high while others failed to comment or decide on this. According to the mean (3.097) of the responses, the majority of those polled were neither in agreement nor disagreement. As a result, many people in Bolgatanga Municipality are unable to comprehend how to pay withholding tax. Others also think that they pay other forms of tax on the same goods and service so there is no need for tax withholdings to be deducted again on the same goods or services.

On tax education, 35(18%) of the respondents agreed that tax authority organizes tax education programmes for the taxpaying public very often. It depicts that tax authority do not often organize tax education programmes for the tax paying public. SMEs in Bolgatanga Municipality may not comprehend the significance of deducting withholding tax because of this. That's why, according to Table 1, 36 (19.5 percent) of those surveyed believed that the tax authority had a strong connection with the taxpaying population (including the payer). This indicates that the tax authority and the taxpaying public have a bad working relationship. This could go a long way to affect government's revenue with considerable impacts on developmental projects in the Municipality.

**Table 2: Collection of tax credit certificate from the withholding agents**

Response	Frequency	Percent
All the time	27	14.6
Most of the time	39	21.1
Sometimes	53	28.6
Once a while	20	10.8
Not at all	46	24.9
Total	185	100

**Source: Field survey, Guodaa (2020)**

Table 2 shows that 53 (28.6%) of the respondents sometimes collect their tax credit certificate from withholding tax agents as required. This is followed by 46 (24.9%) of the respondents who do not collect their tax credit certificate at all, from withholding tax agents as required, and 20 (10.8%) of the respondents collect it once a while. Nevertheless, only 27 (14.6%) of the respondents collect it all the time with 39 (21.1%) of the respondents collecting it most of the times. The relatively large proportion of respondents who fail to collect their tax credit certificates is worrying because it shows how unconcern the people are in relation to tax matters. This could potentially create problems between tax agents and payees, especially when it becomes necessary to produce such documents at certain critical point.

**Table 3: Filing of account with the tax authority**

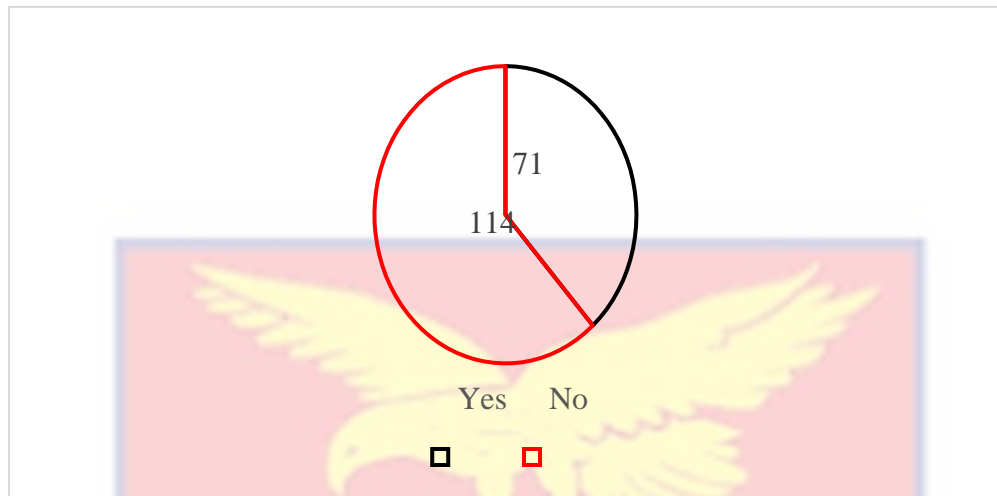
Response	Frequency	Percent
All the time	52	28.1
Most of the time	30	16.2
Sometimes	41	22.2
Once a while	20	10.8
Not at all	42	22.7
Total	185	100

**Source: Field survey, Guodaa (2020)**

Table 3 shows that 52 (28.1%) of the respondents file their tax account with the tax authority, followed by 42 (22.7%) of the respondents who do not file at all and 20 (10.8%) of the respondents who file it once a while. Also, 30 (16.2%) of the respondents file it most of the time. This means that a large number of respondents do not file their tax account with the tax authority. This



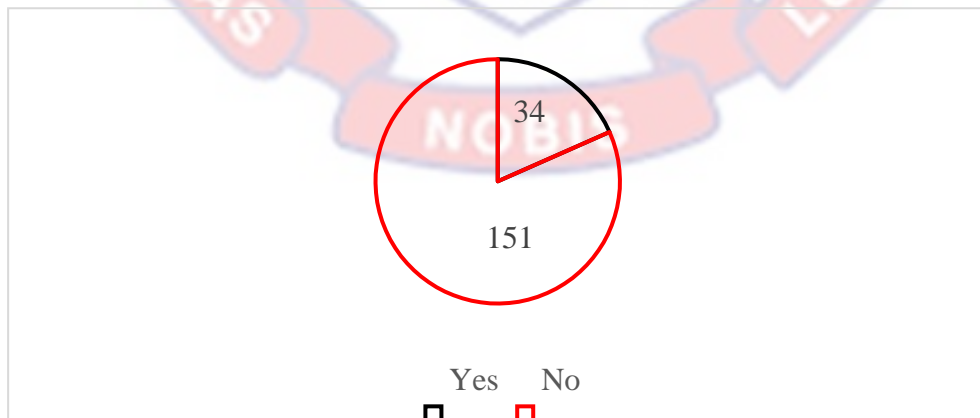
could affect the general information needed to track taxes with dire implications on revenue generation.



**Figure 7: Awareness of how to file respondents' account**

**Source: Field survey, Guodaa (2020)**

Figure 7 shows that 71 (38%) of the respondents were aware that the tax they have to pay in any basis period should be the total assessable tax less than the total tax credits for the basis period whenever they are to file your accounts while 114 (62%) of the respondents were not aware. This means that most of the respondents were not aware of how to file their tax account appropriately by paying in any basis period base on the total assessable tax less than the total tax credits for the basis period.



**Figure 8: Awareness of claiming overpaid withholding tax**

**Source: Field survey, Guodaa (2020)**

More than two-thirds of respondents were unaware that they were entitled to a refund for overpaid withholding tax, according to Figure 8. Because of this, most respondents were unaware that they could go to the tax authorities and collect their unpaid withholding tax. This is hardly to occur in Ghana, especially in Bolgatanga Municipal where SMEs owners do not even want to withholding tax to be deducted then than to even overpaid. However, due to the fact that most of the respondents do not know and understand how to file their tax account, it is bound to occur.

#### **Attitude of payees towards the effectiveness of withholding tax**

Objective two sought to examine attitude of taxpaying public in the Bolgatanga Municipal. Therefore, data were gathered on knowledge on filing of income returns, timing of filing, willingness of paying withholding tax among others and the result is presented in Table 4.

Table 4 shows that 75 (40.5%) of the respondents agreed that they file their income return on time. Thus, majority of the respondents do not file their income return on time. Also, 70 (37.8%) of the respondents know how to file their income return while more than one-third of the respondents do not know how to file their income return. This also account for the reason for why only few people could file their income returns on time.

Moreover, 37 of the respondents pay their taxes when they have higher income. Because these persons have lesser incomes, they do not have to pay taxes on their earnings. The majority of people (60, or 32.4 percent) do not want to pay taxes if they believe the government is untrustworthy. Thus, they believe that there is high rate of corruption and bribery in government as well as mismanagement of public funds and therefore, there is no need to pay tax as far

as it cannot be well accountable. Jean-Jacques Rosseau's (1712–1778) notion of the capacity to pay, which states that persons who have more income or wealth and can genuinely afford to make tax payments should be taxed at a higher rate than individuals who have less money, is supported by this.

**Table 4: Attitude of payees within the withholding tax collection process**

Statement	%	of	Means	Std.
		agreement		Dev.
I know how to file my income returns	70(37.8)		2.887	1.257
I file my income return on time	75(40.5)		3.054	1.097
I claim my overpaid taxes when I file my account	29(15.7)		2.573	0.976
I pay taxes when I have higher income	37(20)		2.568	1.131
I understate income (employment income, rental income, etc) if the amount is relatively small	28(15.1)		2.449	1.151
I do not feel like paying taxes as long as the government cannot be trusted.	60(32.4)		2.708	1.504
It is not so wrong to declare less on taxable income since the government spends too much on extravagant projects.	66(35.7)		2.805	1.513

**Source: Field survey, Guodaa (2020)**

Since the government spends so much money on lavish projects, 66 (35.7 percent) of the respondents do not see any problem with claiming a lower taxable income. Thus, a larger proportion of the respondents who file their income returns also do not pay exactly tax due them but rather underestimate their income in order to pay less withholding tax.

### Challenges face by the withholding tax agents in Bolgatanga Municipality

Objective three focused on examining the barriers of withholding tax agents in quest of ensuring effective collection of withholding tax. Data were gathered and the result is presented in Table 5.

**Table 5: Challenges face by the withholding tax agents**

Challenges	Frequency(n)	Percent(%)
Lack of education on tax withholding	7	20
High illiteracy rate	5	14.3
Political interference	3	12
Difficulty in locating taxpaying	5	14.3
Inadequate logistics	5	14.3
GRA office is far away from the taxpaying public	6	17.1
Poor record keeping	4	11.4
Total	35	100

**Source: Field survey, Guodaa (2020)**

Seven withholding tax agents were interviewed on the various challenges they face in quest of effectively collecting withholding tax in the Bolgatanga Municipal and they listed about 35 factors of which some were overlapping or mutually not exclusive. Table 5 shows that all the withholding tax agents identified inadequate education on tax withholding as a major challenge of effective tax collection, followed by the fact that 6, 17.1% GRA office is far away from the taxpaying public which makes accessible a problem for taxpaying public.

Furthermore, high illiteracy (5.143%), trouble identifying tax-paying citizens (5.143%), insufficient logistics (5.143%), and poor record-keeping (5.143%) are also factors (4, 11.4 percent). This means that high illiteracy rate and inadequate education on withholding tax prevent most of the SMEs owners from paying withholding tax. Also, long distance between the taxpaying public and the GRA offices discourages even the small number of respondents who may like to pay for it.

The following excerpts from the interviews with the withholding tax agents confirmed it.

*“hmmmmmm, our major challenge is how to locate these taxpaying public as well as calculating for the withholding tax. This normally create confusion between us and the taxpaying public because they think they have already pay for tax and there is no need for withholding tax” (withholding tax agent, 2020).*

*“Most traders do not understand the withholding tax system. Those who understand do not agree to take or bear the responsibility of the tax” (withholding tax agent, 2020)*

This supports Kayaga's (2007) conclusions that a lack of contemporary technology, particularly computers, to aid the taxing process is another hindrance to successful tax administration. Similarly, Kangave (2005) said that governments in developing nations suffer a shortage of low-skilled administrative employees, high levels of illiteracy among taxpayers, a lack of logistics, and unreliable data.

### Chapter Summary

With the Bolgatanga Municipality Assembly as an example, this chapter examined how withholding tax laws and regulations enforcement are done. The demographic features of the respondents were the focus of the first portion of this chapter. As well as an empirical description of concepts used in withholding tax laws and regulations enforcement at the Bolgatanga Municipality Assembly.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### Introduction

This chapter thoroughly summarizes the study's important results and useful information gathered or gained. The research summary and the conclusion obtained from this research study make up the majority of the chapter. In addition, the study's examination of the available data yielded key suggestions for further research.

#### Summary of the Study

The study investigated the effectiveness of withholding tax laws and regulations enforcement within Bolgatanga Municipality. Specifically, the study sought to: ascertain the perception of payees on tax withholdings and their influential factors in the Bolgatanga Municipality, examine the attitude of payees within the withholding tax collection process in Bolgatanga Municipality and examine the challenges that impede the effective implementation of withholding tax in the Bolgatanga Municipality.

In its quantitative approach, the research utilized a descriptive survey methodology. The research included 185 SMEs in Bolgatanga Municipal, which were chosen using a simple random selection approach. In addition, purposive selection was used to choose seven withholding tax agents and GRA officials. As a key source of information, a questionnaire was used. The data was also analysed using statistical software called Statistical Product for Service Solution (SPSS version 21.0) and statistical procedures including percentages, frequencies, means, and standard deviations. Tables and graphs were used to

illustrate this. The qualitative data collected via interviews, on the other hand, was analysed using theme analysis.

### **Major Findings**

The study found that 62 (33.5%) of the respondents agreed that it is important to allow withholding agents to deduct the prescribed withholding taxes from gross payments of payees before paying their net amount while 66.5 percent disagreed to this notion. Also, with regards to the tax rate, 66 (35.7%) of the respondents rated withholding tax rate as high for them while others failed to comment or decide on this. This is due to the fact that majority of the respondents do not understand the whole concept of withholding tax in the Bolgatanga Municipal. On tax education, small number of the respondents (35, 18%) agreed that tax authority organizes tax education programmes for the taxpaying public very often. Furthermore, 36 (19.5%) of respondents believed that the tax authority had a positive tax relationship with the general population, while more than half disagreed.

Furthermore, the study found that 53 (28.6%) of the respondents sometimes collect their tax credit certificate from withholding tax agents as required, followed by 46 (24.9%) of the respondents who do not collect at all, their tax credit certificate from withholding tax agents as required and 20 of the respondents collect it once a while. Nevertheless, only 27 of the respondents collect it all the time and 39 of the respondents collect it most at times. Also, 52 (28.1%) of the respondents file their tax account with the tax authority, followed by 42 of the respondents who do not file at all and 20 of the respondents file it once a while. Also, 30 of the respondents file it most of the time.



It is indicated that small proportion of the respondents (71, 38%) were aware that the tax they have to pay in any basis period should be the total assessable tax less than the total tax credits for the basis period whenever they are to file your accounts while 114 (62%) of the respondents were not aware. Also, 34 (18%) of the respondents were aware that they can claim overpaid withholding tax while 151 of the respondents were not. Thus, majority of the respondents were not aware that they can go and claim their overpaid withholding tax from the tax authority. More than half (59.5%) of the respondents do not file their income return on time. Also, 70 (37.8%) of the respondents know how to file their income return while more than one-third of the respondents do not know how to file their income return. Moreover, 37 of the respondents pay their taxes when they have higher income. The majority of people (60, or 32.4 percent) do not want to pay taxes if they believe the government is untrustworthy. Since the government spends so much money on lavish projects, 66 (35.7 percent) of the respondents do not see any problem with claiming a lower taxable income.

As a major challenge to effective tax collection, all withholding tax agents identified inadequate tax withholding education as a major challenge. The fact that the GRA office is located far away from the taxpaying public (6, 17.1 percent) also emerged as a concern for the taxpaying public as accessibility becomes a problem. Illiteracy, difficulties in locating tax-paying citizens, and a lack of adequate logistics all contribute to the country's low record-keeping rate, which stands at only 5 percent (4, 11.4 percent).

## **Conclusion**

According to respondents, withholding tax was seen as an unnecessary hardship or a high levy designed to deter enterprises from opening their doors. Also, they do not see the essence of allowing withholding agents to deduct the prescribed withholding taxes from their gross payment. Public withholding tax education and payee-tax authority relations were both lacking in the United States. Moreover, respondents do not collect their tax credit certificate from withholding tax agents as required nor file their tax account with the tax authority.

As a result, small business owners in Bolgatanga do not understand withholding taxes. They had no idea how to calculate withholding tax, when to file their account, how to file their income tax return, whether they could recover overpaid withholding tax, and why they should declare less taxable income because the government spends too much on extravagant projects.

Withholding tax collection is hindered by a lack of education on the tax, the GRA office being distant from the taxpaying public, a high illiteracy rate among merchants, difficulties in identifying tax payers, insufficient logistics, and poor record keeping.

## **Recommendations**

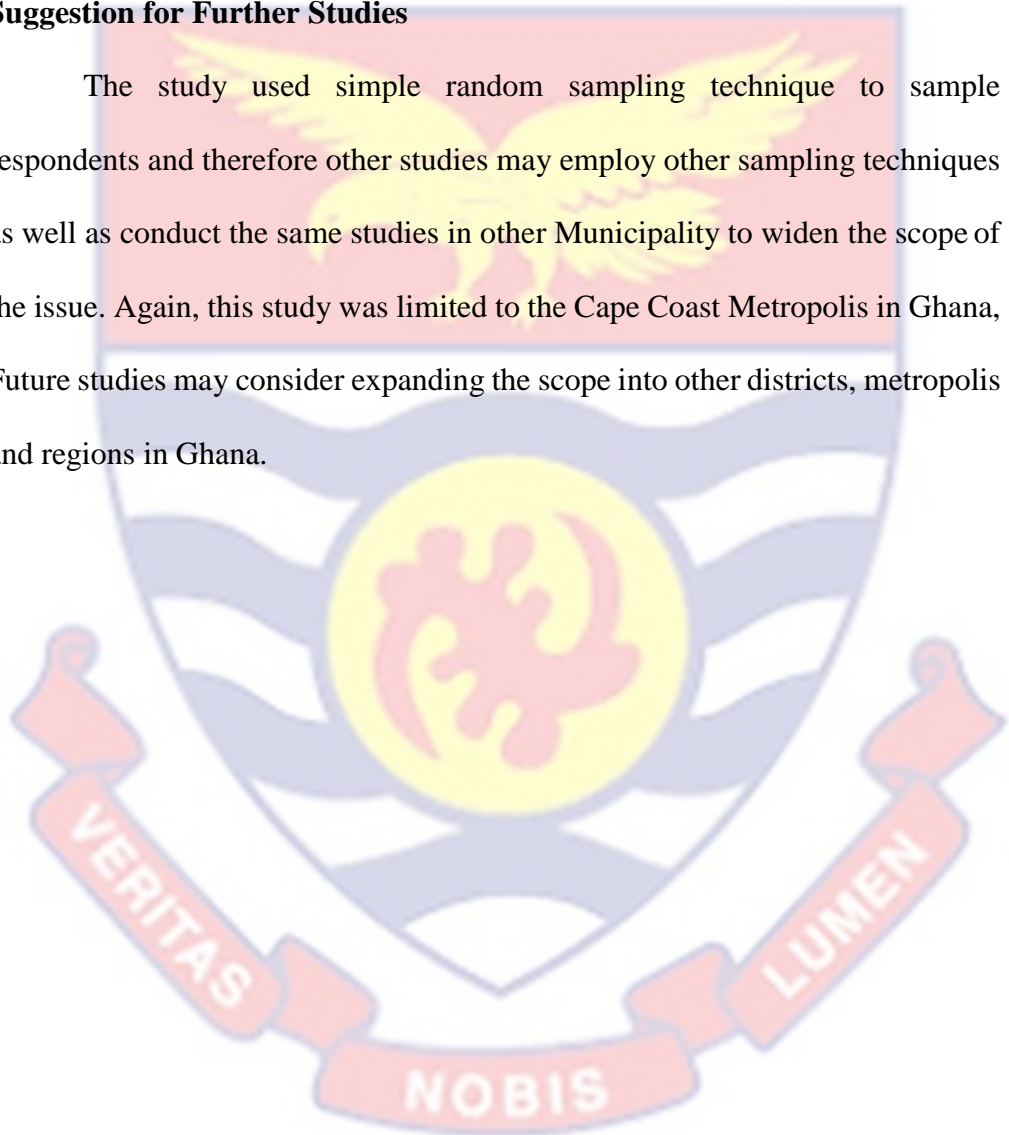
As a result of our research, we'd like to provide the following recommendations for your consideration:

Payees or taxpayers should be educated often on how to compute and file withholding tax; when to submit their income return; the difference between withholding tax and VAT; and more.

The GRA should have some sub-stations or offices closer to the taxpaying public. Also, GRA should provide adequate logistics to its workers or withholding tax agents for effective tax collection. Moreover, GRA should encourage their workers to have rapport with the payee to serve as a means of getting them on board to pay tax.

#### **Suggestion for Further Studies**

The study used simple random sampling technique to sample respondents and therefore other studies may employ other sampling techniques as well as conduct the same studies in other Municipality to widen the scope of the issue. Again, this study was limited to the Cape Coast Metropolis in Ghana, Future studies may consider expanding the scope into other districts, metropolis and regions in Ghana.



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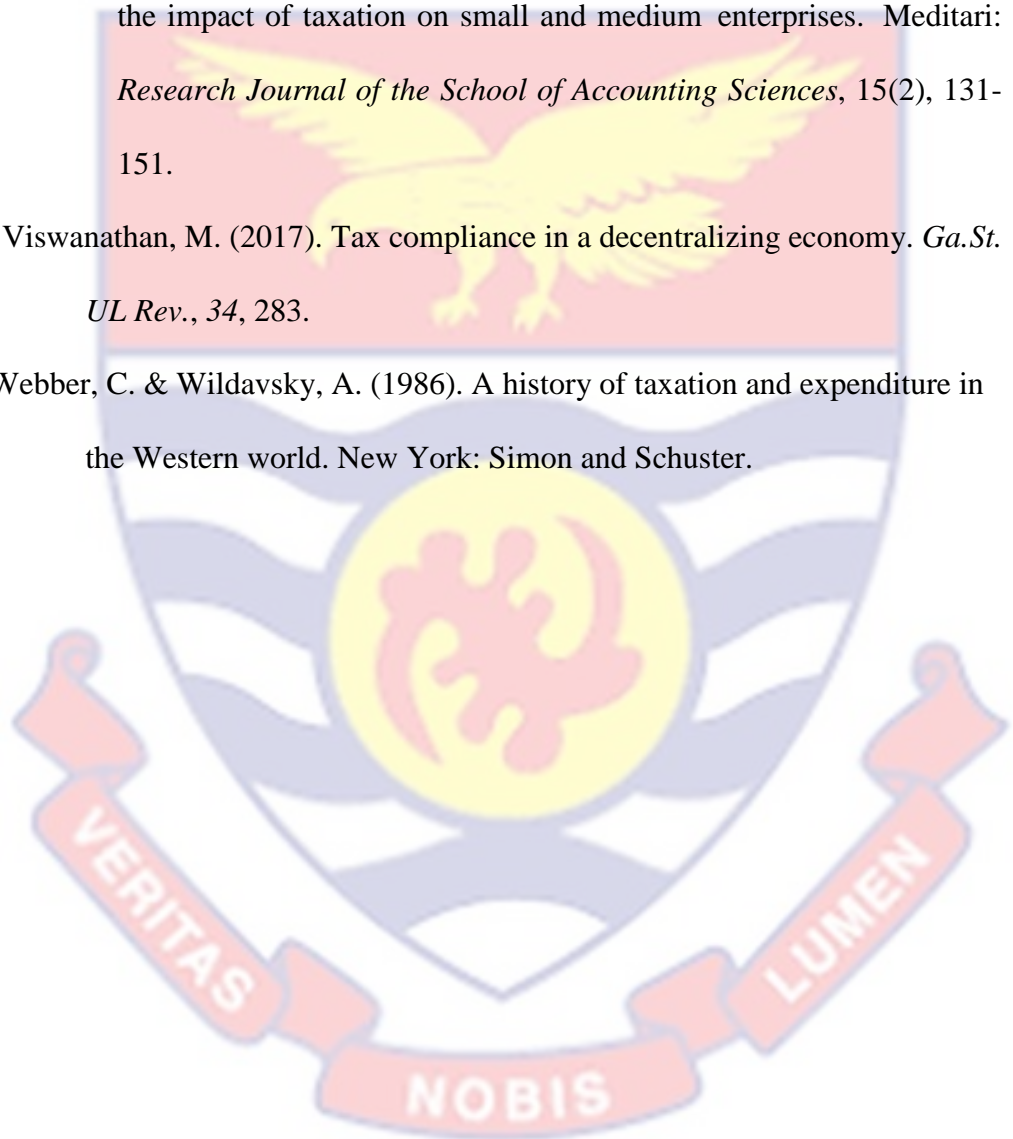
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## APPENDICES

### APPENDIX A

#### UNIVERSITY OF CAPE COAST

#### QUESTIONNAIRE FOR SMEs OWNERS

I am a distance student from the University of Cape Coast conducting a study on the topic “Investigating the effectiveness of withholding tax laws and regulations enforcement within Bolgatanga Municipality” the study is purely for academic purpose. Your identity would neither be required nor disclosed in any way and confidentiality would be strictly assured.

Please tick or provide responses to the questions in the spaces provided:

#### SECTION A: BACKGROUND OF RESPONDENTS

1. Sex:

a. Male

b. Female

2. Age:

a. below 20

b. 20-29

c. 30-39

d. 40-49

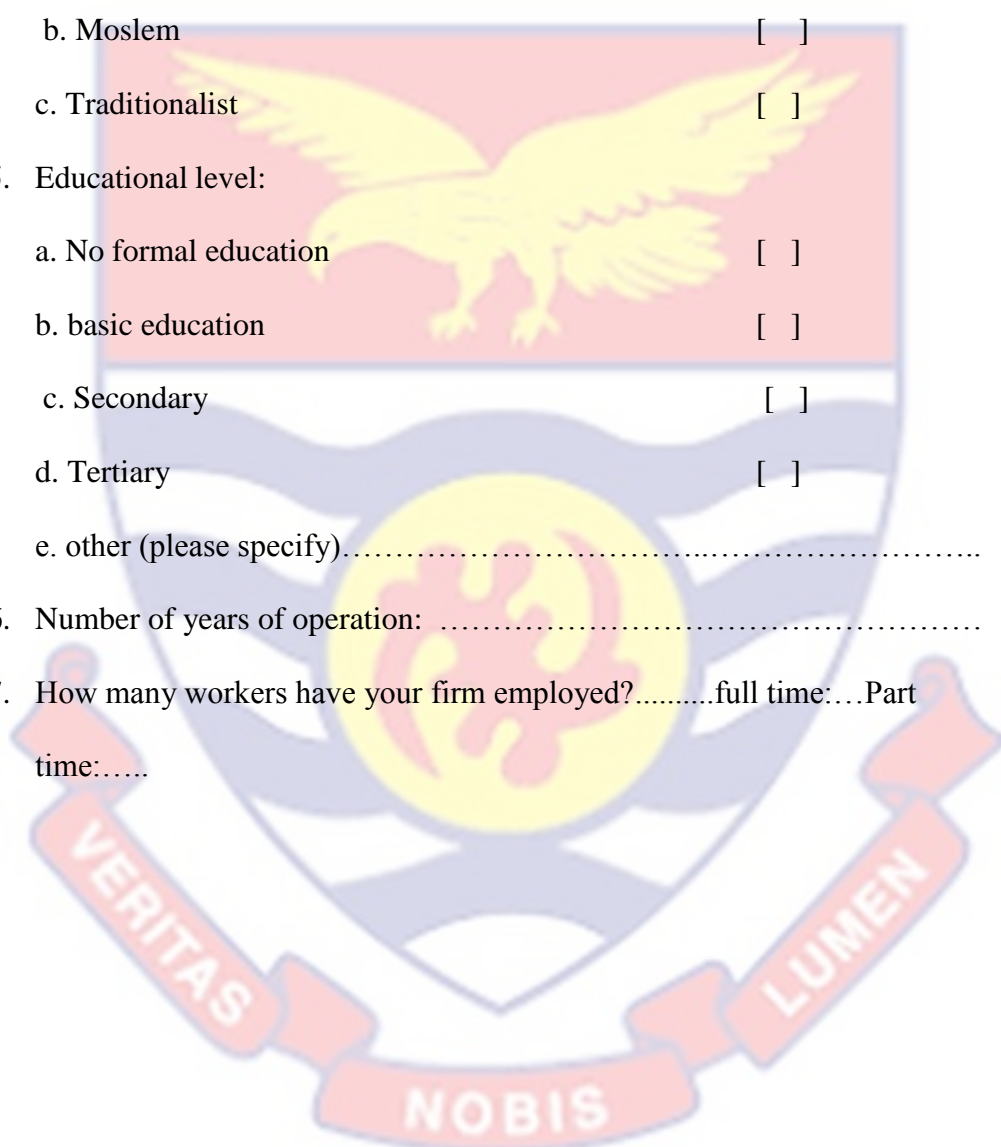
e. 50-59

f. 60 and above

3. Marital status:

a. Married

- b. Divorced [ ]
- c. Widowed [ ]
- d. Co-habiting [ ]
- 4. Religion:
  - a. Christian [ ]
  - b. Moslem [ ]
  - c. Traditionalist [ ]
- 5. Educational level:
  - a. No formal education [ ]
  - b. basic education [ ]
  - c. Secondary [ ]
  - d. Tertiary [ ]
  - e. other (please specify).....
- 6. Number of years of operation: .....
- 7. How many workers have your firm employed?.....full time:....Part time:.....



**SECTION B: INVESTIGATING THE EFFECTIVENESS OF  
WITHHOLDING TAX LAWS AND REGULATIONS  
ENFORCEMENT WITHIN BOLGATANGA MUNICIPALITY**

8. It is important to allow withholding agents to deduct the prescribed withholding taxes from gross payments due you (payee) before paying you the net amount

a. Strongly disagree [ ] b. Disagree [ ] c. Uncertain [ ] d. Agree [ ] e. Strongly Agree [ ]

9. Withholding tax rate is high for me?

a. Strongly disagree [ ] b. Disagree [ ] c. Uncertain [ ] d. Agree [ ] e. Strongly Agree [ ]

10. As a payee you collect your tax credit certificates from the withholding agents as required

a. All the time [ ] b. Most of the time [ ] c. Sometimes [ ]  
d. Once a while [ ] e. Not at all [ ]

11. You file your accounts with the tax authority always

a. All the time [ ] b. Most of the time [ ] c. Sometimes [ ]  
d. Once a while [ ] e. Not at all [ ]

12. Are you aware that the tax you have to pay in any basis period should be the total assessable tax less the total tax credits for the basis period, if you file your accounts?

a. Yes [ ] b. No [ ]

13. Are you aware that you can claim overpaid withholding taxes, if you file your accounts?

a. Yes [ ] b. No [ ]

14. The tax authority organizes tax education programmes for the taxpaying public very often

- a. Strongly disagree [ ] b. Disagree [ ] c. Uncertain [ ] d. Agree [ ] e. Strongly Agree [ ]

15. Tax authority has good tax rapport with the taxpaying public (including payee)

- a. Strongly disagree [ ] b. Disagree [ ] c. Uncertain [ ] d. Agree [ ] e. Strongly Agree [ ]

16. What are your general comments on the withholding tax system as a payee?

.....

.....

.....

.....



**SECTION C: ATTITUDE OF PAYEES WITHIN THE WITHHOLDING TAX COLLECTION PROCESS IN BOLGATANGA MUNICIPALITY**

17. Rank by ticking (√) the extent to which the following statements relate to your organization

SD- Strongly Disagree D- Disagree N- Neither A- Agree SA- Strongly Agree

	SD	D	N	A	SA
I know how to file my income returns					
I file my income return on time					

I claim my overpaid taxes when I file my account					
I pay taxes when I have higher income					
I understate income (employment income, rental income, etc) if the amount is relatively small.					
I do not feel like paying taxes as long as the government cannot be trusted.					
It is not so wrong to declare less on taxable income since the government spends too much on extravagant projects.					

**SECTION D: CHALLENGES IMPEDE THE EFFECTIVE  
IMPLEMENTATION OF WITHHOLDING TAX IN THE  
BOLGATANGA MUNICIPALITY**

18. In your own view, what are the challenges that impede the effective implementation of withholding tax?



University of Cape Coast

College of Distance Education

## INTERVIEW GUIDE FOR WITHHOLDING TAX AGENTS

Challenges impede the effective implementation of withholding tax in the Bolgatanga Municipality

Sex:

Age:

Position:

1. Do you make PAYE deductions as and when you pay salaries all the time?

If you do not effect PAYE deductions all the time, give reasons for not doing so

2. Do you deduct all other withholding taxes (goods and services- 5%, rent- 8%, commission-10% etc) all the time?

If you do not deduct other withholding taxes all the time, give reasons for not doing so

3. Do you always transfer taxes withheld to the tax authority on time.

3B. if you are unable to transfer withheld taxes to the tax authority on time all the time, give reasons why you are not able to do so

4. Do you pay to the tax authority in lieu of withholding taxes you are unable to deduct?

5. How often does the tax authority organize tax education programmes for withholding agents and the taxpaying community in the Municipal?

6. How often does the tax authority conduct tax audits in your organisation?

7. Does the tax authority apply non-compliance sanctions strictly?

8. What challenges do you face in withholding tax monitoring and collection



process?

9. What other challenges confront you as a withholding agent?

10. Any other comments or suggestions on withholding tax?



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**INTERVIEW GUIDE FOR TAX ADMINISTRATOR AND**  
**TAX AUDITORS**

Sex:

Age:

Position:

Marital status:

1. What are the responsibilities of the withholding agents under the Internal Revenue Act?

1b. In your day to day dealings with them, can you say that they are conversant with these responsibilities?

2. Does the GRA have the required resources to enforce withholding tax compliance?

2b. Give reasons

3. What are the measures used by the GRA to ensure withholding tax compliance?

3b. How relevant and adequate are these measures?

4. What are the enforcement tools used by the tax authority to deal with non-compliance by withholding agents?

4b. How effective and relevant are these tools?

5. Do withholding agents withhold the required taxes all the time?

6. What specific issues affect their ability to withhold the require taxes?

7. Does the GRA apply the prescribed sanctions on withholding agents anytime compliance provisions are breached? If detail sanctions are not applied always, give reasons why prescribed sanctions are not apply always

8. What are the other specific challenges of the withholding tax systems in Ghana?

9. Any comments and suggestions to improve the withholding tax system in Ghana?

