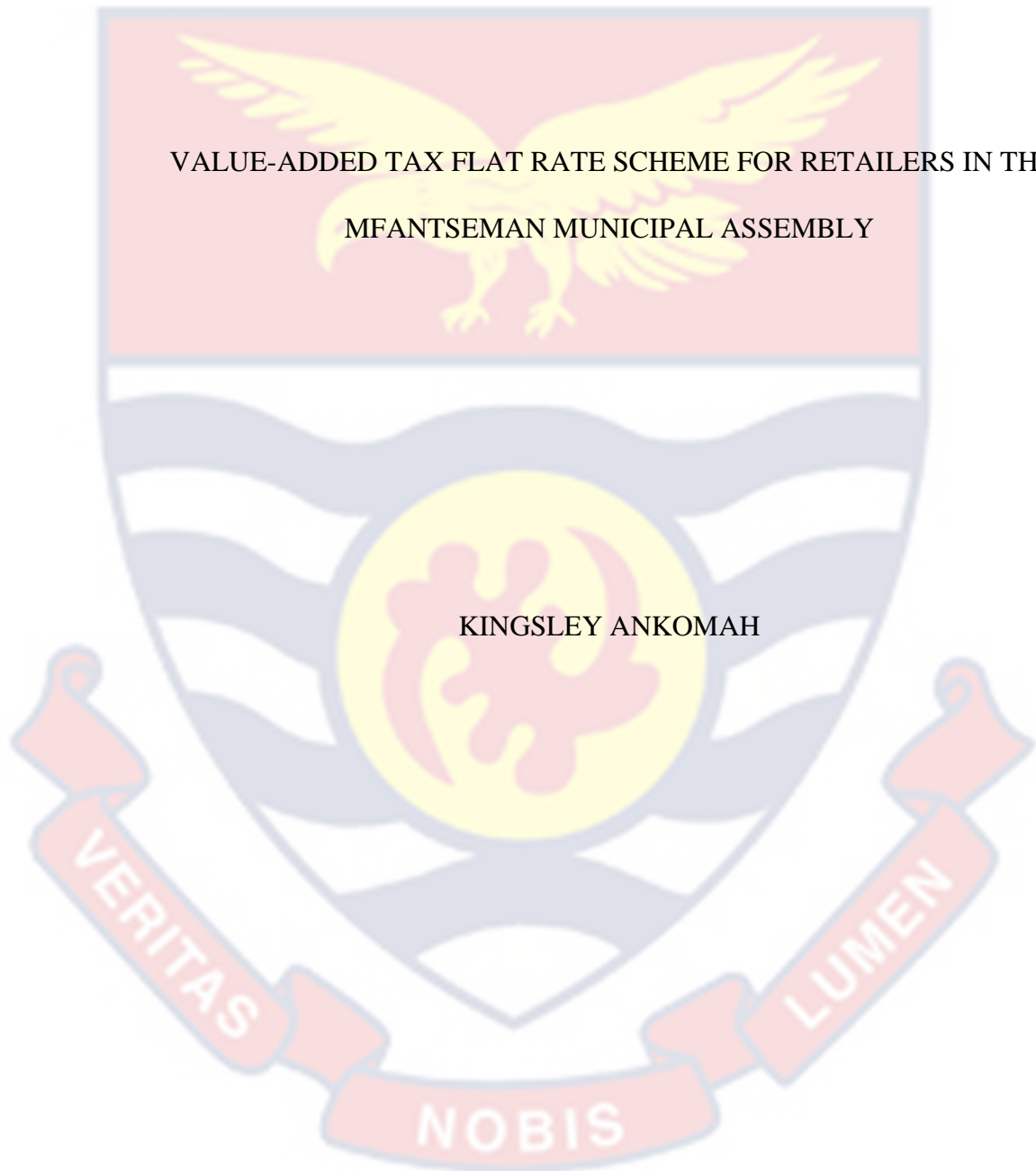


UNIVERSITY OF CAPE COAST



VALUE-ADDED TAX FLAT RATE SCHEME FOR RETAILERS IN THE
MFANTSEMAN MUNICIPAL ASSEMBLY

KINGSLEY ANKOMAH

2023

UNIVERSITY OF CAPE COAST



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MFANTSEMAN MUNICIPAL ASSEMBLY

BY

KINGSLEY ANKOMAH

Dissertation submitted to the 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

JULY, 2023

DECLARATION

Candidate's Declaration

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

Candidate's Signature: Date:

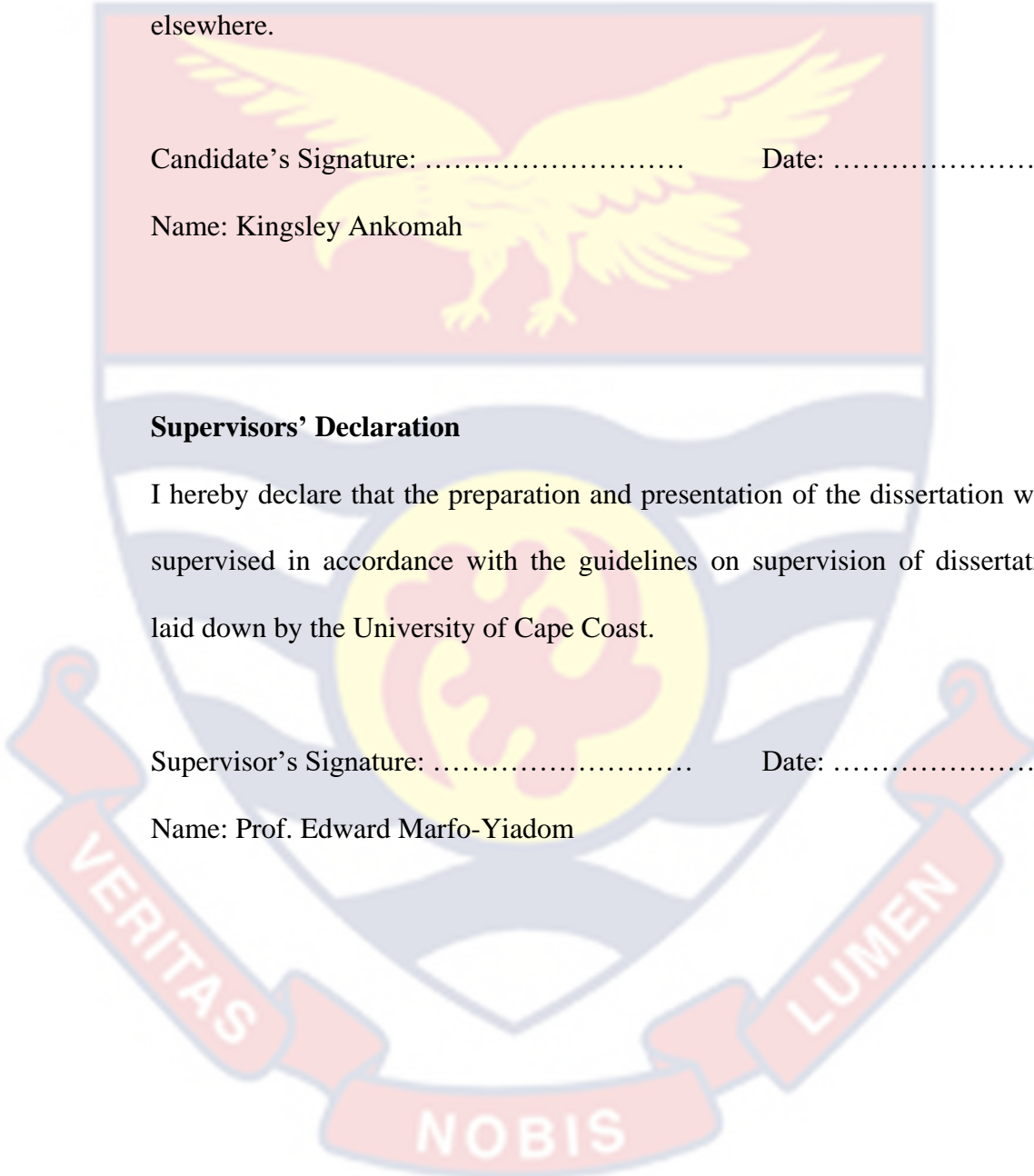
Name: Kingsley Ankomah

Supervisors' Declaration

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

Supervisor's Signature: Date:

Name: Prof. Edward Marfo-Yiadom



ABSTRACT

The study examines the VAT flat rate scheme for retail businesses in Mfantseman Municipal Assembly. An explanatory research design was employed as well as a quantitative research approach relative to the research objectives. Descriptive statistical tools, such as frequency and percentages analysis were used to analyze the research objectives. The study used primary data for the analyses. With respect to the sampling method, proportionate random sampling techniques were employed to select the 120 participants from the accessible population. The results showed that VAT compliance level among the retailers is weak. This is because the retailers only issue invoices to their customers when they demand it which is contrary to the law. The results also revealed that majority of the respondent indicate that the VAT flat scheme have affected their retail business negatively because it has slowed down their profit as well as their sales. Finally, the results also indicate The VAT flat scheme has slowed down work of the retailers e.g. issue of VAT invoice. The study concludes that most retailers or VAT collectors in the Mfantseman Municipal Assembly are not used to issuing VAT invoices and that those who even do that do so upon customer request. The study finally recommends that GRA officials should addressed the challenges encountered by the retail operators in order to enable the policy achieve it intended purpose. Finally, the researcher made suggestions for future studies.

KEYWORDS

Retail business

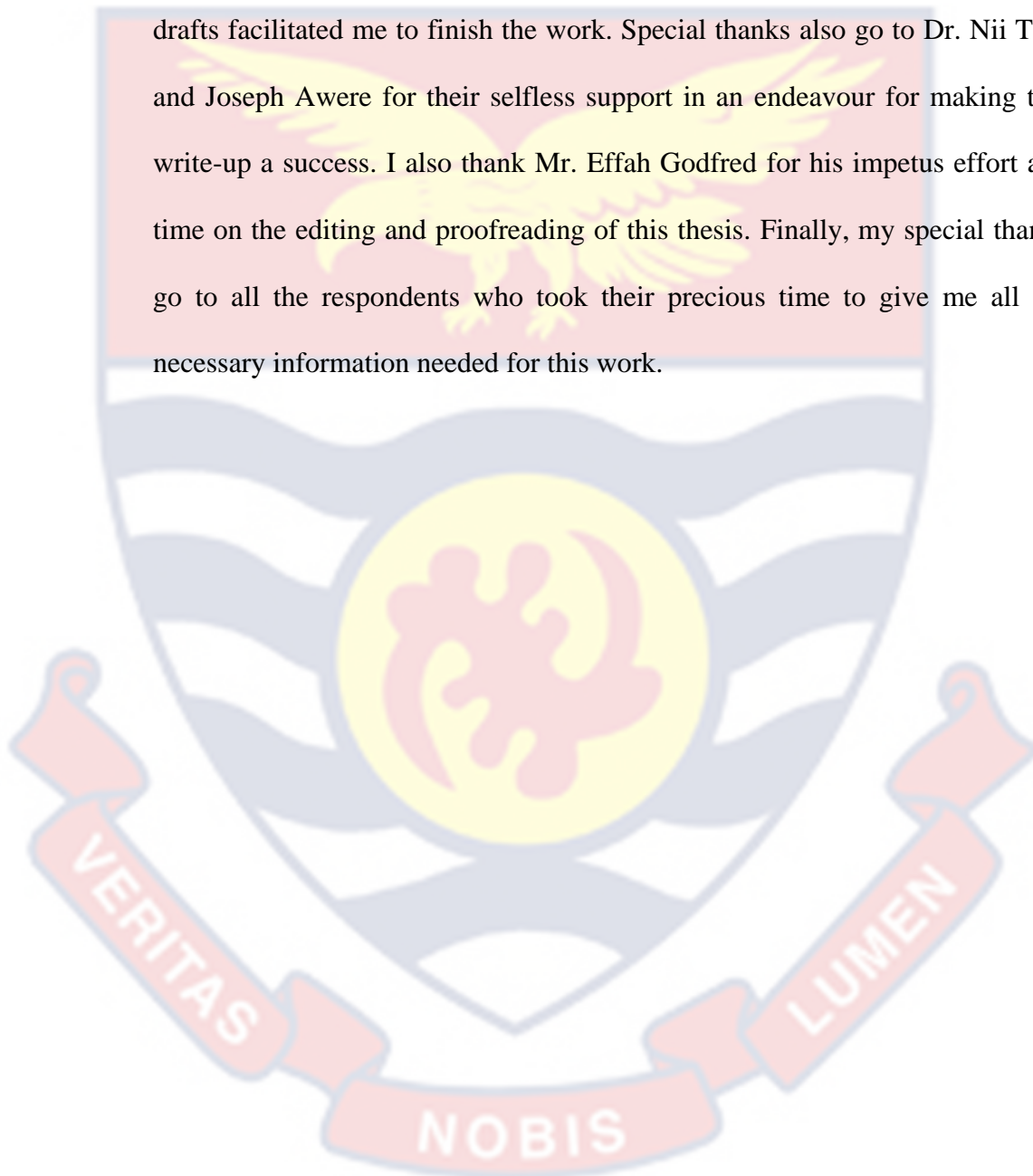
Value added tax

VAT flat rate scheme



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DEDICATION

To my family



TABLE OF CONTENTS

	Page
DECLARATION	ii
ABSTRACT	iii
KEYWORDS	iv
ACKNOWLEDGEMENTS	v
DEDICATION	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF ACRONYMS	xi
CHAPTER ONE: INTRODUCTION	
Background to the Study	1
Statement of the Problem	4
Research Objectives	6
Research Questions	6
Significance of the Study	7
Delimitations	7
Limitations	8
Organisation of the Study	8
CHAPTER TWO: LITERATURE REVIEW	
Introduction	9
Theoretical Review	9
Conceptual Review	12
Empirical Review	27
Chapter Summary	32

CHAPTER THREE: RESEARCH METHODS

Introduction	33
Research Philosophy	33
Research Approach	34
Research Design	35
Study Area	36
Population	36
Sampling Procedure	37
Data Collection Instrument	37
Validity and Reliability of the Instrument	39
Data Collection Procedure	42
Data Processing and Analysis	42
Ethical Considerations	44
Chapter Summary	45

CHAPTER FOUR: RESULTS AND DISCUSSION

Introduction	46
Socio-Demographic Information of Participants	46
Chapter Summary	57

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND
RECOMMENDATIONS

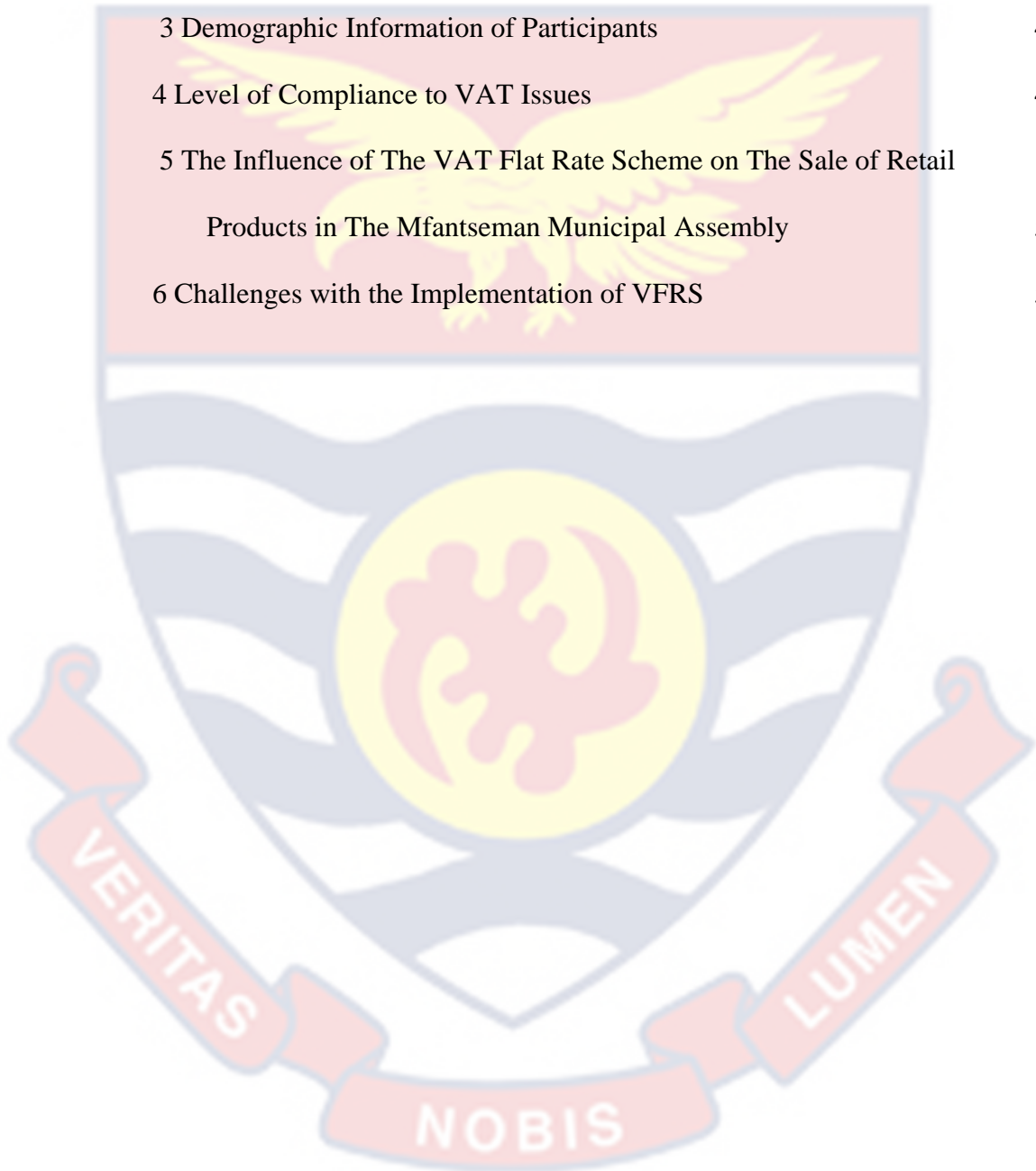
Introduction	58
Summary of the Study	58
Summary of Key Findings	59
Conclusions	60
Recommendations	61

Suggestions for Further Research	62
REFERENCES	63
APPENDIX	81



LIST OF TABLES

	Page
1 A Simple Supply Chain with 20% VAT	24
2 Reliability of the Instrument	41
3 Demographic Information of Participants	47
4 Level of Compliance to VAT Issues	49
5 The Influence of The VAT Flat Rate Scheme on The Sale of Retail Products in The Mfantseman Municipal Assembly	52
6 Challenges with the Implementation of VFRS	54



LIST OF ACRONYMS

GUTA	Ghana Union of Traders Association
VAT	Value Added Tax
VFRS	VAT Flat Rate Scheme



CHAPTER ONE

INTRODUCTION

The VAT flat rate system (VFRS), which has a lower rate of 3% than the country's standard rate of 17.5%, is a problem that Ghana must deal with.

An amendment to the Value-Added Act 870, Act 948, provided support for the new tax policy's implementation in 2017. A 3% marginal tax is now paid in addition to a 17.5% VAT rate under the VAT flat rate system (VFRS) law, which targets retail stores and some wholesalers. The policy objective of the law is to facilitate tax deduction by traders who cannot keep proper records and cannot afford the services of professionals to do the calculations of the tax. However, reaction to this position of GRA is mixed and has created a debate between the Government, the Ghana Union Traders Association (GUTA), Association of Ghana Industries (AGI), and other business trade unions in the country (ghananewsonline.com.gh, 2017). The bone of contention has been the incidence of the tax and the anticipated inflationary impact on the prices of goods (Malik, Ross, Abrokwah, Conron, Kamara, & Nuer, 2021). Hence the need to assess value-added tax flat rate scheme for retailers in the Mfantseman Municipal Assembly.

Background to the Study

Around the world, taxation is a significant source of revenue for governments (Abiola, & Asiweh, 2012). Therefore, the government's capacity to raise the necessary funds for development is impacted by taxpayers' low tax compliance (Castro & Scartascini, 2015). Increased tax revenue will allow the government to undertake more development initiatives to assist increase citizens' quality of living. According to Palil (2010), government generates tax

revenue for public expenditure and helps in reducing inequalities through a policy of redistribution of income. Similarly, Bird (2003) indicates that tax revenue ensures the attainment of economic goals through allocation of resources. Furthermore, Gumisiriza, and Mukasa, (2022) argues that tax revenues are used to finance the national budget and control the economy and protection of local industries. Tax revenues are used to redistribute income to help the less well-off and also used to restrain the consumption of certain types of products (Damjanovic, & Ulph 2010).

Tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely, or the degree to which a taxpayer complies or fails to comply with the tax rules of their country (Mwangi, 2014). Tax compliance is the degree to which taxpayers comply with the tax law (James and Alley, 2004) and full payment of all taxes due (Braithwaite). It is also defined as a process in which taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulations (Palil & Mustapha, 2017). Tax compliance is defined by Kamleitner, Korunka, and Kirchler, (2012) as taxpayers' desire to pay their due taxes. Tax compliance can be defined as taxpayers willingly fulfilling all tax duties set forth by the state without being forced to do so.

The low tax compliance among Retailer/SMEs in Ghana are basically due to the characteristics of Retailer/SMEs (Dube, & Casale, 2016). Dube and Casale explain that Retailer /SMEs have small capacity to maintain high-quality financial reports for tax reasons. Dube and Casale added that SMEs have low profit and some do not earn profit at all; hence they find it difficult to pay tax even when they make profit in the subsequent years. The tax

authorities are unable to enforce total tax compliance among SMEs because of ineffective bookkeeping practices (Dube & Casale). The tax authorities have inadequate human resources to enforce tax compliance among the SMEs (Atawodi, & Ojeka, 2012).

In the context of generating high revenue for economic growth, Ghana undertook a major reconstruction of its tax system in early 1980s. The introduction of Value Added Tax (VAT) was parts of the overall tax reform package (Allingham & Sandmo, 2002). According to Agyei (2002), VAT was initially designed for businesses with annual turnover of more than GH¢10,000. This condition excluded many retailers from charging VAT on their goods because they could not attain the annual revenue threshold. Hence, retailers lost all the advantages that VAT operators gained. A new form of VAT known as VAT Flat Rate Scheme (VFRS) with the rate of 3% was introduced for retailers.

The VAT Flat Rate Scheme is a VAT collection or accounting mechanism that applies a marginal tax rate of 3% representing the net VAT payable, on value of taxable goods supplied. It is an alternative to the invoice credit method (i.e., standard VAT system of 17 $\frac{1}{2}$ %). It is not a separate tax or additional impost but only an amendment of the VAT Act in 2007 (Act 734) with the main aim of simplifying the VAT accounting system for retailers (Agyeman, 2011). This study provides the assessment of VAT flat rate scheme for retailers in Ghana with special reference to retail businesses in Mfantseman Municipal Assembly as a case study.

Statement of the Problem

Taxes continue to be essential for a nation development, funding public infrastructure and expenditures, wealth redistribution, and creating a "fiscal social contract" between governments and citizens (Forstater, 2018).

However, ensuring tax compliance and collecting the much needed revenue from the tax administrations remains a major challenge for them. This is particularly true for developing countries. While developed countries have been able to collect tax revenue to a satisfactory level, developing countries have not been able to do so (Mahdzan, et al 2019). They are still struggling with tax compliance problems. Tax compliance is currently a topical issue, especially in developing countries as governments are seeking ways to improve efficiency in tax revenue collection to finance their budgets.

VAT which is a multi-stage tax was introduced through tax reforms to replace the sales tax (single-stage tax) because of the problems associated with the sales tax in 1998 in Ghana (Agyeman, 2011). This reform also led to a change in the tax administrative system in Ghana – VAT Service which is now absorbed by the Domestic Tax Revenue Division of Ghana Revenue Authority was established to administer the value added tax (Agyei, 2008). From the year of its implementation to date, VAT itself had undergone changes. VAT was initially meant for businesses with annual turnover of more than GH¢10,000. This excluded many retail businesses from registering as VAT registered traders.

However, one of the problems cited by some experts and businesses in Ghana against the introduction of VAT flat rate scheme (VFRS) is the cascading effect of the tax (ghananewsonline.com.gh, July, 2017). Cascading

tax effect in taxation is a situation where tax is charged or paid on tax. A good taxation regime always takes steps to avoid taxation over taxes or cascading-effect of incident taxes (Kumar, 2012). The cascading effect adds to the cost to the final consumer, deadweight loss, and slump in total surplus of the supply chain consisting of supplier, manufacturer, retailer, and consumer (Kumar, 2012). The cascading effect is prominent in situations of levying a variety of charges in the governmental structure with each unit of government charging the same tax as a product pass through their jurisdiction.

The agitations from members of GUTA led to the amendment of VAT Act in 2007 (Act 734) to give birth to the VAT Flat Rate Scheme (VFRS) for retailers. The VFRS is an alternative form of VAT designed for retailers with annual turnover of less than GH¢10,000. The VFRS is a collection or accounting mechanism that applies a marginal tax rate of 3% representing the net tax payable, on the value of taxable supplies (Act 734). Retailers were happy for the introduction of VFRS. However, five years within its implementation, they (retailers) began complaining bitterly about the scheme they fought and contributed to its establishment (Agbadi, 2013).

Further, in Ghana, there have been several studies on tax compliance. For instance, Sachibu (2012), in his study on reasons for low tax compliance in Tamale, concludes that the culture of entitlements contributed to non-tax compliance. Antwi, Inusah, and Hamza (2015) in their article on the effect of demographic characteristics of Retailers/SMEs on tax compliance in Tamale posit that women and younger entrepreneurs were more non-compliant with tax laws and rules. Similarly, Naporow, (2016), made a study on Promoting Income Tax Compliance among the Self-employed in Tamale and concludes

that the self-employed with no or less education are highly income tax non-compliant.

Considering the foregoing, it is obvious that there is a gap in the literature as far as VAT flat rate scheme of retail businesses in Ghana are concerned. Thus, it is indisputable that a study is needed to fill these gaps. It is based on this background and all the issues advanced that the focus of the current study examined the VAT flat rate scheme for retail businesses in Mfantseman Municipal Assembly.

Purpose of the Study

The main purpose of the study was to examine the VAT flat rate scheme for retail businesses in Mfantseman Municipal Assembly

Research Objectives

However, the specific objectives of the study are to:

1. Ascertain the VAT compliance level of retailers in the Mfantseman Municipal Assembly.
2. Examine the influence VAT flat rate scheme on sale of retail products in the Mfantseman Municipal Assembly.
3. Identify the major challenges faced by the retailers in the implementation of VAT flat rate scheme in the Mfantseman Municipal Assembly.

Research Questions

In order to address the objectives of the study, answers were sought for the following research questions:

1. What is the level of compliance with VAT among retailers in the Mfantseman Municipal Assembly?
2. Does the VAT flat rate scheme boost the sale of retail products in the Mfantseman Municipal Assembly?
3. What are the major challenges faced in the implementation of VAT flat rate scheme by the retailers in the Mfantseman Municipal Assembly?

Significance of the Study

The study was to explore the VAT flat rate scheme for retail businesses in Ghana. Another objective of this research was to find out the problems of effective administration and implementation of VAT in Ghana. So, the research work is significant in the sense that its thorough study would: Draw the attention of government to problems related to VAT administration in Ghana thereby making policies to address them. Keep retailers informed about the current issues related to the administration and implementation of VAT in Ghana thereby encouraging compliance. Help other researchers who are interested in doing research on topics related to Value Added Tax in Ghana.

Delimitations

The study had a very limited area of investigation. It is purported to represent the entire nation; however, it is confined to VAT officials and retailers within Mfantseman Municipal Assembly. Again, it was only limited to the Value Added Tax Flat Rate Scheme not full analysis of tax system in Ghana. The comprehensive study of the tax system in Ghana was not possible in this research work due to the limited time used for completion. The information and data were collected from retailers and officials from Domestic

Tax Revenue Division of Ghana Revenue Authority within the study area only.

Limitations

One major weakness of this study is the exclusion of the standard VAT rate of 17 1/2% collectors. The views of businesses operators that collect the standard VAT rate could have helped to enrich the research very well, but this is beyond the scope of this study. Any further study on this matter should consider the impact of VAT on businesses in Ghana. The study also cannot capture any change to the VAT Act after December 31st, 2021. Tax laws all over the world are very dynamic. Hence some of the information in this study may be out of date by the time any person would be reading it.

Organisation of the Study

The study was organised in five chapters. The introduction, which was the Chapter One, highlighted the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, delimitation of the study, limitation of the study, and organization of the study finally, the chapter summary. In the Chapter Two, the underpinning theories, concepts and related empirical studies were reviewed, as well as the conceptual framework. Chapter Three discussed the research methods employed for this study. Chapter Four focused on analysis and discussion of results. The final chapter, Chapter Five, concluded the dissertation by highlighting the summary, key findings, conclusions, and recommendations as well as suggestions for further research.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviews literature on the theoretical foundations of the study. The review provides the intellectual context for the study, acknowledging and examining prior knowledge on the topic and appreciating modes of presentation and discussions on research. The chapter started with a review of theories on tax compliance. The chapter went further with a conceptual review of the Ghanaian tax system, principles of a good tax system, and the VAT and VAT flat rate scheme for retail businesses. The chapter again reviews empirical studies in relations to VAT and VAT flat rate scheme.

Theoretical Review

To well situate this study in literature, two theories have been employed to underpin the study. These theories have been comprehensively tuned to accommodate the main study concepts and help explain the relationships hypothesized between the concepts. The theories employed are the Ability to Pay Theory (Kendrick, 1939) and the Laffer Theory of Taxation (Laffer, 1979). These two theories were employed due to their close links to the study hypotheses. These theories are discussed in detail below;

Ability to pay theory

Ability to pay theory, developed by Slade Kendrick in 1939, is the most commonly developed principle of equity or justice in taxation. Individuals should pay taxes to the government in line with their ability to pay

(Kendrick, 1939). It seems fair and reasonable that taxes should be imposed on an individual, based on his/her taxable ability. The establishment of TIN to promote the registration of taxpayers and tax administration without a functioning principle of equity and justice in taxation will minimize the efficiency of the reform. This is because citizens earning meager income will find the tax burden uneasy. Therefore, tax avoidance and evasion will be inevitable (Aguolu, 2001).

Laffer theory of taxation

Laffer's theory of taxation, popularly known as the "Laffer Curve." is a hypothetical depiction of the connection between tax revenue raised by government and all possible rates of taxation. It considered that at extreme tax rates, no revenue would be raised. This is because, at an extreme tax rate, taxpayers have no reason to earn income again. In the same vein, a very low tax rate will produce unreasonable tax revenue and the main purpose of tax revenue will not be achieved. It, therefore, follows that there must exist at least one rate in between where tax revenue would be a maximum (Bhatia, & Malik, 1991).

The Laffer Curve is a theoretical explanation of the relationship between tax rates set by a government and the tax revenue collected at that tax rate. It was introduced by American supply-side economist, Arthur Laffer. The concept was not invented by Laffer; there were other antecedents from the 14th-century writings of Ibn Khaldun. The Laffer Curve says that there is no tax revenue collection at the two extreme tax rates of 0% and 100%. However, there is one optimal tax rate between both these extremes that maximizes tax

revenue collection. One of the theory's main assumptions is that if taxation on a certain activity, such as production, is increased beyond a certain point, less of it is produced. Beyond the optimal tax rate, workers start to believe that their extra efforts are resulting in lower additional income. Thus, they work less, income falls, and tax collection decreases.

Laffer brought his concept to the attention of policymakers in 1974 when the general approach of most economists was a Keynesian one. They advocated more government spending to stimulate demand, which in turn meant more taxes. The policy was proving to be ineffective and Laffer asserted that the problem was not because of too little demand but due to the burden of heavy taxes and regulations that left producers without incentive to produce more. Tax rate cuts affect revenues in two ways. Every tax rate cut translates directly to less government revenue but also puts more money in the hands of taxpayers, increasing their disposable income. In the long term, business activity increases, companies hire more, who in turn spend more, and this leads to economic growth. The growth creates a larger tax base and generates higher total tax revenue.

A higher tax rate increases the burden on taxpayers. In the short term, it may increase revenues by a small amount but carries a larger effect in the long term. It reduces the disposable income of taxpayers, which in turn, reduces their consumption expenditure. Aggregate demand in the economy falls and producers create less. This leads to higher unemployment. The tax base for the government falls and so does its tax revenue.

Conceptual Review

This section of the chapter reviews the main concepts of the study. Specifically, Taxation, the concept of VAT, VAT in Ghana, The VAT flat rate scheme in Ghana, the concept of retailing and retail business, and tax System in Ghana, were discussed in details:

Taxation

Taxation is the practice of collecting money from people or residents of a jurisdiction based on their earnings and property. Taxation is the process through which a government or taxation authority imposes or levies a tax on its citizens and commercial organizations (Addo 2022). Thus, a tax is a mandatory financial charge or some other sort of levy imposed on a taxpayer by a governmental entity to fund government spending and related public expenses (Awitta, 2010). It must be underlined that taxes are a significant source of income for governments throughout the world (Lymer & Oats, 2009). Thus, the goal of taxation is to fund governmental spending. The funding of public goods and services, such as street lighting and street cleaning, is one of the most significant uses of taxes (Owusu-Ansah, & Mji, 2013). According to Lyme and Oats (2010), taxes have three main purposes: financing government spending, promoting equity and welfare among citizens through wealth and income redistribution, and regulating the economy to foster a favorable business climate.

Therefore, taxation is one of the ways that a government might raise money to support the needs of its people, some of which have already been mentioned. Taxation, according to Abiola, and Asiwah, (2012), is necessary to pay for public expenditures. According to Popoola, and Magidimisha,

(2020), public funds must be used to pay for social infrastructure and the provision of electricity. No one like paying taxes, yet they are necessary for the provision of social welfare, according to Nightingale (2002).

A closer look at some of the contributing variables or causes of people's resistance to paying taxes reveals that some nations' complex tax administration and policy systems are to blame. The opposition to taxes is frequently so strong that it could cause societal instability (McKerchar, & Evans, 2009). According to James, and Scotia, (2009). and Nightingale (2002), who both cite Smith (1776), a good tax should be equitable, efficient, neutral, flexible, and simple. These principles are still valid today and even serve as a roadmap for creating tax laws.

There is no good tax, according to Nightingale (2002), because it is essentially impossible to satisfy all of these goals with a single tax policy. This is due to the possibility that an efficient tax could be unfair. According to Biereenu-Nnabugwu, and Abah, (2015), "A tax that is deemed equitable may not be considered efficient, and a tax that is considered efficient may not be considered fair." People typically detest paying taxes because of how they affect their income. Few people are happy about paying taxes, according to (Awitta, 2010). If tax policy is to be followed, it must be broadly accepted by the populace (Nightingale, 2002). Therefore, a successful tax system must adhere to the attributes of taxes mentioned by Nightingale (2002): equitability, neutrality, efficiency, flexibility, and simplicity (Adam Smith, 1776).

In Ghana, this refers to tax assessment, collection, administration, and management. It is responsible for increasing public revenue, managing public

expenditure, and managing public debt. The provision of public goods and services is the general idea of taxation. However, the government's benefits to tax payers are unrelated to or proportionate to the tax paid. (Bhatia, 2012). The government is in charge of providing some public infrastructure and services to its population, such as roads, hospitals, schools, marketplaces, and security. A tax is a "financial burden imposed on individuals or property owners in order to fund the government."

It is a tax imposed by a legislative body (Bhatia, 2012). A tax is not a voluntary payment or donation, but rather an imposed contribution levied by government [central or district legislatures] under the names of toll, tribute, tillage, import duty, custom, excise, subsidy, help, supply, or any other name. The tax system's traditional function is to raise enough income to meet the expanding demands of the public sector. A tax (from the Latin *taxo*) is a financial charge or other levy imposed by a state or the functional equivalent of a state on a taxpayer (an individual or legal entity).

Taxation is a significant source of government revenue and an important component of economic policy (Feld, Kirchgassner & Schaltegger 2010). The question over whether the government should intervene in the functioning of the market mechanism gives rise to the importance of taxation. The Income Tax Act of 2015 (Act 896) further stated that taxes can be imposed for a variety of reasons, but the primary goal of most taxes is to generate money. Taxation has become more important not only as a means of obtaining income for conventional functions, but also as a means of stimulating economic growth and ensuring social justice. In developing countries, the fundamental goal of taxation is not to maintain income and

spending stability. These countries face a lack of savings and capital accumulation, necessitating the promotion of specialized items to address supply and demand shortages. It is a problem with multiple dimensions, and the tax system must be tailored to aid the economy.

Effectiveness and efficiency in tax administration are critical, and while simplification is preferred whenever possible, more complex procedures are often required to ensure even enforcement (Frankema, 2011). The goal is to relieve the taxpayer and tax officials of unnecessary burdens and to provide a more equal and effective administration of the tax rules. As a result, the taxpayer's and tax official's morale and cooperation will be increased, and a better revenue structure will be achieved. An increase in tax administration resources should also be considered. In order to collect the essential tax income, presumptive rules should be used in assessing tax on some hard-to-tax groups.

Tax System in Ghana

The tax structure of a country typically reflects communal beliefs or the values of people in power. To establish a taxation system, a country must make decisions on how the tax burden will be distributed, who will pay taxes and how much they will pay, and how the taxes collected will be spent. Direct and indirect taxes are the two main types of taxes levied by the government. Individual income tax and corporate income tax are the two major components of direct taxes. Other direct taxes, such as capital gains tax, toll tax, gift tax, property and rent taxes, to name a few, generate very little money due to lax enforcement. Ghana's income tax system which is influenced by that of the United Kingdom (Thuronyi, 2003) falls under the common law legal system.

Indirect taxes and for that matter taxes on goods and services mainly composed of the VAT and excise taxes, the latter of which have declined consistently over time (Prichard, 2009).

The concept of VAT

VAT which is an acronym for Value Added Tax is a tax that is levied on the value added along different stages of production and distribution of goods or services. In this sense, it is equivalent to a retail sales tax which would be collected only at the retailing stage. This means VAT is charged when taxable person sells to another taxable person or to a final consumer (Shome, 2006). The term “Value Added” according to the VAT Act, 1998 (Act 546) which was repealed and replaced with VAT Act, 2013 (Act 870) of Ghana refers to increase in value of goods and services at each stage of production or transfer of goods and services.

Thus, Value Added Tax is basically a tax levied on the value added by an organization at each stage of production of goods or rendering of services. VAT is a tax on the final consumer on consumption expenditure. It is ultimately borne by the consumer although it is collected at every stage of production or distribution. A tax credit is granted at every stage for tax paid (input VAT) in the chain of transfer or sale of goods and services till it reaches the final consumer.

According to the VAT Act 2013 (Act 870), an input tax is deductible. The system of deduction of input VAT ensures that at each stage of production and distribution, VAT is levied only on the ‘value added’ to the product. The ‘value added’ means the difference between the cost of inputs into the product and the price at which it is sold to the consumer. As VAT is collected

fractionally on the 'value added' to the product at each stage of production and distribution, the VAT revenue is not affected by the length of production and distribution chain.

Value Added Tax (VAT) is levied on the sale of goods and services by registered businesses (those with annual turnover above some threshold level or who choose to register voluntarily). It applies to all sales, whether to private consumers or other businesses (in contrast to the retail sales taxes levied in the US, for example, which aim to tax sales to final consumers only). The VAT has now been adopted by more than 130 countries, including all members of the Organization for Economic Co-operation and Development (OECD) other than the US (Decoster, Loughrey, O'Donoghue, & Verwerft, 2010).

According to Pritchard (2009), "VAT is a tax on consumers and is levied on the supplies of goods and services made by a taxable person in the course of furtherance of a business carried by him Nyberg, Bernin, and Theorell, (2005) cited Quarshie (2009) stated "a properly implemented VAT is equivalent to a corresponding single-stage sales tax". He said, under the expenditure tax, the VAT is not genuinely a new form of taxation but a merely sales tax administered in different form. Any form of taxation can be used to discourage consumption of commodities yielding negative externalities to stabilize national income and to redistribute income.

VAT is a consumption tax applied on the value added resulting from the own activity of the business enterprise. It is imposed on the expenditure incurred in buying goods and services. Value added is the difference between the value of sales and the value of purchased inputs used in producing the commodity sold. Though by its definition, it is a consumption tax borne by the

consumer, it is practically impossible to collect the tax from each individual consumer. Thus, the trader, manufacturer, or importer, is often registered as an agent for collecting the tax on behalf of the VAT Service (Amoh, & Ali-Nakyea, 2019).

Maurice Lauré, Joint Director of the French Tax Authority and Director General of Imports was the first to introduce VAT on April 10, 1954, though German industrialist Dr. Wilhelm Von Siemens proposed the concept in 1918 (Drummond, Dyson, Le, Ethier, & Findlay, 2003). The invoice-credit form of the VAT is the universal basis of all national level VAT accounting except for Japan. Under this method, registered businesses offset the VAT they have been charged on their purchases (input VAT) against the liability (output VAT) on their sales, remitting only the net amount due. The result, if this chain of output tax and input credit remains unbroken, is that no net revenue is collected from the taxation of intermediate goods sales (business-to-business sales), so that the ultimate base of the tax is final consumption.

The universal practice is to zero-rate exports and fully subject all imports to the VAT. This is as a way of ensuring that the VAT applies only to domestic consumption, consistent with the destination principle and contrasted with the origin principle of taxation i.e., taxation by place of production. (Decoster, Loughrey, O'Donoghue, & Verwerft, 2010). Denmark, though not a member of the European Economic Community (EEC), was the first European Country to extend the VAT to the retail sector followed by France and Germany. Several developing countries have also given increased attention to VAT as a means of rationalizing the system of taxation. Among them are Nigeria, Senegal, Cote D'Ivoire, Morocco and Tunisia. Almost

unknown in 1960, VAT is now found in over 130 countries around the world, generates about 20% of the world's tax revenue and has been the centre piece of tax reform in most developing countries because it is intended to impose a neutral effect on businesses' (Quarshie, 2009).

VAT in Ghana

Another major shift in the Ghanaian tax system that was intended to improve tax efficiency was the introduction of the Value-Added Tax (VAT). VAT was first introduced in France in the year 1954 and its scope was expanded to include services in 1978, agriculture in 1983, resulting in VAT becoming one of the most important fiscal innovations of the last century. It is presently adopted by over 130 countries all over the world (Joshi, et al 2007). Ghana first introduced VAT in 1995 by the Value-Added Act, 1994 (Act 486) as part of Tax Reform Programme which began in 1993. The contract for the design and implementation of VAT was signed in 1993. In December 1994, the VAT bill like the Canadian system was passed into law to become effective March 1995, when it became operational at a flat rate of 17.5 percent compared with the earlier sales tax rate of 15 percent (Terkper, 1999).

In a manner like what happened when Income Tax was first introduced in 1931, the VAT was fiercely resisted, and government was forced to suspend its implementation after only three months of existence. In May 1995, Parliament moved with dispatch to re-open debate on the fate of what had become Ghana's first real effort at implementing a comprehensive domestic indirect tax regime. This move by Parliament became necessary following demonstration by the public because of the perceived cascading impact of the VAT system. It was repealed by government on 14th June 1995.

Adom (2000) opined that VAT failed at the early stage of its implementation because of the following reasons: Conflict between the newly established VAT service and CEPS was acute and eventually led to significant delays in the appointment of senior staff to VAT Service and transfer of staff from CEPS to the VAT Service. The initial VAT rate of 17½% was considered too harsh. For instance, the VAT was among others, to replace the sales tax, which was at 15% and covered fewer transactions.

Wrong timing, VAT was introduced at a time when economic situation in was not favourable. The boycott of debate on the issue at parliament by the minority members of parliament. Public education on the new tax system was not sufficient. Personnel of the VAT Service were not sufficiently trained to handle all aspects of the new tax system efficiently. Annual turnover of GH¢ 2,500 being the threshold was too low and therefore persons who were not capable of administering the VAT became taxable persons. Traders and service providers who were to serve as agents of the service were not properly educated on how to incorporate the new tax into their operations. The introduction of the VAT was perceived to have worsened the already high inflation that existed by then as prices of goods and services shot up and there were agitations from the public.

In response to a public outcry, including demonstrations, against a study increase in the prices of goods which were blamed mainly on the introduction of VAT. VAT was successfully reintroduced in 1998 backed by the Value-Added Act 1998 (Act 546) and Value Added Tax Regulations, 1998 (L.I 1646). The reintroduction of the Value Added Tax System was done at a

rate of 10% but GETFund of 2½% was later added to make it 12½%. VAT offices in all the regional capitals were re-opened (Obeng, 2018).

With the benefits of the hindsight, Chapman, (2001) outlined the following as some of the key factors that contributed to the success of the reintroduction of VAT in 1998; Strong, clear political commitment from both government and the opposition members of parliament. Good preparation for the tax administration (selecting experience tax administrators and allowing sufficient time to prepare for VAT registration and collection) Reasonable low introductory rate, high registration threshold, and good timing for introduction. Well-designed public education campaign.

The introduction of National Health Insurance Levy (NHIL) in 2003 (ACT 650) also brought a levy of 2½% to be paid in addition to the 12½% VAT. In 2013, the existing VAT Act (Act 546) was repealed, and a new VAT Act 2013 (Act, 870) was introduced. VAT rate was also increase to 15% in addition to NHIL of 2½%. Registered traders were made to charge VAT/NHIL at a rate of 17½% and the threshold was also increased to an annual turnover of one hundred and twenty thousand Ghana cedis (GHS120,000) or more (Obeng, 2018).

The VAT flat rate scheme in Ghana

The VAT Act was amended in 2007 (Act 734) to give birth to VAT Flat Rate Scheme (VFRS) of 3% to facilitate VAT collection in the informal retail distribution trade sector. The main aim of the VAT Flat Rate Scheme was to reduce the cost of complying with VAT obligations by simplifying the way small businesses calculate their VAT (Ghana, Republic of, 2009). In 2005, the Ghana Union of Traders Association (GUTA), one of the leading

trade associations in the country, in a ten-point resolution to the VAT service, copied to the Ministries of Finance and Trade, sought for the cooperation and involvement of the two ministries to address the problems and frustrations that their members faced at retail level in their effort to comply with the requirements of the standard VAT system. GUTA, in the resolution, also proposed a special flat scheme for all retailers with the objective of simplifying the tax accounting system and widening the tax net to encompass the entire retail sector (Obeng, 2018).

It was against this background that VAT Service /GUTA working group was constituted with mandate to come up with a special scheme for informal retail sector that was simpler and easier to operate, that would reduce the burden of compliance for operatives in the sector and would lead to widening of the tax net. In executing their mandate, the GUTA/VAT service working group recommended the flat rate scheme for implementation. The VAT service after parliamentary approval officially launched the 3% VAT Flat Rate Scheme, and was later implemented nationwide (NDPC, 2009). The VAT Flat Rate Scheme is a VAT collection or accounting mechanism that applies a marginal tax rate of 3% representing the net VAT payable, on value of taxable goods supplied. It is an alternative to the invoice credit method (i.e., standard VAT system of 15%). It is not a separate tax or additional impost but only an amendment of the VAT Act (Act 546) with the main aim of simplifying the VAT accounting system for retailers.

According to section 5(1) of the VAT Law 1998 Act (546) as amended by Act 593, 2001, the standard VAT scheme was designed for retailers that have an annual turnover of more than GHS10,000. The three percent VFRS

was initially designed for retailers of goods only however, in the 2011 budget, the Minister for Finance and Economic Planning amended this to read three percent VFRS for ‘all goods and services providers with a turnover between GHS10,000 and GHS90,000 will be required to charge a flat rate of three percent instead of the standard rate of 15 percent.’ Again, the Minister of Financial in budget statement of 2013 changed the threshold to annual turnover of between GHS100,000 and GHS120,000. Such categorised businesses are not allowed to take credit for input VAT (Obeng, 2018). This amendment brought many businesses which were formerly operating the standard VAT scheme to the net of the three percent VFRS.

The concept of retailing and retail business

Retailing is a distribution channel function where one organisation buys products from supplying firms or manufactures the product themselves, and then sells these directly to consumers (Smith, 2004). A retailer is a reseller from which a consumer purchases products and who obtains product from one party to sell to another. In Ghana and East African countries alone, there are over 1,100,000 retailers (Terkper, 2003). Retail comes from the Old French word ‘tailer’ which means “to cut off, clip, pare, divide” in terms of tailoring. It was first recorded as a noun with the meaning of a “sale in small quantities” in 1433.

Like the French, the word retail in both Dutch and German (detailhandel and Einzelhandel, respectively) also refers to the sale of small quantities of items. The concise oxford dictionary defines retail as the sale of goods to the public for use or consumption rather than for resale. In short to retail means the act of selling in bits to the direct or final consumer (Chen,

Isaac, Bonsu, & Mariwa, 2019). In most retail situations, the organisation from which a consumer makes purchases is a reseller of products obtained from others and not the product manufacturer.

However, some manufacturers also operate their own retail outlets in a corporate channel arrangement (Owusu-Nantwi & Erickson, 2016). While consumers are the retailer's buyers, a consumer does not always buy from retailers. For instance, when a consumer purchases from another consumer, the consumer purchase would not be classified as a retail purchase. This distinction can get confusing but in Ghana and other countries the dividing line is whether the one selling to consumers is classified as a business (e.g., legal and tax purposes) or is selling as a hobby without a legal business standing (Osei, 2000).

Table 1: A Simple Supply Chain with 20% VAT

Firms	GHS	GHS	GHS
Firm A	20	0	20
Firm B	60	20	40
Firm C	100	60	40
Total VAT pay payable		100	

Source: Field Survey (2021)

Mirrlees et al (2011) explained that the above table demonstrate how VAT works - firm A paid the output VAT of GHS20 collected from firm B to the tax authority, firm B deducted the input VAT paid to firm A from the output VAT of GHS60 collected from firm C and paid only the difference of GHS40 to the VAT office. Finally, firm C also paid GHS40 which is the

difference between the output VAT of GHS100 collected from the final consumer and the input tax of GHS60 paid to firm B to the VAT office. At the end, the sum of VAT paid to the VAT authority was GHS100 which was equal to the tax burden on the final consumer.

Three alternatives in VAT computation

First, the addition method. The tax liability is equal to the tax rate multiplied by the value added defined as the sum of wages and profits. If t_1 and t_2 are the rates on wages and profits respectively, then the tax liability will be the sum of $(t_1 \times \text{wages})$ and $(t_2 \times \text{profits})$. The addition method, in practice, would be politically hard to sell to the public, as taxpayers would simply view the VAT as an additional layer of tax burden on top of corporate and personal income taxes. On the other hand, the structure of the tax implies that the VAT, theoretically, can be used to replace both personal income tax and corporate income tax (Bilson, 2012). Second, the subtraction method. The tax liability at any stage is equal to the tax rate multiplied by the tax base or value added measured as the difference between the values of outputs and inputs.

Third, the invoice-based credit method. This is the most common method of the VAT computation. Under the invoice-based credit method, a firm at any stage of the production-distribution chain charges its customers the VAT on its output, submits the tax to the treasury, and then claims for the VAT already paid on its input purchase. Let t_1 and t_2 be the tax rates on output and inputs respectively, then the tax liability is the difference between $(t_1 \times \text{output})$ and $(t_2 \times \text{inputs})$. The invoice-based credit VAT apparently has advantages over both addition and subtraction methods. The addition method relies on accurate information on wages and profits which are hard to obtain in

developing countries, and thereby runs into the same problems faced in income taxation. The subtraction method, on the other hand, requires an explicit estimation of the tax base—this would be fine for a VAT with a single rate structure but would result in serious problems for a multiple-rate VAT regime.

Accounting for the VAT flat rate scheme

The scheme was simplified for retailers to minimise administration and compliance costs. However, the scheme involves levying tax as a flat-rate percentage of turnover rather than on value added calculated transaction –by transaction (Bilson, 2013). For example, such a scheme has existed in UK since 2002 for small firms with annual turnover of below £150,000. Under the flat rate scheme, retailers pay VAT at a single rate on their total sales and give up the right to reclaim VAT on inputs. For example, if a retailer is to sell taxable product of £20,000 at a flat rate of 3%, then he/she will sell the product for £20,600 and remit £600 to the VAT authorities (Lee, 2013).

Bilson, (2013) illustrated the relationship between the Standard VAT and flat rate scheme using the following example; a VAT registered trader bought taxable product at GHS9,000 (VAT inclusive at rate of 15%) added his profit margin of 10% and sold the product to the final consumer. Assumed that; I, the person was a standard VAT registered trader who charges VAT at 15%. Determine how much will be paid as VAT to the VAT authorities if no other cost was considered ii. the person was a 6% VAT Flat-rate Scheme operator with all other things remaining the same. Determine how much will be paid as VAT to the VAT authorities. Bilson, (2013) suggested the following as a solution to his illustration:

i. Tax payable by the Standard VAT trader:

Net VAT payable = Output – Input VAT

GHS311 = 1,485 (0.15 x 9900) – 1,174 (15/115 x 9000) ii. VAT payable by

the flat rate registered trader VAT payable = 6% of sales value

GHS594 = .06 x GHS9,900

At the end of the period, the standard VAT trader will file returns for GHS311.00 while the flat rate operator files the full output VAT of GHS594.00. Bilson, (2013) concluded that the flat rate registered operator ended up even paying more tax to the service than the standard VAT operator because the standard VAT operator claimed the input VAT while the VFRS operator could not do same. The flat rate scheme has problem. By disallowing the recovery of VAT on inputs, it distorts production decision, making retailers who had registered with the scheme to regret. What do retailers get from becoming agents of the Service? They incur compliance cost and upwards adjustment of prices of their products, (Lee, 2013).

Empirical Review

Nketsiah, (2018) examines financial record-keeping practices of small business operators in the Sekondi-Takoradi metropolitan area of Ghana. The focus of this study was to investigate the effect of the record-based controls of VAT on firms' record keeping skills and accounting system based on a sample of 250 SME's selected from five key trading centres in the Accra metropolis. The result showed that completion of the VAT monthly return form imposes more cost on traders than the VAT invoice book. Firms who receive education from VAT officials are found to be 0.102 more likely to complete the VAT monthly return form than firms who do not receive education from VAT

officials. Also, firms who receive education from VAT officials are 0.849 times as likely as those firms who had not received education from VAT officials to complete the VAT invoice book by self. Generally, the result showed that the 'record-based controls of VAT' has significantly improved SME's record keeping skills and accounting system albeit it is found to be stringent relative to other record keeping types kept by SME's.

Asiedu, Akanyonge, Dickson, and Asapeo, (2022) The study examined the influence of VAT Flat Rate Scheme (VFRS) on tax revenue using a case study of Weija VAT Sub Office at Weija-Gbawe Municipality in the Greater Accra Region. The study adopted a descriptive research design to assess the relationship between VFRS and tax revenue. The targeted population for the study consisted mainly of the staff of Weija VAT Sub Office and VAT registered retailers in the Weija-Gbawe Municipality. In an attempt to achieving the objectives of the study, 90 respondents comprising of 10 staff and 80 VAT registered retailers in food, cosmetics, pharmaceuticals and electricals were utilized for the study. Purposive sampling technique was utilized in selecting respondents. The study uncovered that the introduction of the VAT Flat Rate Scheme has certainly brought a significant increase in tax revenue by means of its simplistic and convenient computation process. In addition, the scheme has cheered more retailers who have not yet registered with the VAT service to register and this has boosted tax revenues. Further, the complex nature of the Standard Rate Scheme was the main rationale for the introduction of the VFRS. Lack of resources, unwillingness of taxpayers to forward complaints and tax evasion were discovered

Saeed, (2020) examines Small Business Owners' knowledge of Value Added Tax obligations to the Government of Ghana, their opinions on Ghana's Value Added Tax system, and attitudes towards the payment of Value Added Tax. Based on a cross-sectional survey, the study employed a snowball sampling technique in selecting 328 respondents for the study. Simple percentages and frequency tables were employed for the data analysis. The paper shows that most Ghanaian small business owners do not understand their Value Added Tax obligations. There is also some willingness to evade Value Added Tax. Further, they view the tax as unfair. Moreover, results show that Ghanaians appear to have accepted the civic responsibility of Value Added Tax payment to the state. Equally important, the author demonstrates that Ghanaian small business owners do not understand the basic procedure in assessment, collection and enforcement of Value Added Taxes legally due the state.

Obeng, (2018) examines Value Added Tax and Vat Flat Rate Scheme in Ghana, Any Cascading Implications. The Revenue Authority and retail businesses are content that VFRS will mitigate the tax burden of consumers and simplify its calculation. Other business houses posit that the tax is upon tax with cascading effect on prices. Literature comparing charges of VAT and VFRS on a product in distribution is limited. Literature is reviewed with models testing any cascading effect of VFRS on consumers and the effect on tax revenue. The paper concludes that the incidence of VAT is on the consumer with no cascading effect. VFRS is charged to the final consumer of the product. VFRS can mitigate the tax burden on consumers depending on the market orientation, type of industry, and business environment. Government

can use VFRS to stabilize the economic environment in the event of market failure for tax optimality. The paper will enhance policy on optimizing tax revenue with different tax rates at different production sectors of the economy.

According to Bagahwa and Naho (2005), public revenue remains weak in numerous sub-Saharan African countries and the tax burden appears to be unevenly distributed. Two sectors are often considered as being under taxed: the agricultural and the unrecorded urban sectors. Its under-taxation results in considerable losses in tax revenue. What is worse, the development of unrecorded activities is threatening the official sector which plays a crucial role in collecting government resources. Bagahwa and Naho (2005) added that the economy of Ghana is largely made up of individual and small-scale enterprises. That sector provides diverse sources of income which, if taxed, could increase government internally generated revenue.

Furthermore, Bagahwa and Naho (2005) found in their study that the main source of employment in Ghana is the informal sector. The sector provides employment opportunities for at least 80% of the labour force. However, tax evasion in the sector has been identified as one of the major problems confronting tax administration especially in the developing countries. Evasion of tax is more problematic with respect to the informal/retail sector.

Agyei (2002) also avers that in Ghana, one of the greatest problems facing tax administration is that of income tax evasion. About the problems facing tax administration in Ghana, Otieku (2008) identified tax evasion as one of the major problems. Otieku posited that tax evasion is the deliberate distortion of the facts relating to an assessment after the tax liability has been

incurred to reduce the liability. According to Otiaku, any deliberate attempts by a taxpayer, his agent or tax officer to reduce the ultimate tax liability of the taxpayer using any unlawful means constitute tax evasion. It is the deliberate attempt by the taxpayer to distort facts relevant for an objective ascertainment of his liability.

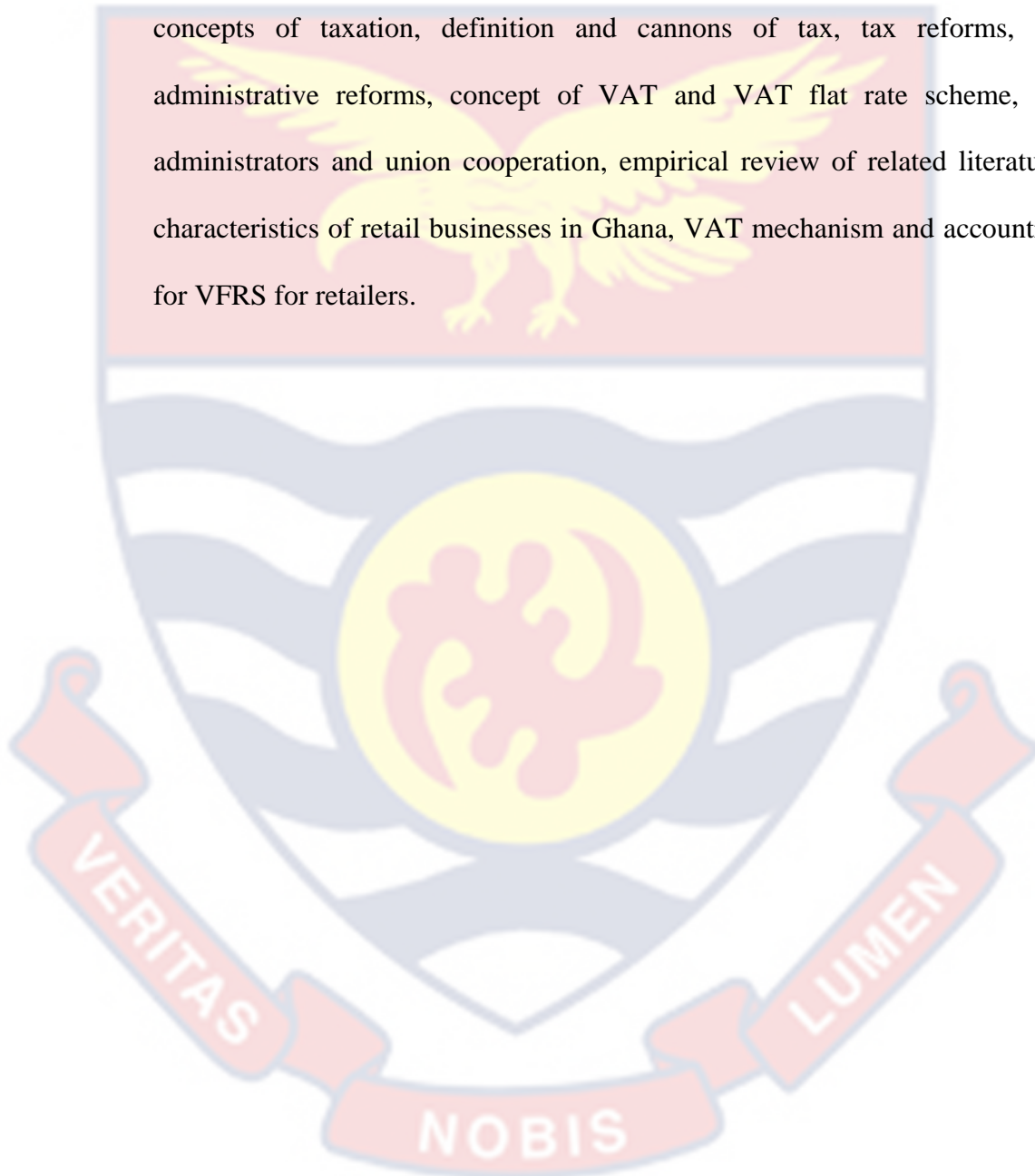
The tax evasion is because of factors such as large scale of illiteracy among populace, ignorance of tax laws, dominance of difficult-to-identify sole-proprietor, inadequate number of tax offices and officers, complex tax laws and so on. The results of Otiaku (2008) study show that evidence of income tax evasion is difficult to obtain in any country, particularly the developing countries, since it is an illegal activity. However, in developed countries, more is known about tax evasion than in developing ones. This is because there is refinement of statistics and wealth of research resources in the developed countries (Agyei, 2002).

Tax evasion, apart from resulting in loss of revenue to the government undermines confidence in the fairness of the tax law. The extent of tax evasion is extremely difficult to determine in any country, especially in the developing countries. Attempts have been made in the developed economies to estimate the extent of its occurrence. One of such studies in the United States of America compared the totals reported on the federal incomes tax returns to those determine in the national income accounts. The difference between these two income totals provided approximated evidence of the extent of tax evasion (Otiaku, 2008). The evasion by the 'difficult-to-tax' (i.e., largely informal sector businesses) group may take three forms: non-declaration of income;

under-declaration of income; and inflation of deduction from income (Goldsmith, 2009).

Chapter Summary

The chapter reviewed literature related to the study. It concentrated on concepts of taxation, definition and cannons of tax, tax reforms, tax administrative reforms, concept of VAT and VAT flat rate scheme, tax administrators and union cooperation, empirical review of related literature, characteristics of retail businesses in Ghana, VAT mechanism and accounting for VFRS for retailers.



CHAPTER THREE

RESEARCH METHODS

Introduction

This section considered the various techniques and methods used in collecting and analysing data for this research. A research methodology must be systematic, methodological, rigorous, conventional, and unbiased if research is to be considered scientific (Johnson, 2001). The major areas discussed in the chapter included: study area, population, sample and sampling procedure, data collection, instrument, validity and reliability of the instrument, ethical consideration, field work and data analysis.

Research Philosophy

The philosophy of a study refers to the epistemological and ontological perspectives from which the researcher perceives and comprehends reality (Varghese, & Edward, 2018). Research philosophy is essential as it enables the researcher to discern where to situate the study in the research domain and also serves as a major determinant of the research methodology (Kaboub, 2014). Accounting research is disciplinary and has the characteristics of both natural and social sciences and as such can rely on several philosophies from economics, social, physical and natural sciences such as pragmatism, realism, interpretivism, functionalism, radical humanism, radical structuralism and positivism (Bisman, 2010; Luft, & Shields, 2014; Saunders et al. 2013).

Positivism, which has been one of the pillars of the quantitative research approach, believes that reality or phenomenon could be objectively investigated and universally proven under similar circumstances (Zaman, 2005; Baker, 2011). The positivist empirical approach relies on the scientific

method to predict and explain accounting events and represents a deviation from the normative approach to accounting that argues how accounting ought to be practiced. Positivism assumes the position of a natural scientist and involves dealing with observable economic reality whose outcome could be a law-like generalisation similar to those in the natural sciences. Therefore, the researcher undertakes the study under the inspiration and guidance of the principles of positivism.

Research Approach

This study adopts the quantitative research approach. Quantitative research is explaining phenomena by collecting numerical data that are analyzed using mathematically based methods in particular statistics (Saunders et al., 2014). Quantitative research provides precise and numerical data; provides overall descriptions of situations or phenomena; is useful for studying large populations and its findings are relatively independent of the researcher (Vulley, 2021). The research made use of the survey procedure to collect quantitative data for analysis. Similarly, Murray, Bagby, and Sulak, (2010) state that quantitative research relies on the collection and analysis of numerical data to describe, explain, predict, or control variables and phenomena of interest. In a similar view, McCusker, and Gunaydin (2015) state that the quantitative research approach depends on the objective of estimation, factual, and numerical analysis of data gathered through surveys.

In this regard, the present study used a questionnaire to gather numeric data in pursuit of the objectives of the research. Justifying its relevance in this study, Park, and Choi. (2009), argues that quantitative research has two main advantages. First, it is conducted and assessed quickly,

and results are tabulated within a brief period. Secondly, it is more likely to be valid and reliable if the results obtained through a quantitative approach are thoroughly and legitimately gathered (Gog, 2015). Additionally, the use of the quantitative approach is well-matched with the study's problems and its questions; and it supports this study to succeed and collect empirical evidence. Furthermore, one quality of quantitative research, according to Creswell (2012), is the requirement that the sample used must reflect the attributes of the target population, which implies that in quantitative studies, representativeness is always crucial hence the use of strict probability sampling procedure in selecting the sample for the study.

Research Design

A research design is a comprehensive strategy that outlines the techniques and steps to be taken in order to gather and analyze the necessary data (Zikmund, Babin, Carr, & Griffin, 2013). Your overall strategy for addressing your research problems and questions is called your research design (Saunders, Lewis & Thornhill., 2012). A descriptive research design was used for this study. Creswell and Clark-Plano (2017) define the descriptive survey as a technique for gathering data that involves giving a questionnaire to a sample of research participants. Descriptive studies enable me to gather information, synthesize, present, and interpret for simple clarification, according to Nzoka, and Orodho, (2014). A descriptive survey enables the researcher to describe the characteristics of the variables of interest. It is therefore justified that descriptive design is most suited and justifiably adopted in this study (Jackinda, 2016). Therefore, the choice of a descriptive survey for the research design is because the survey provides a

quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population (Creswell, 2014).

Study Area

Mfantsiman Municipal Assembly is one of the twenty-two districts in Central Region, Ghana. Originally created as an ordinary district assembly in 1988 when it was known as Mfantsiman District, which was created from the former Mfantsiman District Council; until it was later elevated to municipal district assembly status on 29 February 2008 to become Mfantsiman Municipal District. However, on 28 June 2012, the eastern part of the district was split off to create Ekumfi District; thus, the remaining part has been retained as the Mfantsiman Municipal Assembly. The municipality is located in the southwest part of Central Region and has Saltpond as its capital town. Mfantsiman Municipal Assembly was chosen as the study area because it was easy to access data needed for the study from the retailers included in the study.

Population

According to Agyedu, Donkor, and Obeng (1999), a population is "a complete set of individuals (subjects), objects, or events having common observable characteristics in which the researcher is interested." They went on to say that the researcher needed to have a crystal-clear understanding of the purpose of the study and that they needed to be able to identify it. The term "target population" refers to members of the overall population from which the researcher intends to select a representative sample for the purpose of conducting an investigation (Cohen, Manion, Morrison, & Morrison, 2007). According to Frankel and Wallen (2006), the term "research population" refers

to the larger group from which a researcher intends to draw the study's sample. In other words, the research population is the population from which the researcher will draw the sample. The population of the study consisted of 180 respondents of all VAT registered retail business operators and VAT officials from the Domestic Tax Revenue Division of Ghana Revenue Authority within the Mfantseman Municipal Assembly and other surrounding communities.

Sampling Procedure

The study adopts the sample size formula for a finite population proposed by Krejcie and Morgan (1970). With a population proportion of 50% and a confidence level of 95%, a sample size of 120 was appropriate for a finite or known accessible population of 180. Krejcie and Morgan argue that there is no need using sample size determination formula for 'known' population since the table has all the provisions one requires to arrive at the required sample size. With respect to the sampling method, proportionate random sampling techniques were employed to select participants from the sample identified. The sampling method was chosen due to the homogenous characteristics relative to VAT registered businesses. Also, the random sampling method allowed for respondents to have equal and independent chances of being selected, making it more scientific, accurate, and representative.

Data Collection Instrument

The questionnaire and interview guide questions were the main data collection instruments used in collecting the data. A questionnaire is an instrument with predetermined items to be answered by the respondents by writing. A questionnaire is administered to respondents who can read and

understand the individual items in the instrument. This form of instrument is more flexible than interview guide. It has a high response rate, easy to administer, create opportunity to observe non-verbal behaviour and also has the capacity for correcting misunderstanding by respondents when administered personally (Ary et al., 2006). However, it is more time consuming, inconvenient and less effective than other methods when sensitive issues are needed. This instrument is believed to help the researcher in collecting reliable and reasonable data within a relatively simple and cheap in short space of time.

The questionnaire was made up of 44 items with four sections: A, B, C and D. The items were made up of both close-ended and open-ended items. The first section of the instrument was made up of eight items that elicited data on the demographic information of respondents. Items considered were gender, age, highest academic qualification and years of operation as VAT registered traders. Section B of the instrument was made up of 14 items. These items were focused on the VAT Flat Rate Scheme (VFRS) on sales of retail products. Section C of the questionnaire contains ten items. These items were used to elicit data on respondents 'compliance level on VAT issues' as stated in the VAT Act 1998 (ACT 546). Section D consists of twelve items. These items elicited data on 'challenges to retail businesses in complying with the VAT Flat Rate Scheme. Both open-ended and close-ended items were used. The unrestricted items were used to call for a free response in the respondents' own words on the issues. This form of items is believed to provide or elicit greater depth of response on the issue.

The respondents completed the questionnaires on their own with minimum assistance from the researcher. Some rating scale questions were used. Questionnaires were used because data collected using questions can be stable, constant and has uniform measure without variation. It also reduces bias caused by the researcher's presentation of issues (Bryman & Bell, 2003). Interview guide was used to solicit information from VAT authorities on administrative problems they are encountering in the implementation of VFRS for retailers. This instrument was used due to lack of time. The VAT officials were interviewed during their break time. Five working-days were used, each day for each respondent during the break time.

The data collected were basically quantitative using questionnaires and interview guide. Information was elicited from the respondents directly using the questionnaire while the interview guide was used to obtain information from the staff of Domestic Tax Revenue Division (VAT Section). Information was also obtained from documents concerning the VAT Flat Rate Scheme.

Validity and Reliability of the Instrument

Pallant (2001) explained validity as a term describing a measure that accurately reflects the concept it is intended to measure. In this regard validity simply refers to how accurate the questionnaire was able to collect the responses from the respondents as intended by the researcher. Validity is the degree to which the study accurately answers the questions it was intended to answer. It examines the truthfulness or the quality of the research process and the accuracy of the results. Gravetter and Forzano (2006) on the other hand defined content validity as the degree to which a test measures an intended

content area. For them, content validity is determined by expert judgment and that content validity cannot be calculated through quantitative technique.

To enhance content validity of the research instrument, the questionnaire was made available to the researcher's supervisors, both the principal and the co-supervisor, to review and comment on with the view of establishing content validity. Under the guidance of my principal supervisor, I modified and deleted materials the study considered inaccurate or which the study felt infringed on the confidentiality of the respondents. My two supervisors further scrutinised unclear, biased and deficient items, and evaluated whether items were members of the subsets they have been assigned.

Again, the instruments were pre-tested in Mfantseman, on a sample of 12 respondents in the Mfantseman Municipal Assembly to refine it. The number of respondents used for the pilot study was sufficient to include any major variations in the population as confirmed by Ary et al. (2006) that for most studies using questionnaires and descriptive design, a range of five to ten percent (5% - 10%), of the sample size, for pilot study is sufficient. Hence 10% of the sample size of 120 retailers was used. The respondents were selected because they share similar characteristics as those in the Mfantseman Municipal Assembly. These selected respondents at the Mfantseman Municipal Assembly were also selected due to their closeness and easy accessibility to the researcher. The instrument was administered personally to the respondents.

Reliability is the degree of stability or consistency of measurement (Gravetter & Forzano, 2006). The internal consistency of the instrument was

calculated using Cronbach's alpha. The Cronbach's alpha of the instrument generated was .782 with the help of Test statistical package for service solution (SPSS, version 26). The calculation of reliability of the questionnaire was done on section bases. This statistical validation on the items in the sections was based on the Cronbach's alpha reliability test. With the help of the same statistical software the internal consistency of the sections and the demographic data for Cronbach's alpha coefficient was determined. There was 100 percent response rate. The reliability co-efficient of the sections are presented in Table 2.

Table 2: Reliability of the Instrument

Sections of the questionnaire	No. of items	Cronbach's Alpha
A: Demographic information of respondents	8	.714
B: VAT Flat Scheme (VFRS) on sale of retail products.	14	.845
C: Level of VAT compliance by the retailers.	10	.822
D: Challenges faced by retailers in complying with the VAT Flat Rate Scheme	12	.840
Overall	44	.782
Source: Field Survey (2021)		Obs: 120

Research has shown that scales with Cronbach's alpha co-efficient of 0.70 or more are reliable (Pallant, 2001). Based on the responses given during the pre-testing of the instrument, few modifications were made to improve the final instrument for the main study which was then administered. Items that were not clearly stated were corrected.

Data Collection Procedure

Before data were collected, consent and permission from the relevant respondents were sought. An introductory letter was used to seek permission from the needed stakeholders with respect to the various institutions. Data were obtained from a primary source. The researcher believes that if a problem is thoroughly identified, the more adequately it is planned and executed successfully. Primary data was obtained from participants at various public institutions of target identified above. The main advantage of procuring primary data is that the exact information wanted is ascertained. Terms were also carefully defined for respondents who assisted in the exercise administration so that as humanly possible it can be, misunderstanding could be avoided (Osuala, 2005).

Data Processing and Analysis

A period of three month was used to collect the data. The data collection started on March 2021 and ended in April 2021. The respondents were given at most 30 minutes to complete the questionnaires. Not all the targeted respondents were met on the day of visit and that demanded a considerable length of time to reach the stipulated number of respondents. Prior to the administration of the questionnaire, an informal familiarisation visit was made to the study area for the confirmation of the number of VAT registered enterprises operators and to seek more information concerning the VFRS registered operators.

The questionnaires were self-administered, but with some support from the heads of the enterprises, units, and divisions. For data collection, respondents in each enterprise, division, section, or unit were gathered at their

respective break time with assistance from their heads to explain the purpose of the study and to administer the questionnaire. The questionnaires were given out to the research participants. They were taken through all the questionnaire items and anything that may not be clear was explained. They were again taken through how to respond to the items. They were asked to complete the questionnaires during their break time or immediately after working hours in order not to disturb working time. Those that were not able to read and write were assisted by the researcher to answer the questionnaires.

Respondents were encouraged to complete the questionnaire the same day and as independently and honestly as possible. Most of the completed questionnaires were retrieved the same day the instrument was administered. The administering of the questionnaires was done from one enterprise to another and from unit to another unit of the study area. As stated earlier, it took the researcher three month to administer the instrument. The researcher was able to retrieve all the 120 questionnaires administered. The researcher used interview guide to solicit information from the VAT officials at the Domestic Tax Revenue Division of Ghana Revenue Authority at their office in the Mfantseman Municipal Assembly. The researcher also had discussions with VAT officials basically for the purpose of triangulation. In other words, to confirm or disconfirm the data elicited from the enterprise operators.

The data collected from the questionnaires were edited, coded and analysed based on the procedures within the statistical analysis software tool known as the Predictive Analytic Software (PASW) Version 18.0. The data elicited from the respondents were first grouped for editing. After the editing, they were coded using numerical values (coded manual) for the variable view

of the PASW Version 18.0. Test Analytics for Surveys (TafS), a tool of PASW, was used for coding the data and analysing responses to closed-ended items in the questionnaire.

After this, the data were inputted into the data view to complete the keying process. After these were done with, the data were cleaned and transformed into tables and extracted for the presentation and discussion in the subsequent chapter of this study. The tables were used for illustrations in order to clarify meaning and enhance understanding. The research design being descriptive, frequency distributions, percentages and cross tabulations were used to analyse the research findings.

Ethical Considerations

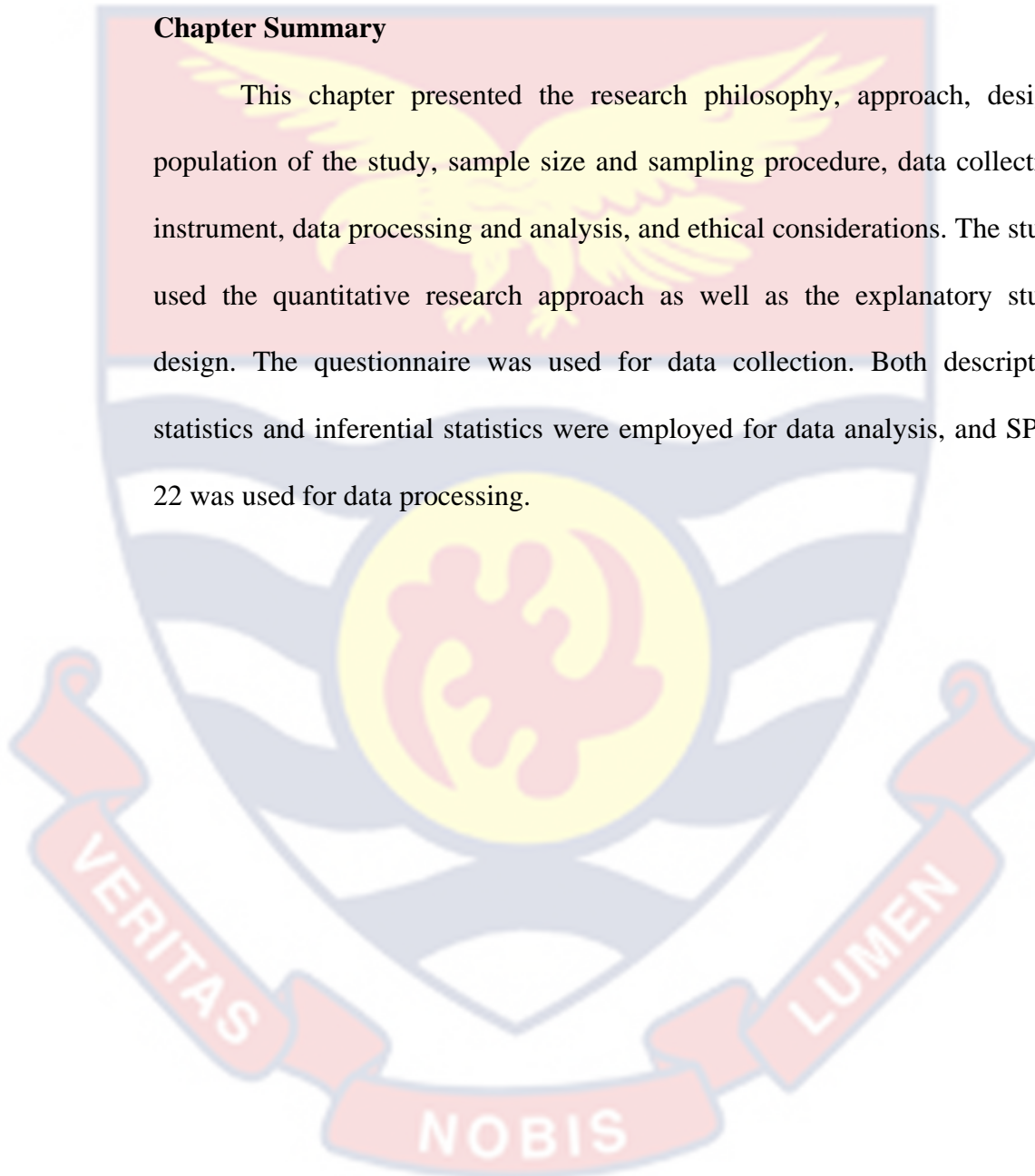
An introductory letter was obtained from the Department of Accounting, School of Business, University of Cape Coast, to introduce the researcher to the VAT registered enterprise operators and the VAT service officers. To gather data from the sampled individuals, permission was sought from the owners/managers of the enterprises. The consents of the respondents were sought through the heads of the various enterprises. Participants were informed about the purpose of the research and what objective it sought to achieve. They were encouraged to feel free and air their views as objectively as possible and that they have the liberty to choose whether to participate or not. They also had the option to withdraw their consent at any time and without any form of adverse consequence.

Anonymity and confidentiality were guaranteed, and the research did not cause harm or mental stress to those who chose to participate. This research and its associated methodology adhered to all these ethical

considerations. An organisational entry protocol was observed before the data were collected. Individual traders and groups within the retail businesses were informed of the reason for the whole exercise and the tremendous benefit their enterprises would derive if the research was carried out successfully.

Chapter Summary

This chapter presented the research philosophy, approach, design, population of the study, sample size and sampling procedure, data collection instrument, data processing and analysis, and ethical considerations. The study used the quantitative research approach as well as the explanatory study design. The questionnaire was used for data collection. Both descriptive statistics and inferential statistics were employed for data analysis, and SPSS 22 was used for data processing.



CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents, analysed and discussed the results of the study based on the primary data collected. The data was cleaned and the necessary estimates done and presented in tables for analysis and discussion based on the stated research questions and hypotheses. The results were integrated into the literature and a summary of the chapter was presented.

Socio-Demographic Information of Participants

This section covered the study participants' gender, age, educational background, and length of service. Though not central to the core focus of this study, the demographic information helps to contextualise the findings of the study and, also contributes to formulation of appropriate recommendations. Table 3 displays the results on the demographic information of the study participants.

Table 3: Demographic Information of Participants

Variable	Variable Categories	Frequency	Percentage (%)
Gender	Male	67	55.8%
	Female	53	44.2%
Age	Less than 30yrs	5	5%
	30 – 39yrs	15	12.5%
	40 – 49yrs	75	62.5%
	50yrs and above	25	20.8
Level of education	BECE	35	29.2%
	SSSCE/WASSCE	45	37.5%
	Diploma	12	10%
	Bachelor	10	8.3%
	Others	18	15%
	Years of Retail Trading	Less than 3 years	17
3-5 years		38	31.6%
6 years and above		65	54.2%
Type of Business	Handicraft	9	7.5%
	Electrical Supplies	14	11.7%
	Repairs Service	0	0
	Hardware	10	8.3%
	Computer and computer accessories	15	12.5%
	Restaurant and Bars	20	16.7%
	Textile/Leather work	14	11.7%
	General and provision stores	25	20.8%
	Number of years as VAT Registered Retailer	Less than 2 years	7
2-4 years		48	40%
More than 4 years		65	54.2%

Source: Field Survey (2021)

Obs:120

Table 3 shows the socio-demographic information of the participants who were involved in the study. From the Table, 67(55.8 %) of the participants were males whilst 53(44.2%) were females. This implies that both male and the female gender were fairly represented; though males were considerably more than their female counterparts, this difference was not huge enough to have any influence on the outcomes of this study. Also, most of the participants were from the age 40 to 49 years, representing 75(62.5%) of the total participants; 5 of them, representing (5%), were less than 30 years;

fifteen (15) of the participants representing (12.5%), were between the ages 30 and 39 years; 25 (20.8%) of the participants were 50 years and above.

With regards to educational background, the minimum qualification of the participants was BECE. From Table 3: 35 of the participants, representing (29.2%) of the total participants, had a BECE certificate; Forty-five (45) representing (37.5%) of the participants had SSSCE/WASSCE certificate; twelve (12) of the participants, representing (10%), had Diploma; 10 of the respondents had Bachelor's degree, representing (8.3%) and finally the 18 of the respondents had other certificates representing (15%).

Further, concerning the number years in retail trading of the participants who participated in this study, the results showed that 17 of the participants, representing (14.2%), are in the trading business for less than three years; 38 of the participants, representing (31.6%), have been in the trading business between 3 years to 6 years; 20, and finally, sixty-five (65) of the participants, representing (54.2%) have been in the trading business for more than 6 years. Again, regarding the type of business respondents are engaged in, nine (9) of the participants, representing (7.5%) are into handicraft business; 14 of the participants, representing (11.7%) are into electrical suppliers; 10 of the participants, representing (8.3%) are into hardware business; 15 of the participants, representing (12.5%) are into computer and computer accessories; 20 of the participants, representing (16.7%) are into restaurant and bars; 14 of the participants, representing (11.7%) are into textiles/leather works and finally, 25 of the participants, representing (20.8%) are into general and provision stores business. This simply implies that

majority of the respondents as far as this study is concern are into general and provision stores business in Mfantseman Municipal Assembly.

Finally, the enquired from the participants the number of years they have registered as a VAT retailer. It was revealed that, 7 of the participants, representing (5.8%) registered as VAT retailer in less than 2 years, 48 of the participants, representing (40%) have been registered as VAT retailer between 2 years to 4 years and finally, 65 of the participants, representing (54.2%) have been registered as VAT retailer for more than 4 years now.

VAT Compliance Level of Retailers in The Mfantseman Municipal Assembly.

The first research objective sought to assess VAT Compliance Level of Retailers in The Mfantseman Municipal Assembly. To achieve this particular objective, the researcher conducted a descriptive analysis and the result was put in a form of frequency and percentages to enable comparison and conclusion drawn. The results were presented in Table 4.

Table 4: Level of Compliance to VAT Issues

VAT issues	Only when demanded		After transaction		Once every month	
	Freq.	%	Freq.	%	Freq.	%
Issue of VAT invoice	68	56.6	52	43.3	0	0.0
Prepare VAT account	79	65.8	0	0.0	41	34.1
Prepare and send VAT returns	49	40.8	0	0.0	71	59.1
Pay VAT collected to the DTRD of GRA	60	50.0	0	0.0	60	50.0

Source: Field Survey (2021)

Obs:120

The results in Table 4, indicates that out 120 participants, fifty-two (52) of the respondents representing (43.3%) revealed that they issue VAT invoice to their customers after every transaction as required by the VAT Act 1998 (ACT 546) which demands every VAT registered retailer to issue an invoice to its customers after transactions. It was also revealed that 68 of the respondents representing (56.6%) of the total respondent's issue VAT invoice only when the customer demanded it. This means that majority of the retailers only issue an invoice when a customer request for it which is completely against the law. The findings are consistent with the findings by Obeng (2018) which found that most VFRS operators do not issue VAT invoices, and even if they do, they do so upon request. The VAT Act demands that VAT collectors prepare and send VAT returns to the VAT section of DTRD of GRA once every month but from the data collected from the survey, it can be observed that only ($n = 71, 59.1\%$) do prepare and submit VAT returns to the VAT office as per the VAT Act.

However, 49 of the respondents representing (40.8%) of the retailers responded that they prepare and submit VAT returns only when the VAT officials demanded them (VAT returns). On the preparation of VAT account, it was also found that 79 of the respondents representing (65.8%) opined that they prepare VAT account only when demanded while 41 of the respondents representing (34.1%) of the respondents indicated that they prepare VAT account once every month.

The VAT act mandate VAT collectors (i.e., VAT registered retailers of VFRS) to pay the net VAT payable to the Domestic Tax Revenue Division of Ghana Revenue Authority at least the last working day of the month following

the month of transaction. However, from the survey, it was clear that only half 60 (50.0%) of the respondents indicated that they have been paying as per the VAT Act. The other half of the respondents also indicated that they go to the VAT office to pay the net VAT collected only when the VAT officials demanded it. Some of the retail business operators further added that they sometimes regard the VAT collected as part of their sales revenue. The findings mean that retail business operators do not fully comply with the VAT Act.

The findings are contrary to the findings by Nketsiah, (2018). The result showed that completion of the VAT monthly return form imposes more cost on traders than the VAT invoice book. Firms who receive education from VAT officials are found to be 0.102 more likely to complete the VAT monthly return form than firms who do not receive education from VAT officials. Also, firms who receive education from VAT officials are 0.849 times as likely as those firms who had not received education from VAT officials to complete the VAT invoice book by themselves. Generally, the result showed that the 'record-based controls of VAT' has significantly improved SME's record keeping skills and accounting system albeit it is found to be stringent relative to other record-keeping types kept by SMEs.

The Influence of The VAT Flat Rate Scheme on The Sale of Retail Products in The Mfantseman Municipal Assembly

The second research objective sought to examined influence of the VAT flat rate scheme on the sale of retail products in the Mfantseman Municipal Assembly. To achieve this particular objective, the researcher

conducted a descriptive analysis and the result was put in a form of frequency and percentages to enable comparison and conclusion drawn.

Table 5: The Influence of The VAT Flat Rate Scheme on The Sale of Retail Products in The Mfantseman Municipal Assembly

	Frequency (n)	Percentage (%)
Effect of VFRS on prices of products		
Prices went up slightly	112	93.3
Prices went down slightly	0	0.0
No change in price	8	6.7
The Strength of VFRS on Competitive Ability of Retailers		
Has the introduction of VFRS affected the profit of your business for the past five years	YES/NO	61 59 50.8% 49.2%
Reasons for Changes in Retailers' Profits		
decrease in number of customers from government agencies and institutions	61	68.5%
decrease in numbers of customers from private institutions	8	9%
decrease in number of customers from the public (individuals)	20	22.5%

Source: Field Survey (2021)

From Table 5, the results are presented in frequencies and percentages relative to the VAT flat rate scheme on the sale of retail products in the Mfantseman municipal assembly. According to the results, the statement “Prices went up slightly” had 112 of the respondents representing 93.3% agreeing that the VAT flat rate (VFRS) has contributed to their prices going up whilst 8 of the respondents representing 6.7% say that there was no change in prices of their product as a result of the introduction of the VFRS. However, none of the respondents indicate that their prices went down slightly. With respect to the findings, it is obvious that the VAT flat rate scheme has an effect on the sale of retail products.

Further, the statement “Has the introduction of VFRS affected the profit of your business for the past five years” 61 of the respondents representing 50.8% says YES whilst the remaining 59 of the respondents representing 49.2%, answered NO. This implies that the majority of the respondents agreed that VFRS has affected the profit of their business for the past five years. Also, the statement “decrease in the number of customers from government agencies and institutions” had 61 of respondents representing 68.5%. Furthermore, the statement “ decrease in numbers of customers from private institutions” had 8 of respondents representing 9% agreeing with the statement. Finally, the statement “ decrease in number of customers from the public (individuals)” also had 20 of respondents representing 22.5% agreeing with the statement. In summary, the majority of the respondents surveyed have indicated quite clearly that, the introduction of the VAT flat rate scheme has affected their retail business in the Mfantseman Municipal Assembly.

The findings of the current study were contrary to Obeng, (2018) who concludes that the incidence of VAT is on the consumer with no cascading effect. VFRS is charged to the final consumer of the product. VFRS can mitigate the tax burden on consumers depending on the market orientation, type of industry, and business environment. Government can use VFRS to stabilize the economic environment in the event of market failure for tax optimality. The paper will enhance policy on optimizing tax revenue with different tax rates at different production sectors of the economy.

The Challenges Faced by The Retailer in Implementing the VAT Flat Rate Scheme in The Mfantseman Municipal Assembly.

The third and final research objective sought to the challenges faced by the retailer in implementing the vat flat rate scheme in the Mfantseman Municipal Assembly. To achieve this particular objective, the researcher conducted a descriptive analysis and the result was put in a form of frequency and percentages to enable comparison and conclusion drawn.

Table 6: Challenges with the Implementation of VFRS

Challenges with the Implementation of VFRS	Yes %	No %
Irregular visit to my business premises by VAT officials is a worry to me because element of surprise visit put unnecessary pressure on me	59.2	40.8
Monthly payment of VAT collected to the service is a burden on me	93.3	6.7
Do you have competition from non VFRS registered retailers	97.5	2.5
It has slowed down my work e.g. issue of VAT invoice delays my work	98.5	1.5
I don't get adequate VAT invoices (booklet) from the service	42.5	57.5
Source: Field Survey	N = 120	

The results from Table 6, shows the levels of challenges faced by retailers after the implementation of the VFRS in the Mfantseman Municipal Assembly. First, the statement “ Irregular visit to my business premises by VAT officials is a worry to me because element of surprise visit put unnecessary pressure on me” recorded 59.2% of the respondents answering YES to the statement and 40.8% of the respondents saying NO. This clearly means that, majority of the retailers does not like the irregular visit of the GRA officials to their premises. Again, the statement “ Monthly payment of VAT collected to the service is a burden on me” also recorded 93.3% of the respondents answering YES relative to the statement whilst 6.7% of the respondents answering NO. Further, the statement “ Do you have competition from non VFRS registered retailers” had 97.5% of the participants saying to it whilst only 2.5% of the respondents saying NO. The statement “ It has slowed down my work e.g. issue of VAT invoice delays my work” recorded 98.5% of the participants responding YES to the statement and the remaining 1.5% of the participants responding NO to the statement. Finally, the statement “ I don’t get adequate VAT invoices (booklet) from the service” recorded 42.5% of the participants saying YES whilst the remaining 57.5% of the respondents answering NO.

In conclusion, it can be observed from the results that, the retailers faces a number of challenges with respect the implementation of the VAT flat rate scheme in the Mfantseman Municipal Assembly. These challenges include the irregular visit of GRA official to the premises of the retailers. Another challenge relative the implementation of the VFRS is the retailers finds it difficult to make the monthly payment of the VAT collected and so on.

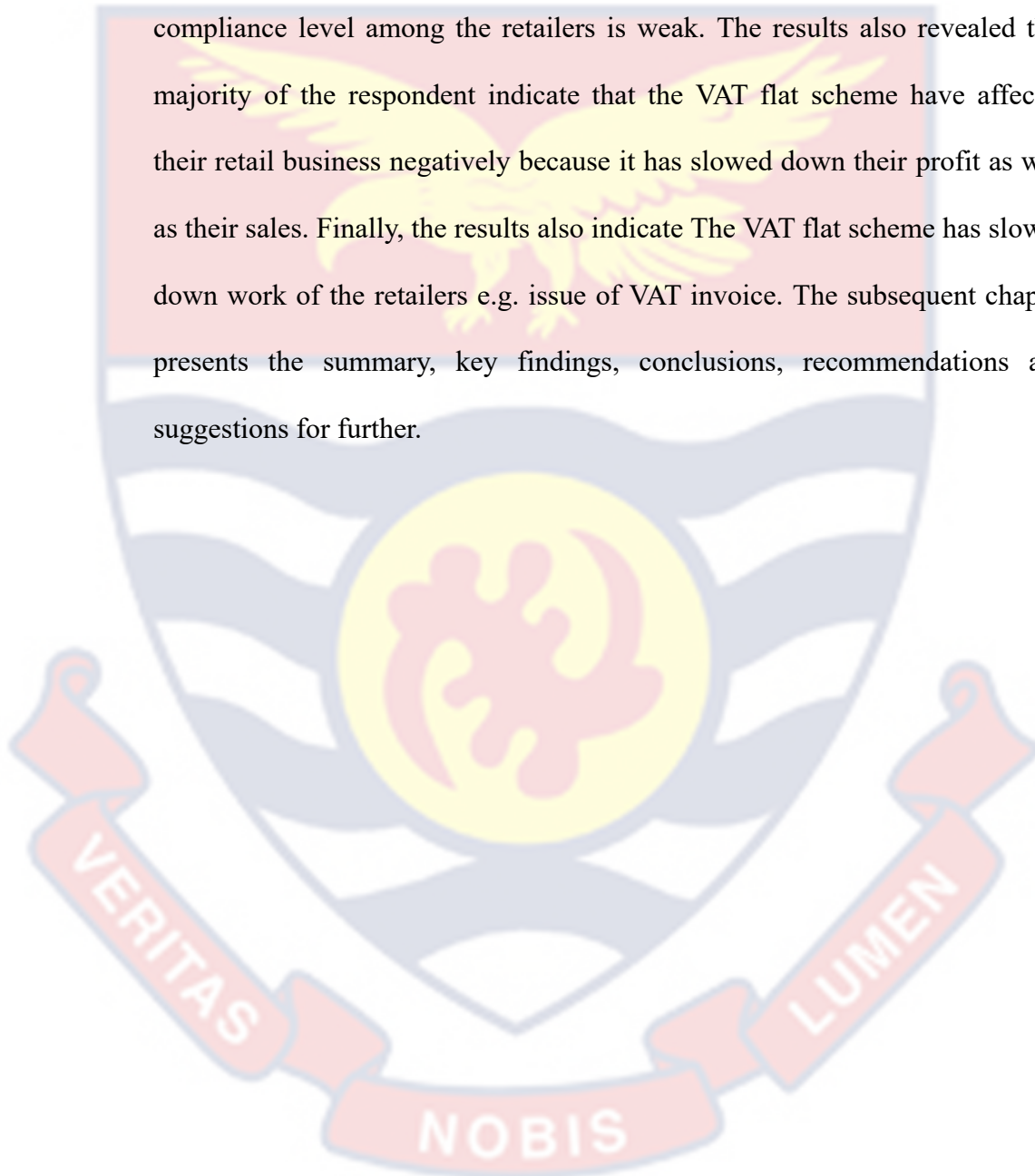
This implies that stakeholders must institute a rigorous education concerning the VAT flat rate scheme to enable retailers the important of the policy to them and the government.

The findings of the current study are consistent with the findings by Saeed, (2020) who indicates that most Ghanaian small business owners do not understand their Value Added Tax obligations. There is also some willingness to evade Value Added Tax. Further, they view the tax as unfair. Moreover, results show that Ghanaians appear to have accepted the civic responsibility of Value Added Tax payment to the state. Equally important, the author demonstrates that Ghanaian small business owners do not understand the basic procedure in assessment, collection and enforcement of Value Added Taxes legally due the state.

The findings of the current study was however contrary with the findings by Asiedu, Akanyonge, Dickson, and Asapeo, (2022) The study uncovered that the introduction of the VAT Flat Rate Scheme has certainly brought a significant increase in tax revenue by means of its simplistic and convenient computation process. In addition, the scheme has cheered more retailers who have not yet registered with the VAT service to register and this has boosted tax revenues. Further, the complex nature of the Standard Rate Scheme was the main rationale for the introduction of the VFRS. Lack of resources, unwillingness of taxpayers to forward complaints and tax evasion were discovered.

Chapter Summary

This chapter presented the results and discussion of the study. Study participants' socio-demographics, descriptive statistics of the study variables and inferential statistics were also conducted. The results showed that VAT compliance level among the retailers is weak. The results also revealed that majority of the respondent indicate that the VAT flat scheme have affected their retail business negatively because it has slowed down their profit as well as their sales. Finally, the results also indicate The VAT flat scheme has slowed down work of the retailers e.g. issue of VAT invoice. The subsequent chapter presents the summary, key findings, conclusions, recommendations and suggestions for further.



CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

This chapter presents the summary, key findings, conclusions, and recommendations of this study. The summary presents a brief overview of the study problem, objectives, research methods and analytical techniques employed, as well as the study findings. Key findings section focuses on the summary of the main findings of the study. On the other hand, the conclusions summarise the overall outcomes and implications regarding the findings of the study with cognisance of the research objectives. The recommendations also present specific remedies or suggestions to be applied by specific concerned individuals and institutions. The chapter closes with suggestions for further research in the area of the current topic.

Summary of the Study

Taxes continue to be essential for a nation development, funding public infrastructure and expenditures, wealth redistribution, and creating a "fiscal social contract" between governments and citizens (Forstater, 2018). However, ensuring tax compliance and collecting the much-needed revenue from the tax administrations remains a major challenge for them. This is particularly true for developing countries. While developed countries have been able to collect tax revenue to a satisfactory level, developing countries have not been able to do so (Mahdzan, et al 2019). They are still struggling with tax compliance problems. Tax compliance is currently a topical issue, especially in developing countries as governments are seeking ways to improve efficiency in tax revenue collection to finance their budgets. It was

based on the forgoing that the current study sought to assess the VAT flat rate scheme for retail businesses in Mfantseman Municipal Assembly

The specific objectives the study sought to achieve were: one, Ascertain the VAT compliance level of retailers in the Mfantseman Municipal Assembly. two examine the VAT flat rate scheme on sale of retail products in the Mfantseman Municipal Assembly, and three, Identify the major challenges faced by the retailers in the implementation of VAT flat rate scheme in the Mfantseman Municipal Assembly. To achieve the foregoing objectives, the explanatory research design, in the light of the quantitative research approach, was employed. The study used primary data for the analyses. With respect to the sampling method, proportionate random sampling techniques were employed to select the 120 participants from the accessible population. The main tool used for primary data collection for this study was the structured questionnaire containing closed-ended questions. The data extracted were analysed using descriptive statistical tools. Specifically, descriptive statistics such as frequency, percentage, were used to analyse the study objectives.

Summary of Key Findings

The first objective sought to ascertain the VAT compliance level of retailers in the Mfantseman Municipal Assembly. The results showed that VAT compliance level among the retailers is weak. This is because the retailers only issue invoices to their customers when they demand it which is contrary to the law. The findings also indicates that some of the retailers do not prepare and send their VAT returns as required by the Act. The second research objective sought to examined influence of the VAT flat rate scheme on the sale of retail products in the Mfantseman Municipal Assembly. The

results showed that majority of the respondent indicate that the VAT flat scheme have affected their retail business negatively because it has slowed down their profit as well as their sales.

The third and final research objective sought to Identify the major challenges faced by the retailers in the implementation of VAT flat rate scheme in the Mfantseman Municipal Assembly. The results showed that the retail operators have encountered numerous challenges regarding the implementation of the VAT flat rate scheme, for instance the irregular visit of GRA official to the premises of the retailers. The results also indicate The VAT flat scheme has slowed down work of the retailers e.g. issue of VAT invoice.

Conclusions

Considering the findings of the study, the following conclusions could be drawn based on the study objectives. the first objective of the study sought to Ascertain the VAT compliance level of retailers in the Mfantseman Municipal Assembly. The study concludes that VAT compliance level among retailers are not strong as expected by the policy. Most retailers or VAT collectors in the Mfantseman Municipal Assembly are not used to issuing VAT invoices and that those who even do that do so upon customer request. This makes it difficult for retail business operators to comply with the VAT Act. Some of the retail business operators comply only when the VAT officials come to then or demanded it.

The second research objective sought to examined influence of the VAT flat rate scheme on the sale of retail products in the Mfantseman Municipal Assembly. The study concluded that the VAT flat rate scheme

affects retailers' profit negatively. This is so because there is very low public awareness regarding the VAT flat rate scheme.

The third and final research objective sought to Identify the major challenges faced by the retailers in the implementation of VAT flat rate scheme in the Mfantseman Municipal Assembly. The study concludes that there are various challenges faced by retail business operators at a result of the implementation of the VAT flat rate scheme.

Recommendations

Having considered the key findings and the conclusions drawn, it was imperative to make recommendations that might positively influence the impact sought to assess the VAT flat rate scheme for retail businesses in Mfantseman Municipal Assembly. The researcher, therefore, made the following recommendations based on the current findings and conclusions drawn.

- The study recommends that tax officials should ensure that VFRS is redesigned to work/operate like the standard VAT rate where input tax is reclaimable.
- The study also recommends that, refresher training for retailers should be instituted as annual or biennial events or at least whenever there is a change in the VAT Act. This training could serve as an avenue for sharing of ideas and addressing of grievances from both the retailers and tax officials.
- The study finally recommends that GRA officials should address the challenges encountered by the retail operators in order to enable the policy achieve its intended purpose.

Suggestions for Further Research

The following related areas can be researched on to add up to the knowledge of what this study has achieved. This study concentrated more on VAT Flat Rate Scheme for retail businesses in the Mfantseman Municipal Assembly. The general impact of taxation on businesses in Ghana should be considered as an area for further research. Another area for further research is to investigate the conduct of tax officials in the administration of tax systems in Ghana.



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APPENDIX

Questionnaires for VFRS Registered Retailers

**UNIVERSITY OF CAPE COAST
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING
QUESTIONNAIRES**

Dear Respondent,

I am a student of University of Cape Coast, offering Master of Commerce Programme at the School of Business. This questionnaire is being used to gather information for my research work on the topic *“Implementation of Value Added Tax Flat Rate Scheme for Retailers in the Mfantseman Municipal Assembly: Prospects and Challenges”*. This research is in partial fulfilment of the requirement for the award of a Master of Business Administration Degree in Accounting at University of Cape Coast. All the answers you provide will be treated as confidential and for academic purpose only. Kindly complete the questionnaire. Please feel free to answer the questions as objectively as you can. Please tick [] the appropriate box or write your response which is applicable to you in each question.

SECTION A: DEMOGRAPHIC INFORMATION OF RESPONDENTS

1. What is your sex?

Male [] Female []

2. What is your age?

Less than 30yrs [] 30-39yrs [] 40-49yrs []
50 yrs and above []

3. Including this year, how many years have you been trading as a retailer?

1yr [] 2yrs [] 3yrs [] 4yrs [] other (specify) _____

4. What highest academic qualification have you obtained?

MSLCE/BECE [] O/A' Level/SSCE/WASSCE []Diploma [] Bachelors []

Other (specify) NOBIS

5. What type of retail business do you do?

Hardware [] Electrical supplies [] Handicrafts []
Repair Services [] Provision stores [] Other (specify).....

6. Please indicate your position in this retail shop/business, are you the owner or you are answering this questionnaire on behalf of the owner?

Owner On behalf of the owner

7. On average, how many hours do you operate per day?

1-3hrs 4-6hrs 7-9hrs ≥ 10 hrs

8. How many years have you been operating as a VAT registered trader?

1yr 2yrs 3yrs 4yrs Other (specify) ---

SECTION B: THE VAT FLAT SCHEME (V.F.R.S.) ON SALE AND PROFIT OF YOUR BUSINESS

Please circle or write your response with a writing pen

9. How has the introduction of V.F.R.S. affected the prices of your products?

- a) Prices went up slightly.
- b) Prices went down slightly.
- c) No change in price.

10. In general, how has the introduction of V.F.R.S. affected the sale of your products for the past three years?

- a) Sales went up from average of GH¢..... to GH¢..... per annum.
- b) Sales went down from average of GH¢.....to GH¢..... per annum.
- c) No change in sale.

11. If your answer to the above question is 'a' or 'b'; what accounted for the change in sales of your retail products? (You may select more than one answer)

- a) Increase/decrease in number of customers from government agencies and institutions
- b) Increase/decrease in number of customers from private institutions.
- c) Increase/decrease in number of customers from the general public (individuals).
- d) Others (specify).....

12. How has the introduction of V.F.R.S. affected the profit of your business, for the past five years?

- a) Profit went up from annual average of GH¢..... to GH¢.....
- b) Profit went down from average of GH¢.....to GH¢.....per annum.
- c) No change in profit.

13. What accounted for your choice of answer to the above question? (You may select more than one answer)

- a) It has given me a peace of mind to concentrate on my business hence more profit.

- b) It has increased the numbers of my customers from the governmental agencies whose purchases are governed by the Public Procurement Act, leading to increase in sale and profit.
- c) It has led to a decrease in my profit due to increase in cost associated with the compliance.
- d) Cost of sales went up/down.
- e) Other (specify)

14. Has V.F.R.S. strengthened your competitive ability with your competitors – standard VAT operators? Yes [] No []

15. Has V.F.R.S. strengthened your competitive ability with your competitors – fellow retailers who have not registered with the scheme? Yes [] No []

16. What accounted for your choice of answer in number 20 above? (You may select more than one answer)

- a) Government agencies that are required by law to buy from only VAT registered traders began buying from me.
- b) My customers went down due to a slight increase in the prices of my goods
- c) VAT enhanced the image of my business because it saved me from prosecution from law enforcement agencies for non-compliance.

SECTION C: COMPLIANCE LEVEL OF RETAILERS ON VAT ISSUES ACCORDING TO THE VAT ACT

Please indicate how often you do the following:

Item		Only when demanded	After every transaction	Once every month
17	Issue VAT Invoice			
18	Prepare VAT account			
19	Prepare VAT returns			
20	Send VAT returns			
21	Pay Net VAT payable to D.T.R.D. of G.R.A.			
22	Collect VAT invoice from suppliers			

23. How are you able to follow all VAT procedures concerning issue of VAT invoices?

- a) I prepare the invoices myself due to training I received from the D.T.R.D.
- b) I have employed an additional worker (account officer) to help me do that.

24. If you answer to question 22a is 'c' how has it affected the operations of your business? (You may select more than one answer)

- a) It has increased the labour cost of my business.
- b) It has being slowing down my operations.

25. How has VAT compliance affected the operational cost of your business?

- a) It has increased my administration cost because I have employed an additional person to help me deal with VAT issues.
- b) It has decreased my administration cost.
- c) It has had no effect on my administration cost.

26. Please indicate the extent to which you agree with the following statements. Note that one (1) represents the least agreement to the issues while five (5) represents the strongest agreement to the issues.

Statement	1	2	3	4	5
VAT-fraud is widespread in my line of business					
When I send off my cheque to the tax authorities I think of the money as coming from my business funds.					
My business receives VAT officers, who occasionally visit to examine and verify records during the year 2019 and 2020					
My business prepares VAT account and maintains up to date relevant business and other accounting records for VAT Flat Rate Scheme purposes					
My business keeps copies of all VAT invoices received					
My business is able to comply with the period for filing tax returns to the VAT Service					

SECTION D: CHALLENGES FACED BY RETAIL BUSINESSES IN IMPLEMENTING THE VAT FLAT RATE SCHEME

27. Have you been encountering any difficulty with the VAT service (D.T.R.D.) that has affected your compliance? Yes [] Uncertain [] No []

28. If you answer to the above question is 'yes' what are some of the difficulties you are encountering with the service? (You may select more than one answer)

- a) I don't get adequate VAT invoices (booklet) from the service.
- b) Irregular visit to my business premises by VAT officials is a worry to me because element of surprise visit put unnecessary pressure on me.
- c) Monthly payment of VAT collected to the service is a burden on me.
- d) It has slowed down my work e.g. issue of VAT invoice delays my work.

e) Other(s) specify:

29. How has VAT compliance affected the image of your business? (You may select more than one answer)

- a) It has saved me from prosecution from law enforcement agencies for non-compliance.
- b) It has enhanced my ability to obtain loans from financial institutions.
- c) It has increased my competitive abilities due to goodwill.
- d) Other (specify)

30. How many hours do you spend when you are making payment/submitting VAT returns at the office of the D.T.R.D.?

- a) 1 hour [] b) 2 hours [] c) 3 hours []
- d) Other (please specify)

31. How many hours do you spend when you visit the VAT office for stationeries like VAT Invoices?

32. How does it affect your business when you spend more hours at the office of the D.T.R.D.?

- a) It slows down my business.
- b) It does not help in the smooth running of my business.

33. According to the legal requirements of VAT which of the following records are you supposed to keep? (You may select more than one response)

- a) VAT invoices [] b) VAT returns [] c) VAT account []
- Others (please specify)

34. How is keeping these records affecting your business?

.....
.....

35. Which of the following is/are other challenges you are encountering as a result of being a VAT operator?

- a) VAT officials have been worrying me very often.
- b) Not getting adequate VAT invoices from the VAT service (Now under the D.T.R.D.)
- c) VAT laws are difficult to understand and apply.
- d) I don't pay the VAT collected on behalf of the D.T.R.D. to the service because I regard it as mine.
- e) Failure to apply the VAT laws has led to my prosecution at the law court.

36. How long does it take to get a tax refund from the service?

.....

37. Specify any other challenges you are encountering as a result of being a VAT operator that are not specified above in the spaces provided below

.....
.....

38. Please suggest at least three ways for improving upon the implementation of the VAT Flat Rate Scheme in Ghana in the spaces provided below.

.....
.....

