UNIVERSITY OF CAPE COAST

EXAMINING TAX COMPLIANCE OF SMALL AND MEDIUM-SIZED
ENTERPRISES IN THE TAMALE METROPOLIS

BY

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis 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.

Signature: .... Date:..

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Supervisors' Declaration

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

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ABSTRACT

This study examines compliance with tax laws by small and medium-sized enterprises (SMEs) in Tamale Metropolis. It is fixated on tax knowledge, factors of tax compliance; the measures tax authorities adopt to encourage tax compliance and the relationship between components of tax knowledge and tax compliance. In an attempt to fill a gap in research regarding tax compliance of SMEs in the Tamale Metropolis, the study adopted the descriptive survey and cross-sectional study design. Stratified sampling and simple random sampling techniques were used to select a sample size of 265 from a total population of 851 small and medium-sized enterprises (SMEs). A close-ended questionnaire was employed in gathering primary data for the study. The study was analysed using descriptive statistics and multiple regression. Key findings from the study suggest that the tax knowledge of owners/managers of SMEs is low and that major factors contributing to tax compliance among SMEs in the Tamale Metropolis include complexity of the tax laws, perception of government spending, profit level of businesses and the rate of tax. The study concludes that there is a significant relationship between tax knowledge and tax compliance. It is thus recommended that, to improve voluntary tax compliance, tax authorities should simplify the tax laws and provide adequate tax training and education to SMEs to enhance efficient tax collection. SMEs should be encouraged to keep proper accounting records and file their tax returns promptly. Finally, promoting taxpayers' knowledge about awareness of offences and penalties could increase voluntary tax compliance by SMEs.

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DEDICATION

To my parents, the Late Afa Abukari Saaka and Mma Asana Abukari

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LIST OF ABREVIATIONS

CEPS   Customs Excise and Preventive Service

GDP   Gross Domestic Product

GRA   Ghana Revenue Authority

GSS   Ghana Statistical Service

NBSSI   National Board for Small Scale Industries

SMCD5   Supreme Military Council Decree 5

SMEs   Small and Medium-Sized Enterprises

TAMA   Tamale Metropolitan Assembly

UNCTAD   United Nation Conference on Trade and Development

VAT   Value Added Tax

CHAPTER ONE

INTRODUCTION

Background of the Study

Across the world, taxation has been very useful to various countries. 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, Mukasa (2011) argues that tax revenues are used to finance the national budget and control the economy and protection of local industries. Finally, tax revenues are used to redistribute income to help the less well-off and also used to restrain the consumption of certain type of products (Wang, 2010).

Taxation is one of the important elements in managing national income, especially in developed countries (Palil, 2010). Raising more domestic revenue is a priority for most sub-Saharan African countries (Drummond, Daal, Srivastava & Oliveira, 2012). Taxation has played an important role in civilized societies since their birth thousand years ago (Lymer & Oats, 2009). It is a well known fact that the revenue generated from the taxation of individuals and businesses is an important stream of income for government (Atawodi & Ojeka, 2012). Bird (2003 p.147), states that "No one likes taxes; people do not like to pay them and governments do not like to impose them". However, taxes are necessary to finance desired public spending to ensure that the burden of paying for such spending is fairly distributed (Mukasa, 2011).

In view of the importance of tax revenue to governments, compliance with tax laws is very important in generating the required revenue. Tax compliance is a taxpayers' ability and willingness to comply with tax laws, filing appropriate returns stating the actual income earned, claiming appropriate relief and rebates and paying all taxes due on time.

Several efforts and measures are put in place to ensure tax revenue generation. Mukasa (2011) states that continuous tax education and resourcing the tax agencies are measures governments put in place to ensure maximization of tax revenues through compliance. Organization for Economic Co-operation and Development (2000) also states that imposing interests and penalties, tax deductible benefits and cash flow benefits are measures governments have put in place to induce compliance with tax laws and regulations, hence, generating more tax revenue. Palil (2010) argues that self-assessment system promotes voluntary tax compliance. The Ghana Revenue Authority (GRA) has also introduced the self-assessment system on business organizations to improve tax compliance (Ghana Revenue Authority, 2013). Bird (2003), emphasizes that creation of enabling environment promotes compliance among various taxpayers.

Mikesell and Birskyte (2007, P.189), state "law makers and researchers do not understand taxpayers compliance bits at the fiscal foundation of government by threatening equity, efficiency, effectiveness and yield of the tax system and there is no unified approach of making the necessary repairs". When reviewing overall tax compliance, the ease at which taxpayers comply with their legal obligation to pay tax is a critical factor. Wang (2010), on tax compliance in the business sector in South Africa, reveals that taxpayers'

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decision to comply or not to comply are determined by the complexity of the tax system and taxpayers' confidence in government generally. In the same vein, Mukasa (2011) states that taxpayers' perception regarding the fairness of the entire tax system, the social setting and societal norms and the effectiveness of tax authorities in the detection and punishment of non-compliance with the tax laws determine taxpayers' decision to comply or not to comply.

The main source of generating revenue for the state is through taxation (Abdallah, 2014). However, the relevant knowledge and the level of compliance with the tax laws and regulations determine whether the government would be able to achieve the estimated tax revenue for a particular period. Tax revenue is very critical to the development of the country since it constitutes a large proportion of the total revenue of the country (Ministry of Finance, 2013). In 2011, tax revenue represented 80% of the total revenue, and rose to 84% in 2012 (Controller & Accountant General, 2012).With the growing expenditure of government and increasing government borrowings (Ministry of Finance, 2014) the need to improve the efficiency of generating tax revenue in the country is required to finance these expenditures and reduce the public debt.

The sources of tax revenue in Ghana are from direct taxes and indirect taxes (Abdallah, 2014).The direct taxes are imposed on incomes and wealth of tax payers such as income tax, corporate tax, capital gain tax as well as gift tax (Agyeman, 2005). The indirect taxes are imposed on consumption expenditure such as value added tax, import and export duty and communication service tax (Abdallah, 2014).

The small and medium-sized enterprises play an integral part in the development of a country's economy, in terms of employment and revenue generation (Young, 2011). In Ghana, small and medium-sized enterprises constitute the largest business units in the country (Registrar General, 2013), and their contribution to tax revenue from businesses constitute only 25.6% (GRA, 2012). Since SMEs constitute the largest number of businesses in the country, their compliance with tax laws and regulations would contribute to increase in government revenue. In Tamale, the small and medium-sized enterprises constitute the largest number of business units in the Metropolis (Registrar General, 2013). Most of the SMEs do not hire professional accountants for proper book keeping and are mostly in the form of sole proprietorship.

Tax compliance of small and medium-sized enterprises depends on knowledge of tax laws by managers or owners of SMEs. It is therefore appropriate to identify factors contributing to tax compliance behavior of SMEs in the Tamale Metropolis with a view to informing policy direction to improve tax compliance.

Problem Statement

One of the main barriers to implementing government programs and activities is the generation of the required tax revenue for the state. To achieve this requires compliance with the tax law and regulations. Asante and Seidu (2011), posit that the problem of tax compliance is as old as tax itself. The level of tax compliance of small and medium-sized enterprises is critical in achieving the needed tax revenue. Small and Medium-Sized Enterprises constitute the largest proportion of businesses in Ghana (GRA, 2012). In lieu

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of this, their compliance with tax laws is critical. Emanating from the economic based theory and sociological and psychological theories, tax compliance has been influenced by economic motives such as profit maximization and probability of detection and fines (Trividi, Shehata & Mestlmen, 2004). Non-economic variables like perception of equity and morals contribute to tax non-compliance (Vogel, 1974).

Generally, SMEs in Ghana are largely in the informal sector and thus do not keep accounting records or at best keep improper accounting records. In the light of this, SMEs have a serious challenge in filing their tax returns since there are no records or little records. Although, SMEs constitute majority of businesses in Ghana, they contribute only 25.6% of total tax revenue from businesses (2.4% for small and 23.2% for medium enterprises) (GRA, 2012). Thus, the need to examine tax compliance by the SMEs is essential.

Findings of prior research have indicated that non-tax compliance behavior of small and medium-sized enterprises in New Zealand indicate that cultural values of owners contributed to it (Young, 2011). This could occur due to lack of or limited knowledge on tax issues. Similarly, Palil (2010) conducted a study on determinants of tax compliance behavior in relation to Self Assessment System (SAS) in Malaysia. The research findings state that tax knowledge is an important element of self assessment system in Malaysia and is believed to have positive impact on compliance behaviour. Furthermore, Mukasa (2011) states that tax payers' compliance level is directly related to tax payers' knowledge and perceived tax fairness in Uganda in a study of small and medium-sized enterprises in Kampala. However, Wang (2010) indicates that tax payers' decision to comply or not to comply is

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determined by the complexity of the tax system and taxpayers' confidence in government.

Young's study focused only on how ethnicity (cultural values) contributes to tax non-compliance. The study uses purposive sampling technique as well as interviews as instruments. However, this study examines perceived economic and non-economic factors contributing to tax compliance. This study uses stratified and simple random sampling techniques as well as questionnaires to elicit information from respondents. Palil's on the other hand, examined determinants of tax compliance on individual taxpayers whilst this study focuses on factors and measures contributing to tax compliance of SMEs.

According to the Ministry of Finance (2014), the country has been experiencing growing level of expenditure. In view of this phenomenon, Ghana over the years has been depending largely on grants and borrowings to finance government activities especially capital projects (World Bank, 2012) leading to huge public debt. The country's total debt in 2013 amounted to 55.8% of GDP (World Bank, 2013). This was due to the inability of the state to broaden the tax net in order to generate more tax revenue, especially from SMEs which are largely in the informal sector.

Although there has been continuous increase in government tax revenue, government expenditure continues to exceed its revenue (Ministry of Finance, 2013). The revenue agencies in the country year-by- year claim to be exceeding their revenue targets (Ministry of Finance, 2013), yet tax revenues in the country are inadequate to finance government activities (Ministry of Finance, 2014). Small and Medium-Sized Enterprises, being profit generating

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establishments, are also expected to pay their taxes. The important question however is, how much tax should they be levied? Small and Medium-Sized Enterprises are volatile establishments that need special treatment. Considering the nature of SMEs, every little resource at their disposal can make a world of difference. For this reason, a number of Ghanaian SMEs choose to remain in the informal sector because they feel the cost of compliance is too high, and a considerable number of those who pay only do so because they are compelled by the authorities.

There have been several studies on tax compliance in Ghana, but few studies in Tamale. 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. Sachibu's study focused on general taxpayers unlike this study which narrows the study to SMEs. Stephen, Abdallah and Hamza (2015) in their article on the effect of demographic characteristics of SMEs on tax compliance in Tamale, posit that women and younger entrepreneurs were more non-compliant to tax laws and rules. Stephen et al. (2015) covered only 80 SMEs and the study also limited the tax compliance factors to only demographic variables. Similarly, Yakubu (2015), 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. Literacy level of people is however not the only determinant of compliance behavior.

In the light of the gaps that exist in the literature, a broader examination of tax compliance of SMEs in Tamale is required.

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Research Objectives

The main objective of the study is to examine compliance with tax laws and regulations by small and medium-sized enterprises in Tamale. Specifically, the study seeks to:

1. Ascertain the level of tax knowledge of managers/owners of small and medium-sized enterprises in Tamale

2. Identify perceived factors of tax compliance of small and medium-sized enterprises in Tamale.

3. Assess tax agencies' effort towards encouraging tax compliance.

4. Establish the relationship between components of tax knowledge and tax compliance.

Research Questions

In order to achieve the objectives, answers will be sought for the following questions:

1. What is the level of knowledge of tax laws and regulations of managers/owners of small and medium-sized enterprises in Tamale?

2. What are the perceived factors of tax compliance of small and medium-sized enterprises in Tamale?

3. What efforts do tax agencies make to ensure compliance among small and medium-sized enterprises in Tamale?

4. What is the impact of components of tax knowledge on tax compliance?

Hypothesis

H_0: There is no significant relationship between components of tax knowledge and tax compliance

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H_1:   There is a significant relationship between components of tax knowledge and tax compliance.

Significance of the Study

The study would help in the following ways: In the first place, it would contribute to a body of knowledge. The study results could be a useful source of information for reference purposes by students, scholars, businessmen and other interested parties who are desirous to make sound decision upon getting informed. Further studies on tax compliance can be conducted on other taxpayers.

Furthermore, policy decision would be made by government and tax agencies on how to improve voluntary tax compliance among SMEs in Ghana and Tamale in particular. It offers the tax agencies the opportunity to identify some major factors contributing to tax compliance.

Finally, the small and medium-sized enterprises would also find this study useful in that it would help them understand the moral obligations behind tax payment and may benefited from government support to expand their businesses.

Organization of the Study

The study is organized into five chapters as follows: Chapter one comprises the background of the study, problem statement, research objectives, research questions/hypothesis, and significance of the study. Chapter two contains the literature review on theoretical conceptual issues and empirical evidence on tax compliance. Chapter three consists of the research methods, research design, study design, the population, sample and sampling design, instruments, data sources, and measurement of variables. Chapter four

focuses on results and discussions, and finally, chapter five comprises summary, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

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 begins with a review of the Ghanaian tax system, principles of good tax system and characteristics of SMEs. The chapter further reviews theories on tax compliance. A review of conceptual issues emanating from these theories and captured in prior empirical studies follows. Issues and lessons emanating from the reviews are then discussed based on what the conceptual framework for the study is constructed.

The Ghanaian Tax System

This section discusses the tax system and its administration in Ghana, particularly focusing on how this relates to SMEs and background description of Ghanaian tax administration system and the types of taxes that form its fiscal system. Taxation started in the form of customs duty in 1850 (Asante & Marfo-Yiadom, 2010). It was levied on imported goods at the rate of 0.5% advalorem, and administered by a principal collector stationed at Cape Coast Castle (Asante & Marfo-Yiadom, 2010). In 1852, the Poll Tax system was introduced in the Gold Coast (Abdallah, 2014). Income Tax was first introduced in Ghana, then the Gold Coast, in 1943 during the Second World War by the British Colonial Government (Abdallah, 2014).

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The first Income Tax Law was the Income Tax Ordinance (No. 27), 1943 (Agyeman, 2005). The Ordinance was modeled to a large extent on the general principles underlying the Income Tax Act then enforced in the United Kingdom (Abdallah, 2014). At that time, taxes were imposed on incomes earned having their sources in Ghana with incomes from foreign sources not liable unless remitted to Ghana (Asante & Marfo-Yiadom, 2010). The Ordinance was characterized by numerous reliefs and deductions that it contained.

Over the years, the Income Tax Law has seen several changes through amendments and modifications such as the Income Tax (amendment) Ordinance 1952. The first consolidated edition of the Income Tax Ordinance was published in March, 1953 (Abdallah, 2014). Several amendments were made on the first consolidated edition till the second consolidated edition was published in September, 1966 known as the Income Tax Decree, 1966 (No.78) (Abdallah, 2014). The third consolidated edition, Income Tax Decree 1975 SMCD5 was published in December, 1975. The fourth consolidated edition, the Internal Revenue Act 2000 (Act 592), is the current law governing tax administration in Ghana. This has also seen several amendments and modifications.

Classification of Taxes in Ghana

Taxation is the levying of compulsory contributions by public authorities having tax jurisdiction to defray the cost of their activities with no specific reward to the taxpayer (Abdallah, 2014). According to Asante and Marfo-Yiadom (2010), taxation is any sum of money which the government of a country compulsorily collects from her residents without rendering any

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service or giving any goods in direct return for the amount collected. Furthermore, Agyeman (2005) defined taxation as the demand by the central government or local government for a compulsory payment of money by citizens of a country other than as payment for some specific service or as a penalty for some specific offence. Similarly, Mukasa (2011) defines taxation as the process through which government implements the tax regulations and laws in order to benefit from its application.

In addition, taxation is an instrument of raising revenue for government and also a tool for administering social justice (Akakpo, 2009). Taxes in Ghana are broadly classified into two: direct and indirect taxes. Direct taxes are taxes intended to be paid by the person or organization on whom/which it is actually levied, the impact and incidence being on the same person or organization (Abdallah, 2014). Direct taxes therefore are paid directly to the government as a result of income earned or wealth owned. They are levied on persons and companies, and are borne by the person earning the income or the wealth.

According to Ghana Revenue Authority (GRA), direct taxes in Ghana are further classified as follows: Pay as You Earn which is a form of tax imposed on the income of workers (Abdallah, 2014). It is mostly progressive type of tax where higher income earners pay more tax than lower income earners. Furthermore, corporate tax is also a type of direct tax where the tax is imposed on the profits of companies (Akakpo, 2009). With this, the tax rate charged differs from one industry to another, and also depends on the location of the company. In addition, capital gains tax is a tax levied on the increase in the value of a chargeable asset between the time of purchase and its sale

(Abdallah, 2014). It is however levied on a gain made on sale of chargeable asset after deducting exempt amount of GH¢ 50.

Another form of direct tax is gift tax, which is levied on transfers of personal wealth from one person to another (Abdallah, 2014). It must be noted however, that some transfers are exempt such as those between husband and wife, transfer among close family relatives and so on. The tax rate is applied on taxable gifts in excess of GH¢50. Finally, rent tax is imposed on the incomes earned by landlords or ladies from the proceeds collected from landed properties such as buildings and farm lands (Agyeman, 2005).

Indirect taxes are taxes imposed on expenditure incurred on goods and services, and are paid only when such goods and services are bought or consumed (Asante & Marfo-Yiadom, 2010). Indirect taxes are paid by individuals and organizations upon consumption of goods or services which are liable to tax. Indirect taxes are collected by the Customs, Excise and Preventive Service (CEPS) and Value Added tax Service (VAT) division of Ghana Revenue Authority (GRA). The main forms of indirect taxes are: Value Added Tax, Import duty and Export duty. Value Added Tax is a consumption tax imposed on the expenditure incurred in buying goods or services (Asante & Marfo-Yiadom, 2010). It is levied at each stage in the production and distribution chain. The taxes are usually collected on behalf of the VAT Service by registered businesses and are paid same to the VAT Service. It is a tax paid by the final consumer since the registered business is permitted to deduct any input VAT paid on taxable purchase from the Output VAT and pay the difference to VAT Service. It must be noted that some goods or services

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are exempted and others zero rated. For instance, agricultural products and inputs are exempted whiles goods manufactured for export is zero rated.

Furthermore, import duty is a tax imposed on all imports or goods brought into the country unless it is exempted by any legislation (Abdallah, 2014). The amount of tax to be paid depends on the value or volume of the items imported. Finally, Export duty is a tax imposed on goods leaving one country for another country. Some goods exported are exempted from this type of indirect tax.

Principles of Good Tax System

Adam Smith in his book 'The Wealth of Nations' which was published in 1776, suggests that a tax system is based on certain basic principles, namely: equity, certainty, convenience and efficiency. Equity means a tax system should be fair among individuals and organizations, and taxes should be levied based on taxpayers' capacity (Palil, 2010; 2). Similarly, Mukasa (2011) explains equity as a principle of tax system to mean that there must be equality in the sacrifice. In addition, equity implies that a good tax system should ensure that people pay according to their ability (Asante & Marfo-Yiadom, 2010). However, Abdallah (2014) described the equity principle that a good tax should be fair to the people who are required to pay it. This principle simply means the rich will have to pay proportionately more of their income as tax than the poor.

The equity principle can be attained in the following consideration: horizontal equity and vertical equity. The horizontal equity means that taxpayers with the same income or wealth should pay the same amount of tax (Palil, 2005). Similarly, Abdallah (2014) describes it as a tax system designed

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such that persons with the same income level pay the same amount of tax. The horizontal equity principle means that when two persons' income or wealth are the same with the same reliefs applicable, then an equal amount of tax should be paid by them.

The vertical equity principle however means that taxpayers with high income (capacity) should pay higher tax (Palil, 2010). Similarly, Agyeman (2005) explains it as a tax system designed such that persons with higher income levels pay more tax than persons with lower incomes. The vertical equity is concerned with a fair rate structure applicable on different amount of incomes to determine a person's tax burden.

Certainty means a taxpayer knowing his or her tax liability, and when and where to pay the tax liability (Palil, 2010). According to Asante and Marfo-Yiadom (2010), certainty as a principle of good tax system simply means that the taxpayer must know how much to pay, when to pay and how the payment is to be made. Furthermore, Abdallah (2014) describes certainty as a good tax principle seeking to ensure that people should be able to determine their true tax liability with a fair degree of accuracy. The principle seeks to ensure that taxpayers should be clear in their minds as to how much tax is due them and how payable it should be at any point in time and the location the payment could be made.

Convenience relates to how people pay their taxes or engage with the tax system (Palil, 2010). Lymer and Oats (2009) indicate that people more conveniently pay tax by its being deducted at source rather than paying a large amount of it annually. In addition, Abdallah (2014) explains convenience principle to mean that the tax system should be designed such that the

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taxpayer must not overly suffer in order to comply with the tax laws and regulations. Similarly, Agyeman (2005) explains the convenience principle to mean that the tax system should not have any form of obstacle in the way of the taxpayers and collectors. In short, this principle is of the view that majority of taxpayers should understand the tax laws and regulations, and routinely comply.

Efficiency refers to how the tax authorities collect the tax revenues. It can be divided into administrative efficiency and economic efficiency (Palil, 2010). Administrative efficiency has to do with the cost involved when collecting tax revenues. Economic efficiency however, refers to a tax system ensuring that the tax should not interfere with the working of the market (Mukasa, 2011). According to Lymer and Oats (2009), the administrative costs should be as small as possible to achieve desirable economic efficiency. This principle seeks to ensure that the administrative cost of collecting and enforcing the tax should be reasonable in comparison with the total revenue generated by the tax.

Other principles described by Abdallah (2014); Asante and Marfo-Yiadom (2010) include: simplicity flexibility, productivity and broadness (wideness). Simplicity principle means that a good tax system ought to be simple, plain and intelligible (Abdallah, 2014). This means that a tax system should not be complicated leading to administrative interpretation and legal problems. According to (Abdallah, 2014), flexibility principle of a good tax system should ensure that the system ought to respond automatically to changes in the community's wealth, population and other important variables. Furthermore, productivity principle is a system of taxation which ought to

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produce a high net yield of revenue, but not so high as to damage the source of that revenue. Finally, Asante and Marfo-Yiadom (2010) describe the broadness (wideness) principle as a tax system that should cover the entire populace who are capable to pay.

Definitions of Small and Medium-Sized Enterprises (SMEs)

SMEs are business organizations that are basically privately owned and operated with a small number of personnel and relatively low volume of sales (Nkuah, Tanyeh, & Gaeten, 2013). SMEs are normally privately owned corporations, partnership or sole proprietorship. There is no universally accepted definition of a small and medium sized business. The legal definition of small and medium-sized enterprises depends on each country, ranging from fewer than 15 employees under the Australian Fair Work Act, 2009 to fewer than 500 employees in USA (Atawodi & Ojeka, 2012). SMEs varying definitions are based on different fundamentals of measurement. They can be defined based on the value of assets, capital employed, sales turnover or number of employees (Mukasa, 2011).

The European Commission (2003) (as cited in the work of Nkuah et al., 2013) defines SMEs as enterprises which employ fewer than 250 persons and/or have an annual turnover not exceeding 50 million EURO and annual statement of Financial position total not exceeding 43 million EURO. On the other hand, United Nations Conference on Trade and Development (2000) (as cited in Mukasa, 2011), defines SMEs as a business involving one to five persons with simple enough activities to be managed directly on a person-to-person basis. The European Commission definition is broken down into micro enterprises representing firms with one to nine employees, small enterprises

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being firms between 10 to 99 employees and medium enterprises being firms with total employees ranging from 100 to 499.

In Ghana, the most commonly used definitions of SMEs are the number of employees of the enterprise. Ghana Statistical Service (2012) defines small businesses as enterprises that employ less than 10 persons while those that employ more than 10 people are categorized as medium and large – size enterprises. Alternatively, the National Board for Small Scale Industries (NBSSI) in Ghana used the value of non-current assets and number of employees' criteria to define SMEs. According to the NBSSI (1994) (as cited in Nkuah et al., 2013), enterprises with more than nine workers with plant and machinery (excluding land building and vehicles) and not exceeding 10 million cedis (US$ 9,506, using 1994 exchange rate) are considered as small. Ghana Revenue Authority (2012) defines SMEs as businesses with a turnover between GHS10,000 and GHS5,000,000 (small business GHS10,000 to GHS90,000 and medium business GHS90,000 to GHS5,000,000).

This study adopts the definition of GRA. The choice of this definition is the reflection of the classification of SMEs by GRA for tax purposes. This is to ensure that many enterprises, especially the micro businesses, are included for the study.

Characteristics of Small and Medium-Sized Enterprises

The SMEs are characterized by uncertainty, innovation and evolution (Atawodi & Ojeka, 2012). Olorunshola (2003) states that the concept of SMEs is relative and dynamic and as noted by Nkuah et al. (2013), SMEs in Ghana are usually small owner or family managed businesses offering basic goods and services. Most SMEs lack organizational and management structures

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(Atawodi & Ojeka). Few SMEs in the urban cities are more organized and structured than the rural ones (Atawodi & Ojeka). According to Nkuah et al. (2013), SMEs are mostly sole proprietorship or partnership although on the surface they may be registered as limited liability companies. Osei, Tutu and Sowa (1993) explain that ownership style has led Small and Medium-Sized Enterprises to have a simple management structure, fewer numbers of employees and the owners' low level of education. Since most SMEs are not registered as limited liability companies, the life span of the enterprises is largely dependent on the life span of the owner(s); thus there is no perpetuity (Atawodi & Ojeka).

Furthermore, the production processes of most SMEs are usually labour intensive (Hanefah, Arrif & Kasipillai, 2001). They further state that SMEs are suppliers of raw materials for larger manufacturing companies since their operations are highly dependent on raw materials sourced locally. They also require a lower startup capital than the larger companies (Nkuah et al., 2013). The decisions of the managers of SMEs have the tendency to be subjective given that they are managed and controlled by the same individual (Atawodi & Ojeka, 2012). Another key characteristic of the SMEs in any country is that they are heterogeneous in nature varying in size from small retail businesses to substantial manufacturing firms. SMEs are also likely to vary in organizational form from sole proprietorship (with or without employees), small corporations (public or private) and partnerships. The above feature determines how books of accounts are kept for the enterprise.

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Theories of Tax Compliance

Various opinions exist about the best ways to improve tax compliance. Businesses, when given the chance will not pay taxes unless there is a motivation to do so (Atawodi & Ojeka, 2012). Some believe that the best way is to increase incentives and others believe in increasing penalties for non-compliance. Tax compliance theories can be broadly classified into two. They are: economy based theories and psychology based theories (comprising theory of planned behaviour, equity theory and reasoned of action theory).

Economy Based Theory

The principle of economy based theory was first discovered in the late 1960s from the work of Becker (1968). The study analyzed illegal behaviour using an economic framework. Becker (1968) proposed a narrow argument which implied that deterrents such as probability of detection and penalties and sanctions were within the control of society. This theory is also known as economic deterrence theory and it places emphasis on incentives (Allingham & Sandmo, 1972). The theory suggests that taxpayers are amoral utility maximizers since they are influenced by economic motives like profit maximization (Trivedi et al. 2004).

Following Becker's theory in the 1960s, Allingham and Sandmo (1972) derived a model based on a number of assumptions including taxpayers as utility maximizers who possessed actual knowledge of penalty and detection rates. They assumed that people behaved in an economical rational way. In their view, compliant or non-compliant behaviour is the result of a cost benefit analysis. People comply when the costs of evasion exceeds the

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benefits of evasion, and do not comply when the balance tips with the benefits. It is still an unproven theoretical model.

Following the contribution of Allingham and Sandmo (1972), Srinivasan (1973) study on economic deterrence theory based his views on the notion that taxpayers were utility maximizers. Srinivasan argues that if the probability of detection was independent of income, then as income of taxpayers increase, the level of evasion would also increase. However, Srinivasan (1973) acknowledges that the purpose of the tax structure was not just to collect tax revenue; so this assumption was largely unrealistic. If taxpayers were to make rational decisions based purely on economic factors as to whether to pay their taxes or not, then most taxpayers would involve themselves in tax evasion or fraud because of low probability of detection and lesser penalties (Alm, Jackson & Mckee, 1992).

In conclusion, because of the shortcomings of this theory, several attempts have been made to adapt the economy based theory of tax compliance. But, this has not resulted in a model that effectively describes and predicts tax behaviour (Kirchler, 2007). In view of this, recent studies of tax compliance have stronger focus on sociological and psychological factors.

Sociological and Psychological Theory

One of the earliest studies on tax evasion which explored a "tax mentality" concept was presented by Schmolders (1960). The concept is based on the assumption that taxpayers have separate views with respect to looking after their self-interest as opposed to contributing to community interests. In this regard the more positive a taxpayer's attitude towards paying tax and working with the tax authorities is the higher the level of compliance.

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Strumpel (1969) developed a tax compliance theory which asserts that rigid enforcement by the tax authorities is likely to reduce taxpayers' level of compliance with the tax laws. The theory has two main variables, one, "rigidity of assessment" and two, the "willingness to co-operate" which relates to individuals' attitudes and perception of the tax system. During the 1970s, Spicer (1974) focused on the concept of exchange equity, that is, the perceived inequity between taxes paid in return for public goods and services supplied by government.

Song and Yarbrough (1978); Vogel (1974) examined the impact of ethical values upon taxpayers' compliance or the beliefs and values taxpayers placed on certain elements of the tax system. Their study concluded that non-economic variables like equity and morals were found to be significantly related to compliance behaviour. According to Ajzen and Fishbein (1980), the psychological theory was further developed into the Theory of Reasoned Action (TRA). This theory indicated that taxpayers' behaviour is directly determined by their intentions that are functions of their attitude towards behaviour and perception of subjective norms. The Theory of Planned Behaviour (TPB) postulated by Ajzen's (1991), is a social-psychology theory. The TPB is an extended theory from the Theory of Reasoned Action (TRA) by Ajzen & Fishbein (1980) which is based on the assumption that human beings are usually quite rational and make systematic use of information available to them. People will consider the implication of their actions before they decide to engage or not to engage in a given behaviour (Ajzen & Fishbein, 1980).

Ajzen (1991) theory of planned behavior (TPB) posits that behaviour intentions are shaped by three factors namely: attitude towards behaviour,

social norms and perceived behaviour control. The TPB suggests that the intention to perform behaviour and the perceived control that a person has to perform the behaviour lead to conducting the actual behaviour. In contrast to economy theories, that emphasize audits and penalties as solution to compliance issues, social psychological theories lay emphasis on changing individual attitudes towards tax system.

The study looks at SMEs owners/managers' perception of the intricacies of tax compliance and tax evasion. Based on the foregoing, this study is adopts the sociological and psychological theory since attitude, norms, perception as well as tax knowledge influence tax compliance. The theory suggest that perceived factors like perception of equity and government spending as well as the ethical values of the taxpayers influence voluntary compliance (Spicer, 1974). It is also argued by Vogel (1974) that taxpayers' knowledge on these sociological factors may have impact on tax compliance thus, the need to measure taxpayers' knowledge.

The Concept and Definitions of Tax Compliance

Tax compliance is a major concern for governments and for that matter tax authority around the world. It is a difficult task to persuade taxpayers to comply with tax requirements even though 'tax laws are not always precise (James & Alley, 2004). Non-compliance does not only affect the amount of tax collected, but also the implementation of government policies (Alley & James, 2006). Tax compliance issues can be approached from different areas such as law, economics, accounting, psychology and public finance (Palil, 2010). Theoretically, it can be defined by considering three distinct types of

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compliance such as payment compliance, filing compliance, and reporting compliance (Brown & Mazur, 2003).

The goal of tax administration is to foster voluntary tax compliance (Silvani, 1992) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and "compliance gap". The exact meaning of tax compliance has been defined in various ways. For example, Alm (1991) defines tax compliance as reporting all incomes and paying all taxes in accordance with applicable laws, regulations and court decisions. Similarly, Andreoni, Erard and Feinstein (1998) claim that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) perceives tax compliance as taxpayers' willingness to pay their taxes.

Prior studies suggest two main schools of thoughts namely: the economic based approach and the psychology based approach. These approaches are widely used to explain tax compliance (Andreoni et al., 1998; Richardson & Sawyer, 2001). The economic school of thought believes in the concept of tax gap and proposes economic based theories and models. With the economic-based model for instance, tax compliance is motivated by the trade-off between cost and benefit of non-compliance (Allingham & Sandmo, 1972). However, the psychology school of thought supports the voluntary concept and favors the psychology based or behavioral approach in understanding tax compliance (Alley & James, 2006). In the psychology-based approach however, psychological factors such as attitude, moral judgment, and social norms are used to encourage tax compliance (Richardson & Sawyer, 2001). The different approaches led researchers in tax compliance

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studies to explain tax compliance as either problem of economic rationality or behavioral cooperation

Furthermore, McBarnet (2001) suggests that tax compliance should be perceived in three ways, namely: (a) committed compliance-taxpayers willingness to pay taxes without complain; (b) capitulative compliance- reluctantly giving in and paying taxes and (c) creative compliance – engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the bracket of tax laws. However, Song and Yarbrough (1978) define tax compliance as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors.

Also, Abdallah (2014) defines tax compliance as all activities necessary to be carried out by the tax-paying public in order to meet the statutory requirements of the tax law. This includes the preparation of tax returns that must be filed by individuals and business organizations each year. The Ghana Revenue Authority (2012) defines tax compliance as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pay the right amount of taxes on time. Since there have been many empirical studies, attempts have been made to define tax compliance. For the purpose of this study, for Song and Yarbrough (1978); Andreoni et al. (1998); Alm (1991); Kirchler (2007); Abdallah (2008); GRA (2012), tax compliance may be defined as taxpayers' ability and willingness to comply with tax laws, filling appropriate returns stating the actual income earned, claiming appropriate relief and rebates and paying all taxes due on time.

In contrast with tax compliance, tax non-compliance is defined by Kasipillai and Jabbar (2003) as taxpayers' failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure. Non-compliance is also perceived as the failure of a taxpayer to report the actual income, claim deductions and rebates and pay the actual amount of tax liability to the tax authority on time (Kirchler, 2007). Tax non-compliance occurs when taxpayers intentionally or unintentionally fail to comply with their tax obligations (Mukasa, 2011).

In conclusion, based on Kasipillai and Jabbar (2003), Kirchler (2007) and Mukasa (2011) definitions, tax non-compliance may be defined for the purpose of this study as failure to comply with tax laws, filling in appropriate returns declaring incorrect income, claiming in appropriate relief and rebates and paying the correct amount of tax liability at a wrong time.

Tax Evasion and Avoidance

This section discusses tax evasion and tax avoidance as examples of tax non-compliance activities which have a negative effect on tax collection and tax indexes. Non-compliance is more than tax evasion and thus includes some forms of tax avoidance (James & Alley, 2004). According to James and Alley, tax evasion is defined as the attempt to reduce tax liability by illegal means while tax avoidance is described as reducing tax liability by legal means. In the same vein, Lewis (1982) perceives tax evasion as illegal tax dodging while tax avoidance is perceived as any legal method of reducing one's tax bill. Similarly, Abdallah (2014) defines tax evasion as using illegal means to reduce taxes whilst tax avoidance is described as a legal means of reducing taxes achieved through careful planning supported by court

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decisions. Tax evasion is a crime punishable under the laws of Ghana whilst tax avoidance is about changing one's behaviour so as to reduce one's tax liability which is allowed by law (Abdallah, 2014).

Again, Kasipillai, Aripin and Amran (2003) perceive tax evasion as actions which result in lowering taxes that are actually owed while tax avoidance denotes the tax payers' creativity to arrange his/her tax affairs in a proper manner based on laws and regulations so as to reduce his/her tax bill, and which is acceptable in view of the tax administration. However, Adreoni et al. (1998) express that non-compliance include both intentional and unintentional actions. The intentional actions are the tax evasions and tax avoidance whilst the unintentional has to do with calculation errors, inadequate tax knowledge and so on.

Tax evasion in simple terms is using unlawful means to reduce one's tax liability and tax avoidance is where a taxpayer takes advantage of the tax law to reduce one's tax debt. As far as economic function is concerned, tax evasion and tax avoidance have very strong similarities, sometimes, hardly to be distinguishable (Cowell, 1990; McBarnet, 2001).

Based on the various definitions and description of tax evasion and tax avoidance as examples of non-tax compliance, Figure 1 summarizes the concept of non-tax compliance.
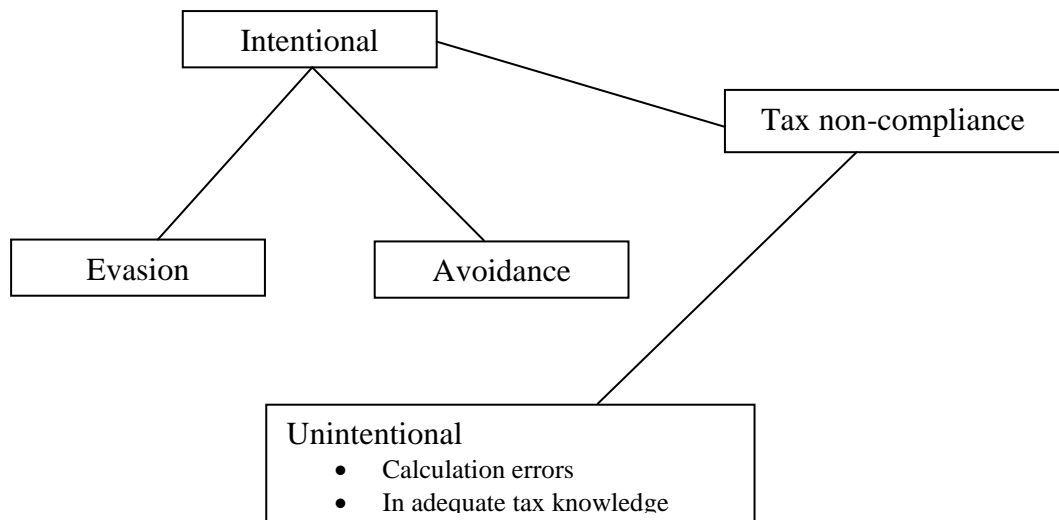
Figure 1: The Concept of Non-Tax Compliance

Source: Palil (2010) p. 168

Tax Knowledge

The importance and the role of tax knowledge, particularly in determining taxpayers' attitudes towards taxation are discussed here. The tax system is one of the most complex social contrivances and realistically, one can only expect limited knowledge about it. Young-Dahl and Tinsley (1978) indicate that given the extractive nature and technical complexity of the fiscal and tax related policies rarely raise public affection or sustained curiosity on tax issues, and therefore public knowledge in these areas are thus to be expected. Citizens' general understanding of essential tax policy concepts such as progressive taxation is inadequate (Roberts, Hite & Bradely, 1994). Knowledge about tax laws is assumed to be of important for preferences and attitudes towards taxation as well as self assessment (Kasipillai & Mustafa, 2000).

Furthermore, Roberts, Hite and Bradely (1994) state that misperception plays a major role in shaping fairness evaluations, attitude to one's own tax

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evasion and attitude to other people's tax evasion. Therefore, biases are likely to arise with incomplete information or incomplete knowledge. Similarly, Eriksen and Fallan (1996) state that better tax knowledge associates, at least in part, for the improved perception of fairness and attitude to others' tax evasion. It has been argued by Jackson and Milliron (1986) that education has two elements; the general degree of fiscal knowledge and the specific degree of knowledge regarding tax evasion opportunities. According to Palil (2002), specific tax knowledge combines information about tax rules with financial knowledge to make it possible to calculate economic consequences for taxpayers.

Taxpayers' knowledge was measured by Palil (2002) based on the following; knowledge on (i) taxpayers' responsibilities and rights (ii) employment income (iii) dividend and interest (iv), reliefs and rebates (v) awareness of offences and fines and penalties. However, Mukasa (2011), in his study of tax knowledge, perceived tax fairness and tax compliance measured specific tax knowledge in relation to ability to calculate tax liabilities on income and wealth for different taxpayers in different situations

Perceived Factors of Tax Compliance

This section discusses the various factors that may affect tax compliance based on the literature. According to the literature, factors discussed were categorized into two main parts, and these include: economic factors and non- economic factors.

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Economic Factors

According to Loo (2006), economic factors affecting tax compliance refer to actions taken by taxpayers who are associated with the costs and benefits of performing those actions. Torgler and Schneider (2005); Hasseldine (1993); Song and Yarbrough (1978) assume that taxpayers are rational economic evaders who are likely to assess the costs and benefits before taking a decision to comply or not to comply. Taxpayers may intentionally under report their income to minimize their tax liability if they are not detected by the tax authorities.

Tax Rates

Tax rates are amounts and percentages levied on taxpayers' income or wealth which are subject to tax. Tax rate is the third major construct of tax system/structure in the Fisher model. Empirical evidence has suggested that there was a significant relationship between tax rate and tax compliance behaviour (Clotfelter, 1983). Clotfelter (1983) states that reducing tax rates is not the only policy that has the potential to discourage tax evasion, but the tax rate is an important factor affecting tax compliance behaviour. Although, the exact impact of tax rate on compliance behaviour is still unclear and debatable (Kirchler, 2007), yet, Torgler (2007) claims that raising marginal tax rates will likely encourage taxpayers to evade tax more, while lowering tax rates does not necessarily increase tax compliance (Trivedi et al. 2004; Kirchler, 2007).

Allingham and Sandmo (1972) conclude that taxpayers may choose either to fully report their income or report less, regardless of the level of tax rate after using statistical modeling. In their study, tax rates appeared to be insignificant in determining tax evasion. In contrast, research using

experiments typically find that high tax rates are linked to less tax compliance (Friedland, Maital & Rutenberg, 1978). Similarly, Tanzi (1980) uses an econometric model to explain the relationship between marginal tax rates and evasion in the United States. The study revealed that tax rates were positively correlated with tax evasion. Using the audited tax returns for individual taxpayers in Jamaica, Alm et al. (1992) also reveal that the probability of under reporting and the level of under reporting are positively related to the marginal tax rate.

However, using other economic models, Kirchler, Hoelzl and Wahl (2008) perceived that tax rates have mixed impact on tax compliance. Porcano (1988) claims that tax rates have no effect on tax compliance. Kirchler et al., (2008) suggest that the degree of trust between taxpayers and the government has a major role in determining the impact of tax rates on compliance. Mukasa (2011) argues that tax rate structure has positive significant correlation with non-lodgment as a construct for tax compliance.

Probability of Detection, Fines and Penalties

In general, higher audit probabilities and severe penalties encourage tax compliance. Probability of detection refers to the likelihood that the tax authorities will discover taxpayer's non-compliance, and seek to remedy the evasion (Chau & Leung, 2009). Some prior studies claim that audits have a positive impact on tax evasion (Dubin, 2004; Shanmugan, 2003). Raising the probability of detection will increase tax compliance, and tax audit represents one of the effective detective measures used by tax authorities (Alm, 1991). Massimo (1993) claims that taxpayers would like to evade their tax liabilities

entirely and the only reason that would prevent them is the probability of being caught.

Butler (1993) found that tax audits can change compliance behaviour from negative to positive. Similarly, Witte and Woodbury (1985) found that there is a significant positive relationship between the risk of tax audit and the rate of voluntary tax compliance. However, Beron, Tuachen and Witt (1990) reveal that tax audit exerts only a modest positive effect on tax compliance. Evans, Carlon and Massey (2005) in their study of tax compliance of SMEs in Australia found that audit history, including frequency of the audit and audit outcome and the type of audit of small business owners has a significant indirect impact on tax compliance in terms of record keeping. The study involved auditors from Australian Tax Office, 130 tax practitioners and 129 small business owners. The study also revealed that small business owners do keep proper records as their primary objective not as part of management of the business, but for the sake of probability of being audited by the tax authorities.

Another important perceived factor affecting tax compliance is the relationship between tax compliance and the severity of sanctions. The idea is that fear of fines and penalties prohibit tax non-compliance behaviour (Chau & Leung, 2009). Therefore, establishment of an effective system to penalize tax evaders is an important measure to encourage tax compliance. Allingham and Sandmo (1972) in their theoretical work argue that tax compliance can be improved by increasing the penalties associated with tax evasion.

Empirical evidence suggests that an increase of penalties can have undesirable effect and may result in more tax avoidance (Kirchler et al., 2008).

Alm et al. (1992) support the evidence that fines do affect tax compliance though the impact was virtually zero. In contrast, Hasseldine, Hite, James and Toumi (2007) conclude that severity of sanctions has significant effects on tax compliance behavior. Similarly, Chebusit, Namusonge, Biraori and Kipkoech (2014) reveal that there was a positive effect of fines and penalties on compliance cost and tax compliance. However, the observed effects were weaker than expected.

In conclusion, previous studies have evidenced that the probability of non-tax compliance being detected through tax audits play an important role in increasing voluntary compliance, thus discouraging tax evasion. On the part of fines and penalties, the evidence suggests that increasing fines and penalties may affect voluntary compliance resulting in more tax avoidance (Kirchler et al., 2008). Other studies indicate positive effect of fines and penalties on tax compliance behavior though very weak.

Perception of Government Spending

Logically, taxpayers, especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Although there are limited studies on the relationship between government spending and tax compliance, yet it is reasonable to assume that taxpayers will tend to evade tax if they perceive that government is not efficient in the utilization of the taxes collected. Palil (2010) on the study of determinants of tax compliance in self assessment system in Malaysia claims that perception of government spending was significantly correlated with tax compliance hypothetical questions. However, government spending was not significantly correlated with tax compliance direct questions. Chebusit et al., (2014) state that there

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was a positive relationship between attitude and perceptions of government spending and tax compliance among SMEs.

In conclusion, attitudes and perceptions of taxpayers are potentially important in determining their tax compliance behaviour. Therefore, government should expend taxpayers' money efficiently (prudently) since the manner in which government spends taxpayers' money results in different levels of compliance.

Income Level

Almost all the theoretical models indicate that as income rises, tax evasions should increase over most ranges (Andreoni et al., 1998). Wallschutzky (1984) in his study in Australia and Loo (2006) in her study in Malaysia found that high income earners were less compliant. Their studies have argued that income level has a significant impact on tax compliance. Furthermore, Vogel (1974) finds that respondents who report an improvement in individual financial/income status are more likely to commit tax evasion than those who report a deterioration of their financial/ income status.

In contrast, Torgler (2007); Wearing and Heady (1997) report that high income earners are more likely to comply than low income earners. In addition, Houston and Tran (2001) reveal that respondents in the lower income group tend to have a lower proportion of tax compliance by under-reporting income and by overstating expenses than their counterparts in the higher income group. However, Jackson and Milliron (1986) conclude that income level has a mixed and unclear impact on tax compliance, a theory supported by Christian and Gupta (1993) and Hite (1997). Studies of Chan, Troutman and O'Bryan (2000) suggest that income level is unrelated to tax compliance

among US and Hong Kong taxpayers. Other studies found insignificant results. Park and Hyun (2003) in their study in South Korea found that income levels had no significant effect on tax compliance.

In conclusion, although some studies concluded that income levels are the most important factor affecting tax compliance (Kirchler, 2007), other previous studies however show that the impact of income on tax compliance is still unclear, and the relationship between the two variables need to be further investigated.

Non-Economic Factors

Social Factors

Factors of tax compliance from a social perspective relates to taxpayers' willingness to comply with tax laws in response to other people's behaviour and their social environment (Torgler, 2007). However, Kirchler (2007) suggests that social factors affecting tax compliance should be looked at in a wider manner than Torgler's perspective. In view of this, psychology of the taxpayers should be included as part of the study of the social factors (Kirchler, 2007). The specific factors to discuss in this section are: perception of equity and fairness, ethnics and attitudes of taxpayers towards tax compliance, and finally peer influence (referent groups).

Perception of Equity or Fairness

As part of the discussion on the principles of good tax system, one of the main principles of the taxation system design is equity or fairness (Smith, 1776). This can be categorized into dimensional views-vertical equity (taxes paid increase with the amount of the tax base) and horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes.

The rationale behind the vertical principle is to ensure that those who are more able to pay taxes should contribute more than those who are not (Palil, 2010). Wenzel (2003) suggests three areas of fairness from taxpayers' point of view: (1) distributive justice (viewed as the exchange of resources, that is, cost and benefit); (2) retributive justice (viewed as the appropriateness of sanctions when norm-breaking occurs and (3) procedural justice (viewed as the process of resource distribution).

In respect of distributive justice, an individual is concerned about the fairness of their actions, and wants to be treated in relation to his/her efforts and needs (Kirchler et al., 2008). According to Palil and Mustafa (2011), if the individual feels that the tax burden is higher than other people within the same income group, the compliance level probably decreases more widely at group levels. This is because taxpayers want a fair treatment of their group relative to other income groups. If a specific group perceives that their tax liability is higher than other groups, then the group members might engage in tax evasion (Spicer & Becker, 1980). Allingham and Sandmo (1972) state that at the wide society level, tax compliance is less likely if the perception is held that the tax system is unfair, hence wide scale tax evasion might occur.

In contrast, if the society perceives that the tax system is equitable and fair, voluntary, compliance is expected (Chan, Troutman & O'Bryan, 2000). Mukasa (2011) argues that there is a positive significant relationship between perceived tax fairness and tax compliance. In his study, Mukasa (2011) indicates that tax fairness constructs have varying effects on tax compliance. The results show that tax fairness constructs relating to exchange with

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government, general fairness, self interest and tax rate structure had significant positive association with tax compliance.

In retributive justice, unreasonable and intrusive audits and unfair penalties lead to stressful and dissatisfied tax payers (Spicer & Lundsted, 1976). Unfavorable retributive justice perception could lead to non-compliance. With regards to procedural justice, the main elements for perceived fairness are neutrality of procedures used, trustworthiness of the tax authorities, polite and dignified as well as respectful treatment of taxpayers (Tyler & Lind, 1992). In view of this, taxpayers expect that tax authorities will provide sufficient information about the tax laws and regulations to enable them accurately complete their tax returns on time. As argued by Wartick (1994), increased information about tax laws and regulations can increase fairness in perception and compliance.

Spicer and Becker (1980) examined the relationship between fiscal inequity and tax evasion. An experiment of 57 University of Colarado students showed that high income groups engaged more on tax evasion than the low and medium groups. In their study, variables such age, income and gender correlated significantly with tax evasion. They suggested that tax evasion increase when tax payers perceive fiscal inequity because they feel to be victimized by an imbalance of income redistribution.

Ethics and Attitudes towards Tax Compliance

Taxpayers' standard of ethics is important in a good tax system largely based on voluntary compliance (Song & Yarbrough, 1978). Song and Yarbrough conducted a survey to answer two questions 1) how high or low was the level of taxpayers' ethics? 2) What were the factors impacting on tax

ethics? The survey was conducted among 11,000 University students and over 6,000 faculty members and other related university staff and family members. The results of their study indicated that the average taxpayers' ethics scored 60.3 on a scale of 100 and 21 % of taxpayers had a negative level of tax ethics regarding taxation. The study also brought attention to the fact that deterioration of tax ethics in the future may occur due to an increase in the tax burden if the tax laws are made not simpler and fairer.

Schmolders (1960) conducted a survey in Germany which indicated that almost fifty percent of the respondents committed tax evasion offence. Ironically, only one-third perceived the tax evaders as criminals. This means that the ethics of taxation were low. Trivedi et al., (2004) found that there was a significant but weak relationship between tax evasion and ethics. Earlier, Elffers, Weigel and Hessing (1987) concluded that ethics, attitudes and moral beliefs impacted upon tax compliance behaviour. Chebusit et al., (2014) state that there is a positive relationship between attitudes and tax compliance. Ethics are subjective and the level of one's ethical behaviour is heavily reliant on how people perceive the behaviour being considered (Ajzen, 1988).

Further studies on the psychology theory of tax compliance predict people's behaviour using the Theory of Reasoned Action (TRA) by Fishbein and Ajzen (1975) and the Theory of Planned Behaviour (TPB) by Ajzen (1991) as discussed in earlier sections. These theories attempt to predict people's behaviour based on their intentions. According to Kirchler et al., (2008) ethics encourage individuals to act in a certain manner and therefore, a taxpayer with a negative attitude towards tax evasion tends to be less compliant.

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In summary, as suggested by previous studies (Chebusit et al., 2014; Kirchler et al., 2008; Trivedi et al., 2004 and Elffers et al., 1987), attitude and ethics remain an important factor in determining evasion behaviour.

Peer Influence /Referents Groups (Family and Friends)

Peers are usually referred to taxpayers' associates who include friends, relatives and Colleagues (Chau & Leung, 2009). The Theory of Reasoned Action (TRA) and the Theory of Planned behaviour (TPB) theorized that family and friends play a significant role in determining people's intentions and behaviour. However, most researchers did not consider this variable (Loo, 2006; Loo & Ho, 2005; Andreconi et al., 1998). Palil (2010) concluded that apart from financial constraint and tax knowledge as the main factors in determining tax compliance behavior, probability of being audited, perception of government spending and the influence of referent groups follow.

Allingham & Sandmo (1972) indicate that decision either to evade or not to evade tax sometimes are influenced by family members and friends, though, the extent of such influence was not clearly stated in their research. In the same vein, Clotfelter (1983) argues that referent groups play a significant role in evasion, although it was also not clearly discussed. However, Hasseldine, Kaplan and Fuller (1994) indicate that the number of tax evaders known to the respondents contribute to the model of under-reporting income. This means that the more respondents know the tax evaders, the more under-reporting of income may happen. Similarly, a survey conducted by Mason, Calvin and Faulkenberry (1975) foundd that people committing tax non-compliance are more likely to discuss tax matters with their peers. Also, Grasmick and Scott (1982) indicate that respondents with peers who indulge

in tax non-compliance are more likely to engage in non-compliance. Finally, taxpayers may still commit non-compliance so long as the non-compliance is consistent with in-group expectations and norms.

Individual Factors

Although, a taxpayer's peers or family and friends may influence his/her compliance behaviour (Mason et al., 1975), yet the decision to evade or not to evade taxes is heavily reliant on the taxpayer's personal judgment (Barrand, Harrison & Ross, 2004). In lieu of this, the following subsection discusses taxpayer's awareness of offences and penalties.

Awareness of Offences and Penalties

Taxpayers' awareness of offences and penalties is believed to be one of the factors affecting tax compliance because it encourages taxpayers to comply with the tax laws and regulations in order to avoid penalties and sanctions (Palil, 2010). Allingham and Sandmo (1972) in their theoretical economic model, indicate that penalties as well as probability of being audited have an impact on tax compliance. This means that taxpayers would not engage in tax evasion if the rate of probability of being audited and charged with a penalty is high.

Empirical evidence from prior studies found that penalty rates have a negative association with evasion (Gordon, 1990; Wang & Conant, 1988; Marreh, 1984). However, Virmani (1989) states that penalty rates has a positive association with evasion, that is, higher penalty rates encourage people to cheat. In conclusion, it is observed from previous studies that penalty rate has an impact on tax compliance. Therefore, the creation of the awareness of the offences of tax evasion and the consequences thereof, might

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reduce taxpayers' tendency to engage in tax evasion. In view of this, tax education for taxpayers including SMEs may keep them well informed of the offences and the resulting penalties to encourage voluntary compliance.

Institutional Factors

Apart from social economic factors and individual factors that influence taxpayers' tax compliance behaviour, evidence suggests that institutional factors also affect compliance behaviour. The institutional factors discussed below are the efficiency of the tax authority and the complexity of tax system.

Efficiency of the Tax Authority

The structure of a country's tax system and how it is operated is most likely to encourage taxpayers to comply voluntarily. There is a debate in the literature as to how the effective and efficient operation of the tax system by the tax authorities influences taxpayers' compliance behaviour. The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is very important (Palil, 2010).

Furthermore, Roth, Scholz and Witt, (1989) suggest that for government to maximize tax revenue, the government must first put in place an economical tax system which is practicable. In conclusion, previous studies could not provide conclusive results on the impact of efficiency of tax authority on tax compliance, yet researchers from different countries have discussed this issue and therefore, it need to be further investigated.

Complexity of the Tax System

Simplicity of the tax system is one of the other principles of good taxation system apart from Adam Smith's Canon of taxation. Complexity of a

tax system is likely to affect taxpayers' compliance behaviour, especially small and medium enterprises which lack the required expertise to understand and interpret such a complex system. However, if the tax system is made very simple for taxpayers to file their returns, the level of tax compliance will increase.

According to Mohani and Sheeban (2003, 2004) Canada, Denmark and New Zealand have introduced simplified tax returns by reducing the number of pages to encourage voluntary compliance among taxpayers. To describe a tax return as simple, the tax authority should 'pilot' test it among the taxpayers first before it can be termed as simple and easy to use (Silvani & Baer, 1997). As the tax law has become increasingly complex, complexity has come to be recognized as a possible reason for tax non-compliance (Jackson & Milliron, 1986). Complexity in the context of tax compliance includes excessive details in the tax rules and numerous computations required (Chau & Leung, 2009). Therefore, taxpayers should be able to comprehend the tax rules for calculations of their tax liabilities. Clotfelter (1983) reveals that complexity of the tax system has been associated with greater underreporting of tax. Similarly, Richardson (2006) reports that tax law complexity is significantly related to tax evasion.

In conclusion, previous studies by (Richardson, 2006; Jackson & Million, 1986; Clotfelter, 1983) report that complexity of the tax system has an effect on tax compliance behaviour. Therefore, the tax authorities should make the tax system simple for the taxpayers in order to increase tax compliance.

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Tax authority Efforts towards Improving Tax Compliance

These are measures, policies and programs the tax agencies are putting in place to encourage tax compliance of SMEs. There are little previous studies on this, and as such empirical evidence remains limited. The subsection below discusses the following measures: (1) introduction of Self Assessment System on taxpayers (2) education of taxpayers (3) enforcement of the tax laws to penalize tax evaders (4) simplification of the tax system through public relation activities and tax counseling (5) guidance and examination.

Introduction of Self-Assessment System

This system allows the taxpayer to assess his/her tax liability using a tax return form in which he/she declares his/her gross income, allowable deduction and so on as well as the tax liability due (Sarker, 2003). Similarly, Abdallah (2008) defines it as a system where a person who pays tax by installment is allowed by the commission to estimate his/her chargeable income and tax payable thereon for a year of assessment. According to Sarker (2003) the level of tax compliance in Japan is very high, and in recent years, the corporate tax compliance has been more than 90% due to the effectiveness of the Self Assessment Systems introduced by Japanese National Tax Administration (NTA). Self Assessment System is believed to be better than direct assessment system by many tax administrators (James, & Alley, 2004). In contrast, taxpayers may perceive that the burden of tax assessment has been shifted to them and many taxpayers choose to be less compliant (Kirchler, 2007). However, the Ghana Revenue Authority has introduced the system of

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Self Assessment on businesses in order to improve voluntary compliance (Ghana Revenue Authority, 2013).

Education and training for taxpayers

Provision of adequate education and training for taxpayers enhances tax compliance behaviour (Palil, 2010). Jackson and Milliron (1986) state that education enhances the taxpayers' ability to either comply or not comply with the tax laws. Education has been distinguished into two aspects; the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities (Groenland & Veldhoren, 1983). Mohani (2001) suggests that one of the measures to increase voluntary compliance is by ensuring that taxpayers have a certain level of qualification ability and confidence to exercise their tax responsibilities. Similarly, Chan et al., (2000) reveal that higher education is directly linked to an increased likelihood of tax compliance. Furthermore, Song and Yarbrough (1978) found that those with more fiscal knowledge had more positive tax ethics scores that are attitudes towards tax compliance. In contrast, Richardson (2008) concludes that there is a negative association between education and tax compliance.

In conclusion, despite the contradictory findings by Richardson (2008), provision of education and training to taxpayers and particularly to students who are recognized as future taxpayers will help in increasing tax compliance (Sarker, 2003)

Enforcement of the Tax Laws

For the tax authorities to achieve its revenue target, then strict enforcements of the tax laws are needed. This has to do with ensuring that all those who are required to pay tax actually discharge their tax obligation.

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However, those who engage in tax evasion are penalized severely in accordance with the tax laws to serve as deterrence. Establishing an effective system to penalize tax evaders is an important measure to encourage compliance (Sarker, 2003).

Chau and Leung (2009) argue that taxpayers are more likely to comply if non-compliance may result in severe penalties. Previous studies show that there is a significant relationship between the severity of criminal sanctions and tax compliance (Witte & Woodbury, 1985). Similarly, Allingham and Sandmo (1972) Claim that tax compliance can be increased by increasing the penalties associated with non-compliance with tax laws. Furthermore, Hasseldine et al. (2007) also argue that severity of sanctions has significant effects on tax compliance behaviour. However, Virmani (1989) indicates that higher penalty rates had a positive association with tax evasion, meaning that higher penalty rates did indeed encourage people to cheat.

In conclusion, evidence from previous studies suggests that if taxpayers who engage in tax evasion are severely penalized, it is more likely to increase compliance with the tax laws.

Simplification of the Tax System

Simplicity of the tax system is previously discussed under the principles of good taxation system. If a country's tax system is made simple and easy for taxpayers to comprehend, the level of voluntary compliance increases. As the tax law has become increasingly complex, complexity has come to be recognized as a possible reason for tax non-compliance (Jackson & Milliron, 1986). Therefore tax rules and regulations should aim to be simple, understandable and clear in order to enhance tax compliance. Silvani and Baer

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(1997) indicate that simplifying the tax return will encourage taxpayers to complete the tax return on their own rather than employing a tax agent and thus reducing compliance costs. In the same vein, Jackson and Milliron (1986) believe that a simple tax return and simpler tax regulations will increase tax compliance. Furthermore, a more simple tax system and administration can reduce tax evasion (Richardson, 2008).

Another way the tax system could be made simple is for the tax authorities to engage in public relation and tax counseling (Sarker, 2003). According to Sarker, public relation is purposely to build a tax conscious environment not only among taxpayers, but also among the public including latent taxpayers. Tax counseling on the other hand, is aimed at assisting the tax payers in matters related to tax and encouraging the voluntary submission of accurate tax returns and payment of taxes (Sarker, 2003). Generally, tax counseling provides advice on the interpretation and application of tax application and so on and so forth.

Guidance and Examination

In order to enhance taxpayers' compliance so that they voluntarily file their tax returns and pay taxes appropriately, the tax authority must provide individuals and businesses with guidance on how to improve bookkeeping standards and tax returns. According to Sarker (2003) guidance includes assistance of new business and explanatory session held when tax laws are amended.

Tax Knowledge and Tax Compliance

This section discusses the relevance and the role of tax knowledge, particularly in determining taxpayers' attitude towards taxation. Literature from prior studies, different approaches, a range of variables and findings would be discussed in this section. The level of tax knowledge is of importance to the way people understand the reality underlying taxation and the associated attitude to taxation that is expressed (Palil, 2005). Education attainment is an important determinant of tax evasion (Richardson, 2006). It usually relates to a taxpayer's ability to understand and comply or not comply with tax laws (Jackson & Milliron, 1986). Enhancing the level of general fiscal knowledge may lead to improving tax compliance because of more perceptions about taxation. Increase knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance (Mukasa, 2011).

The influences of tax knowledge on tax compliance behaviour of taxpayers have been proven in prior researches (Mohamad, Mustafa & Asri, 2007). It has been argued by Jackson and Milliron (1986) that education has two elements: the general degree of fiscal knowledge and the specific degree of knowledge regarding tax evasion opportunities. Similarly, Harris (1989) divided tax knowledge into two aspects namely: knowledge through formal education in pursuing a course and knowledge specifically directed towards possible opportunities to evade tax. The general knowledge received by taxpayers is a key factor that contributes to the general understanding of tax laws and regulations (Eriksen & Fallan, 1996). Similarly, majority of studies examining the impact of education on tax evasion use taxpayers' general

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education level as the approach to measure attitude towards tax evasion (Richardson & Sawyer, 2001). According to Carners and Cuccia (1996) higher tax knowledge is assumed to lead to higher compliance.

Previous studies have shown evidence that general tax knowledge has a very close relationship with taxpayers' ability to comprehend the laws and regulations of taxation, and their ability to comply with them (Singh, 2003). Given the evidence that tax knowledge affects taxpayers understanding, an obvious question that has been asked by previous researchers (Mukasa, 2011; Palil, 2010; Singh, 2003; Eriksen & Fallan, 1996; Harris, 1989) is whether improving taxpayers' knowledge will increase the level of tax compliance.

Mukasa (2011) conducted a study on 6,200 SMEs in Kampala Central Division comprising 5,000 small businesses and 1,200 Medium-Sized businesses. The researcher used a sample size of 361 respondents using stratified sampling to select respondents from both categories of businesses. Specific tax knowledge was measured in relation to ability to calculate tax liabilities on income and wealth for different taxpayers in different situations. Specific tax knowledge combined information about tax rules with financial knowledge. The questions were framed in concrete terms to address specific tax knowledge issues while standard survey items denoted "abstract" were also used in assessing the general tax knowledge as used by Jonas (2003). The researcher measured tax compliance based on four items used by Wenzel (2001) which included non-lodgment, tax debt, pay income and promptness.

Mukasa's study was divided into four main parts. Firstly, the study focused on the relationship between tax knowledge and perceived tax fairness. Secondly, the research tried to establish the relationship between tax

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knowledge and tax compliance. Thirdly, it looked at perceived tax fairness and tax compliance and finally the study focused on relationship between tax knowledge, perceived tax fairness and tax compliance. The researcher concluded that there exists a significant positive relationship between tax knowledge and tax compliance. This implies that it is most likely that taxpayers' better understanding of tax matters will compel them to fulfill their tax obligations, and as such would not engage in tax evasion practices. The researcher further claims that when small business taxpayers' knowledge about tax improves, then they are more likely to fulfill their tax obligation.

The predominant result indicated a significant positive relationship between tax knowledge and tax compliance. The positive relationship implies that as tax knowledge increases, compliance level also increases. This result is in line with a previous study by Palil (2010). Palil produced a similar result that tax knowledge has a significant impact on tax compliance using both indirect and hypothetical questions. Palil's study was divided into two main parts. Firstly, the research focused on tax knowledge and tax compliance behaviour and the second one was on determinants at tax compliance. The researcher used national mail survey to distribute the questionnaires to a total number of 5,500 individual taxpayers selected at random from telephone directories throughout Malaysia. The study approach was purely quantitative. Tax knowledge was measured based on the following: (i) taxpayers' responsibilities and rights (ii) knowledge about employment income (iii) knowledge about dividend and interest (iv) knowledge about reliefs (v) knowledge about rebates and (vi) awareness of offences, penalties and fines.

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From the study, the relationship between tax knowledge and tax compliance direct questions showed that knowledge about child relief responsibilities and rebates appear to be significantly correlated with tax compliance. An estimated coefficient of correlation between (r= 0.36) showed a reasonable linear correlation between tax knowledge and tax compliance. Furthermore, the Estimated Coefficient of determination, R^2 is 0.13 indicating that 13% variance of tax compliance was explained by the variance of tax knowledge. These positive relationships illustrate that taxpayers with tax knowledge potentially tend to be more compliant.

However, Loo and Ho (2005) produced a counter result in their study in Malaysia from a random mail survey of 250 questionnaires. The researchers wanted to examine salaried individual competency in a self-assessment system in and prior to 2003 and in and after 2004. In their study, tax knowledge was measured in terms of chargeable income, exemptions, reliefs, rebates and tax credits. The result of the study indicated that although the respondents had attained tertiary education, their tax knowledge in relation to personal taxation was considered to be relatively low, thus making them incompetent and not ready to exercise appropriate compliance.

In contrast, Eriksen and Fallan (1996) claim that knowledge about tax law is assumed to be more importance for preferences and attitude towards taxation. Their study was divided into three main parts. Firstly, the study focused on taxpayers' knowledge. Secondly, the research tried to reveal the overall effect of tax knowledge on tax compliance behavior and finally, the research involved tax agents' influence in ascertaining taxpayers' behaivour. The result of the study suggested that tax knowledge has a positive correlation

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with perception of fairness, tax ethics and attitudes to others' tax evasion. According to Eriksen and Fallan (1996) tax attitudes can be improved through better tax knowledge and thus turn to increase compliance and reduce inclination to evade taxes

However, Collins, Million and Toy (1992) undertook a study in the United States from a random mail survey at 700 households from telephone directories. Out of 220 usable responses, they found that tax knowledge and the level of education were negatively correlated with tax law. In conclusion, considering the findings from majority of previous studies, it is obvious that improving taxpayers' knowledge is an important element in operating a successful tax system, particularly on small and medium taxpayers. In order to achieve the revenue target of government, taxpayers need to be well educated, informed on tax related issues.

Conceptual Framework

The conceptual frame work was developed out of a critical review of existing literature about the variables from the work of Mukasa (2011); Palil (2010); Chau and Leung (2009); Wenzel (2001); Eriksen and Fallan (1996); Jackson and Million (1986). According to the literature, tax compliance (dependent variable) is being partly influenced by taxpayers' knowledge about taxation (Mukasa, 2011; Palil, 2010). The study bases tax knowledge on the following: rights and responsibilities, employment income, investment income, business income, tax reliefs and awareness of offences, penalties and fines. These constructs reflect the independent variables for this present study. In the light of the above, the conceptual framework is expressed as in Figure 2

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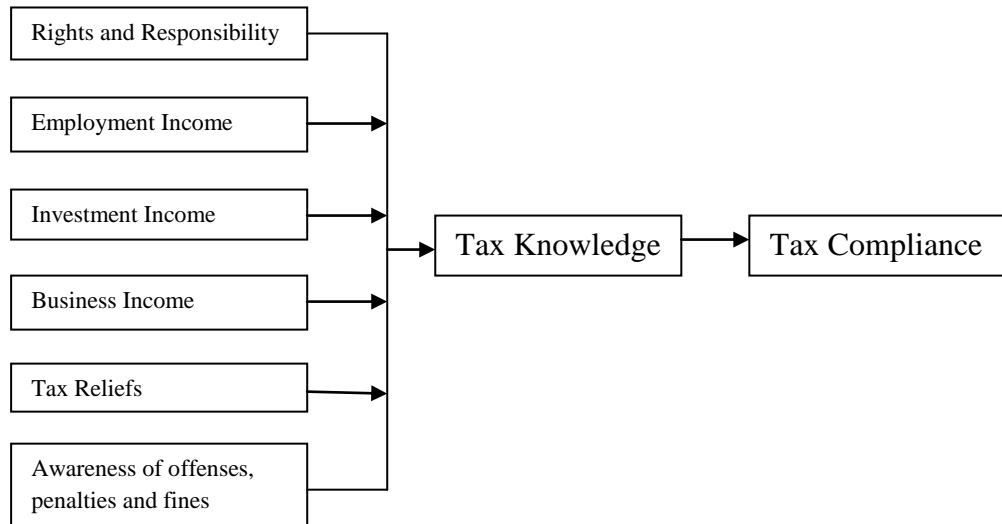
Figure 2: Conceptual Framework

Source: Author's construct based on literature

The conceptual framework above depicts how taxpayers' knowledge affects tax compliance. It can be seen in Figure 2 how the individual constructs cumulatively result in the total taxpayers' knowledge which ultimately affects tax compliance (dependent variable).

Lessons Learnt, Critiques from the Empirical Evidence and Gaps

The literature review has brought about emergent issues or lessons learnt. Firstly, the researcher has learnt that studies on Small and Medium-Sized Enterprises (SMEs) tax compliance level in developing countries including Ghana is very limited. The few studies reviewed used stratified sampling and simple random sampling procedure as their basis of sampling technique to select the respondents. The basis for the use of this technique is the nature of heterogeneity of SMEs. Most of the studies were purely quantitative and the cross-sectional design was mostly used. However, a study conducted by Chebusit et al., (2014) on compliance of SMEs in Kitale-Kenya adopts a descriptive research design involving both qualitative and

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quantitative research methodology. Their study also used stratified and simple random sampling together with purposive sampling techniques. Finally, multiple regressions were frequently used to do inference analysis.

From the literature, it is observed that there is no unique definition of SMEs. Every researcher defines it based on the characteristics of the various businesses in their respective countries. This lack of uniqueness may affect comparability of findings from different countries. Furthermore, the application of only the stratified sampling technique by Mukasa may not after all be fully representative of the SMEs because, small businesses may be in the form of sole proprietorship, partnership and limited liability Company with the sole proprietorship dominating. In addition, the establishment of tax compliance among SMEs may not be accurately ascertained due to the differences in the taxation of the various categories of the SMEs. For instance, sole proprietorship and partnership business are taxed using the graduated tax table in the Ghanaian perspective whilst companies are taxed as a corporate entity. Finally, there have not been unique means of measuring tax compliance. In the light of the above, further investigation is required to establish the tax compliance level of SMEs.

In summary, the chapter reviewed the relevant literature on the research problem. In the first place, the study looked at the Ghanaian tax system focusing on the types of taxes. Further, definitions and characteristics of SMEs were looked at before looking at the concepts of tax compliance. Two theories of tax compliance were reviewed (economy based and sociological and psychological bases theories). Out of the two theories, the sociological and psychological theory was adopted for the study since the

study is looking at the perception of owners/managers of SMEs behaviour towards tax compliance. Finally, the study reviewed the empirical evidence on tax knowledge, factors of tax compliance and measures tax authorities adopt to encourage compliance as well as the relationship between tax compliance and tax knowledge.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter presents the study area, the research design, study population and sampling procedures, and data collection (including the instruments design) as well as the measurement and analysis of the data.

Study Area

Tamale Metropolitan Assembly (TAMA)

TAMA is one of the 26 Metropolitan/Municipals/Districts in the Northern Region. The Metropolis is located in the central part of the Northern Region and is bounded by Sagnarigu and Savelugu/Nanton Districts/Municipality to the North, Mion District Assembly to the East, Tolon to the West, Central Gonja to the South West and East Gonja to the South. The Metropolis also has a total estimated land size of 550 km sq which is about 12% of the total land area of the Region. The Metropolis is located about 180 meters above sea level with some few isolated hills. It has a single rainfall season (May - October) in a year, characterized by dry Harmattan winds from November to February. Temperature: max– 40°C and min-25°C. The Metropolis has a limited number of water bodies.

The Metropolis lies within the Savannah Woodland Region of the country. The main soil types are sandstone, gravel, mudstone and shale that have weathered into different soil grades. Due to seasonal erosion, soil types emanating from this phenomenon are sand, clay and loamy. The Metropolis is a cosmopolitan area with Dagombas as the majority. Other minority ethnic groupings are Gonjas, Mamprusis, Akan, Dagaabas, and tribes from the Upper

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East Region. The area has deep rooted cultural practices such as festivals, naming and marriage ceremonies.

The Metropolis has about 42% of the working class in agriculture related activities. Majority of the workforce in the Metropolis of 58% are engaged in Sales, Services, Transport and Production (Ghana Statistical Service, 2000). This is as a result of the increase in Marketing, Banking and other Non-Governmental activities in the Metropolis. The 2010 Population Census gave the population of the Tamale Metropolis as 371,351 (Ghana Statistical Service, 2010). This is made up of 185,995 males and 185,356 females. This figure shows an increase of 75% over the 1984 population of 167,778 and represents a growth rate of 3.5%. This is far higher than the national and regional rates of 2.7% and 2.8% respectively.

Research Design

Research design is a comprehensive plan for data collection in an empirical research project (Bhattacherjee, 2012). It is a blue print for empirical research aimed at answering specific research questions or testing specific hypothesis, and specifies the data collection process, the instrument development process and the sampling process. Research design can either be quantitative or qualitative and sometimes mixed (both quantitative and qualitative). Quantitative design refers to the type of data collected in the form of numeric scores, metrics and so on (Bhattacherjee, 2012). The quantitative approach operates by developing testable hypothesis and theories which lend themselves to generalization. It is usually applied in the natural sciences and useful for data of numeric nature. Questionnaires, surveys, personality tests and other standardized research instruments are some of the data collection

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techniques used under this approach (Burell & Morgan, 1979). On the other hand, qualitative design collects data through interviews, observations, and so forth. Qualitative data is analyzed by coding. Therefore, the combination of both quantitative data and qualitative data to help generate unique insight into a complex social phenomenon that are not available from either type of data is described as mixed mode design (Malhotra, Kim, & Patil, 2006).

This study adopts a purely quantitative research design because of its usefulness in social science research and generalizations (inference of policy making). Specifically, the study adopts the descriptive survey and cross-sectional study. The descriptive survey describes a situation, phenomenon, attitudes, behaviors, beliefs and opinions of people. The cross-sectional however, is a tool used to capture information based on data gathered for a specific point in time. The data gathered is from a pool of participants with varied characteristics and demographic variables. The cross-sectional design is the most preferred choice because it is used to prove or disprove assumptions. The data can be used for various type of research. Furthermore, many findings and outcomes can be analyzed to create new theories/studies.

In spite of the merits associated with the cross-sectional design, there are also some problems in its use. In the first place, the design cannot be used to analyze behavior for a period of time. It also does not help determine cause and effect relationship. Finally, the findings can be flawed or skewed. Despite the few limitations, the design is appropriate for the study.

Study Population

The study population consists of all small and medium-sized enterprises registered with Ghana Revenue Authority (GRA). There are 851

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active registered small and medium-sized enterprises in the Tamale Metropolis with a composition of 671 small businesses and180 medium businesses (lists obtained from both the Small Tax Office and Medium Tax Office of the Ghana Revenue Authority in Tamale). Therefore, the target population is 851 SMEs.

Sampling Procedure

Sampling is the statistical process of selecting a subset (called a "Sample") of a population of interest for purposes of making observations and statistical inferences about that population (Bhattacherjee, 2012). Since the entire population cannot be studied because of feasibility and cost constraints, a representative sample from the population of interest is selected for observation and analysis (Bhattacherjee, 2012). Furthermore, the sample should symbolize the larger population both entirety and proportionality (Kothari, 2004). According to Kothari (2004), the sample selected should have a number which symbolizes the entire population to meet the principle of proportionality.

This study uses the table of Krejcie and Morgan (1970) to determine the sample size. From the table, a population of 850 requires a sample size of 265, and since the population for this study is 851 a sample size of 265 is appropriate. This study uses the stratified sampling technique to divide the SMEs into strata (small and medium businesses). Saunders, Lewis, & Ihornhill (2007) indicate that dividing the population into a series of strata means that the sample is more likely to be representative as it can ensure that each stratum would be represented proportionally within the sample. After the stratification,

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simple random sampling was used to select the respondents from the SMEs to provide equal chance of being selected.

Table 1-*The Population and Sample Size Determination*

Strata	Population	Sample size
Small businesses	671	209
Medium businesses	180	56
Total	851	265

Source: Author's Construct, (2015)

Data Collection

The study used mainly primary data. The primary data is gotten from respondents through administration of questionnaires.

Instruments

These are tools used to collect data for a research work. Kothari (2004) suggests that the choice of a relevant study instrument is determined by the nature of data required for the study and the study objectives. Based on the specific objectives of this study, questionnaires were used in the data collection to elicit the required information. Although using questionnaires have a number of weaknesses including the likelihood of using closed-ended questions instead of open-ended questions, which are more difficult and time consuming (Bryman & Bell, 2007). This instrument is quite suitable for this study.

In view of this, to complete open-ended questions, respondents might be unwilling to answer them. The strength in using questionnaires evokes honest responses and also produces a valid indirect measure of a person's behaviour (Spicer & Lundstedt, 1976). In agreement with Spicer and

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Lundstedt, Sekaran (2000) suggests that the merits of using questionnaires outweigh its demerits, including the absence of interviewer effects, high level of anonymity and cheaper and quicker administration. It is also convenient for respondents to respond to questions in a truthful manner (Palil, 2010).

A questionnaire consists of a set of questions presented to a respondent for answers (Kothari, 1985). The author explained that respondents read the questions, interpret what is expected and then write down the answers themselves. This tool has been widely used by researchers, private individuals, public organizations and governments (Kothari, 2004). This study therefore, adopted a closed ended questionnaire for SMEs respondents.

The questionnaire had been designed in five sections: questions on demographic variables, taxpayers' knowledge, perceived factors of tax compliance, measurement of tax compliance and the measures tax authority put in place to encourage tax compliance. Primary data was collected on taxpayers' knowledge on responsibilities and rights, employment income, business income and investment income as well as knowledge on tax reliefs. Also, data was collected on some perceived factors of tax compliance and measures put in place by the tax authority to encourage voluntary tax compliance. The questionnaire was administered to owners/managers of SMEs in the Metropolis to fill on their own.

Data Management

Prior to the data entry into the statistical tool, the study screened all responses collected through the questionnaires to minimise errors and data inconsistencies. The responses were also edited and cleaned. To ensure validity and reliability of the study instrument as well as the findings of the

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study, this study performed pretesting and pilot testing. All errors and inconsistencies during and after the pre-test were subsequently corrected before the actual data collection. The screened data was finally uploaded or fed into Microsoft Excel and SPSS. The primary reason for these preliminary reviews prior to data entry into the statistical tool was to ensure that the data was subjected to appropriate statistical analysis.

Ethical Considerations

This study, throughout, considered all ethical issues, especially the data collection process. The necessary protocols and administrative processes were duly followed in administering the questionnaires to owners/managers of small and medium-sized enterprises. The various questions on the questionnaires were reviewed to avoid ethical misconducts. This study sought the consent of the respondents and the purpose of the study was clearly explained to them. All respondents were assured of confidentiality, non-disclosure and anonymity. The respondents were given the choice to ask further questions about the research before and after the participation. The respondents were given the room to either decline or accept to participate.

Measurement of Variables and Data Analysis

The level of tax knowledge was measured based on responses from the respondents in respect of the six variables, namely: knowledge on i) rights and responsibilities; ii) employment income; iii) investment income; iv) business income; v) tax reliefs; and vi) awareness of offences and penalties. The scoring has been explained in the nature of the questionnaire in Section B of the questionnaire design. The analysis technique for this objective was based on descriptive statistics.

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The perceived factors of tax compliance was measured based on eight variables from previous literature. The variable include; i) probability of being detected, fines and penalties; ii) perception of government spending, iii) perception of equity and fairness; iv) tax rates; v) income level, vi) ethics and attitudes; vii), peer influence, viii) complexity of the tax system. The mode of scoring has been well explained in Section C of the questionnaire design. The objective was analyzed using the descriptive statistics. The tax compliance was measured by adapting a scale designed by Seidu (2010) based on three indicators as shown in Section D of the questionnaire.

The measures the tax authority adopts to encourage tax compliance are measured based on five variables namely; i) introduction of self assessment on SMEs, ii) level of tax education and training, iii) simplification of the tax system, iv) enforcement of the tax laws, and v) guidance and examination. The scoring has been explained in Section D of the questionnaire design. Descriptive statistics was used to analyze this objective.

Finally the study sought to establish the relationship between components of tax knowledge and tax compliance. This section describes the objective, variable measurement and hypothesis development as well as data analysis technique.

Table 2- *A Description of the Variables in Relation to the Objective*

Variable	Symbol	Description
Tax compliance	TC	Total score derived through a se t of 3 questions. Minimum total score for Each respondent is 3 (1 mark times 3 Questions-low compliant) and Maximum total score is 15 (5 times 3 Questions- high compliant).
Tax knowledge about Rights and Responsibility	TKNRE	Minimum score is 2 (1 mark times 2 questions) and maximum total score is10 (5 times, 2 questions).
Tax knowledge on Employment income	TKNEMP	Minimum score is 2(1 mark times 2 questions) and maximum total score is 10 (5 time, 2 questions).
Tax knowledge on Investment income	TKNINV	Minimum score is 2 (1 mark times 2 questions) and maximum total score is 10 (5 time, 2 questions).
Tax knowledge on Business income	TKNBUS	Minimum total score is 3 (1mark times3 questions) and maximum total score 15 (5 times 3 questions).
Tax knowledge on Tax Reliefs	TKNREL	Minimum score is 2(1 mark times 2 question) and maximum total score is 10 (5 times 2 questions).
Tax knowledge About Awareness of Offences, penalties and Fines	TKNAWARE	Minimum score is 2(1 mark times 2 question) and maximum total score is 10 (5 times 2 questions).

Source: Palil (2010) as modified

Hypotheses Development

Ho: there is no significant relationship between tax knowledge and tax compliance.

H1: there is a significant relationship between tax knowledge and tax compliance

Data Analysis Technique

To test the hypothesis, the data collected was analyzed using multiple regressions. The model describes the relationship between tax knowledge and compliance.

$$TCi = ao + x_1 TKNRESi + x_2 TKNEMPi + x_3 TKNINVi + x_4 TKNBUSi + x_5 TKNRELi + x_6 TKNAWAREi + \varepsilon$$

TC   Tax compliance score

a   Constant

$x_1 - x_6$ Coefficients

TKNRES   Tax knowledge about rights and responsibilities

TKNEMP   Employment income

TKN INV   Investment income

TKN BUS   Business income

TKN REL   Tax reliefs

KN AWARE   Awareness of offences, penalties fines

ε Error

In view of the nature of objective four, the ordinary least square regression was used. The ordinary least square regression makes certain assumptions which include multicollinearity. A multicollinearity test was conducted on the independent variables to establish whether any of the variables violates the underlining assumption of the test. Tolerance is an

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indicator of how much of the variability of the specified independent variable is not explained by the other independent variables in the model. A tolerance value of less than 0.10 indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity (Pallant, 2010). The variance inflation factor (VIF) is just the inverse of the tolerance value (1 divided by Tolerance). Variance inflation factor (VIF) values of the independent variables above 10 indicate multicollinearity. The details of the results are analyzed in chapter four.

Pre-Test

The researcher conducted a pre-test at Savelugu and Nanton on managers/owners of SMEs following the development of the questionnaire. These SMEs in the Savelugu/ Nanton Municipal Assembly were selected based on the similarities they share with those in Tamale Metropolitan Assembly. The initial questionnaire models were administered by two field assistants who were recruited from the Tamale Polytechnic, who understood and could translate the instruments into the local Dagbani dialect. The field assistants were given a day's training on the instruments. The questionnaire schedules were administered to a representative sample of 20 respondents in the two communities from the Savelugu/ Nanton Municipal Assembly with the view of detecting problems associated with question wording, format and relationship.

The pre-test study revealed inconsistency and inaccuracy in the responses for certain questions indicating that perhaps some of the questions were not properly framed or translated to elicit the right responses. For example, respondents did not understand who a government actor was but they

were quick to identify government officials. The final schedule was revised based on the findings of the pre-test; the revised version helped a lot to increase the validity and reliability of the data collection instruments.

Validity and Reliability

Reliability of a scale gives an indication of how free it is from random error (Pallant, 2007) or the extent to which the scale produces consistent results if repeated measures are taken (Kent, 2007). Internal consistency on the other hand, measures the degree to which all items on a scale measure an underlying construct (Pallant, 2007). The Cronbach's alpha coefficient (α) with a recommended minimum value of .7 is the most common indicator for testing internal consistency (DeVellis, 2003). The Cronbach's alpha coefficient obtained was .85 and according to De Vellis, the coefficient is very respectable and capable to obtain the relevant data. Undoubtedly, the items had the potential of eliciting the desired information as expected.

In summary, the chapter discusses the methodology of the study. The study used the cross-sectional study design to conduct the study. The target population was 851 SMEs comprising 671 small businesses and 180 medium businesses. Stratified sampling was used to divide the population into strata, and the random sampling technique used to select the respondents. Finally, the descriptive statistics and the regression analysis were used to analyse the various objectives.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents data analysis and results of the study. The chapter begins with the response rate followed by the study in four sections. Section one presents respondents characteristics such as sex, age, and educational status. Section two ascertains the level of tax knowledge of owners/managers of small and medium-sized enterprises (SMEs) in Tamale Metropolis. Section three examines perceived factors of tax among small and medium-sized enterprises in Tamale Metropolis. Section four looks at tax agencies effort towards encouraging tax compliance and section five establishes the relationship between taxpayers' knowledge and their compliance with tax laws in Tamale Metropolis in the Northern Region of Ghana.

The Response Rate of Respondents

A total of 265 questionnaires were administered to managers/ owners of small and medium-sized enterprises. However, a total of 247 have been retrieved showing a response rate of 93%.

Socio-Demographic Characteristics of Respondents

This part of the work presents the demographic characteristics of respondents who participated in the research work, in terms of age and other relevant socio-cultural data pertinent to the study. This information is very important for the interpretation of the results emanating from the analysis of tax laws and regulations among SMEs.

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Gender of Respondents

Table 3-*Gender of Respondents*

Sex	Frequency	Percent
Male	129	52.2
Female	118	47.8
Total	247	100.0

Source: Field survey, Abukari (2015)

Table 3 shows the sex of respondents for the study. Male is made up of 52.2% whilst female is 47.8%. This means that majority of owners/managers of SMEs in Tamale Metropolis were males, even though, the proportion of female owners/managers was relatively encouraging. This might be attributed to unwillingness on the part of female owners/managers to register their businesses.

Age distribution of respondents

Table 4- *Ages of Respondents*

Age	Frequency	Percent
18-27 years	50	20.2
28-37 years	116	47.0
38-47 years	66	26.7
48+ years	15	6.1
Total	247	100.0

Source: Field survey, Abukari (2015)

As shown in Table 4, data on age distribution reveals that 20.2% of the respondents were between 18 and 27 years, 47.0% were between the ages of 28 and 37 years, 26.7% between the ages of 38 and 47 years and 6.1% were

between the ages of 48 years and above. This data shows that majority of respondents were between the ages of 28-37 years. This is an indication that there is more of younger generation business owners/managers in Tamale Metropolis. This suggests that more is needed in terms of encouragement and motivation of the youth to improve on their businesses so as to be able to pay tax for the development of the Metropolis.

Respondents' level of education
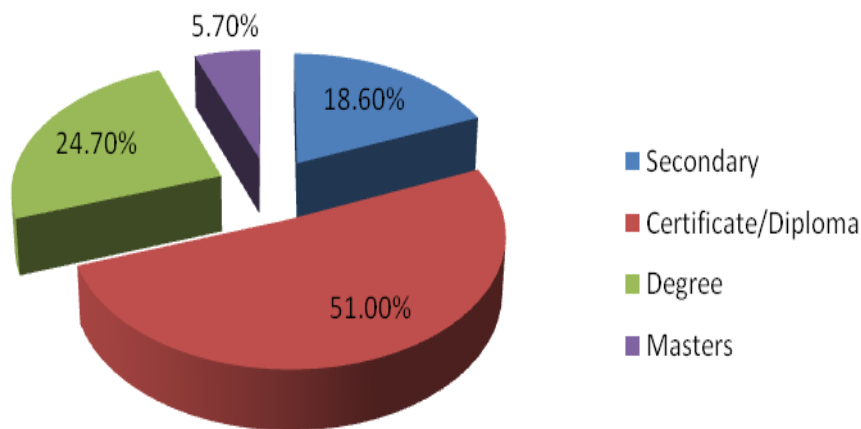
Figure 3: Level of Education

Source: Field survey, Abukari (2015)

Education plays a vital role in creating awareness and informing the people on various issues of tax compliance. Besides, education equips tax payers with knowledge of respondents on tax issues, and the ability to understand issues relating to their field of profession. From Figure 3, majority of the respondents had obtained diploma certificates and constituted 51.0%. Degree holders formed 24.7%. Respondents with secondary school certificate was 18.6%, and 5.7% had post graduate degree. This means that all the respondents had high educational background, thus can lead to easy

understanding of tax laws in the Tamale Metropolis if the adequate training is provided for them.

Year of existence of business

Table 5-*Years of Existence of Business*

Years of operation	Frequency	Percent
1-5 years	92	37.1
6-10 years	79	31.9
11-15 years	31	12.7
16+ years	45	18.3
Total	247	100.0

Source: Field survey, Abukari (2015)

As shown in Table 5, 37.1% of the respondents indicate that their business existed between 1-5 years, 31.9% of the respondents' business existed between 6-10 years, 18.3% of the respondents indicate that their business had existed for 16 years and above and 12.7% of the respondents had their businesses in existence between 11-15 years in the Tamale Metropolis. This suggests that majority of the respondents have not been in business for long and thus, adequate education and training are required on tax compliance.

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Filing of Tax Returns
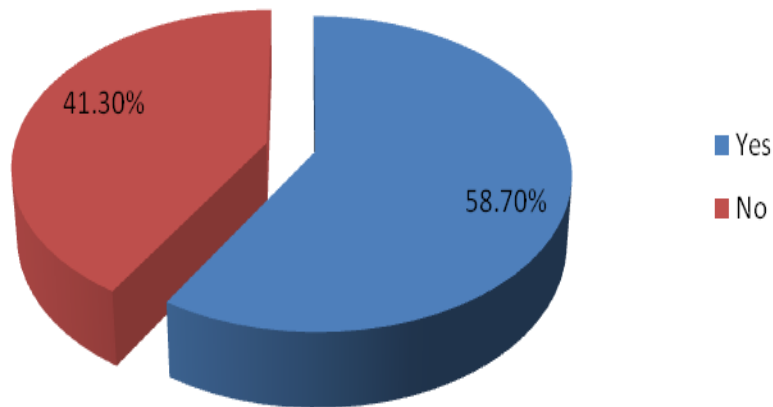
Figure 4: History of Filing Tax Return

Source: Field survey, Abukari (2015)

This section discusses whether the firms studied had been filing tax returns and who did the filing. From Figure 4, 58.7% of the respondents indicate that they had ever filed tax return, while as high as 41.3% of the respondents indicated that they had never filed any tax return. Of those who had ever filed tax return, 59.4% of them filed their tax returns in 2014, while 40.6% of them filed their tax return in 2015. It implies that majority of those who have never filed their returns are businesses in their early years of existence.
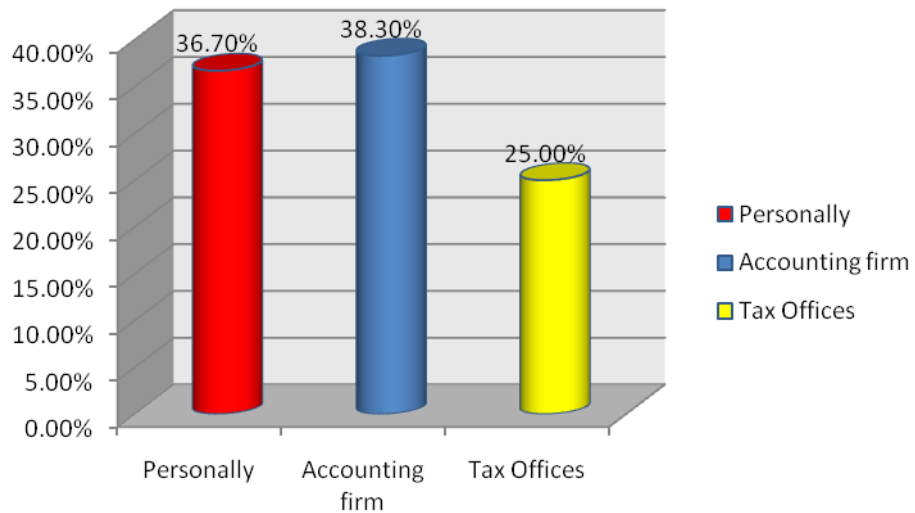
Figure 5: Filing of Tax Returns

Source: Field survey, Abukari (2015)

Filing of the tax return is a very important component in the process of compliance with the tax laws. As shown in Figure 5, the study reveals that 38.3% of the respondents who have been filing their tax returns in figure 4 are being filed on their behalf by an accounting firm. Also, 36.7% of the 58.7% respondents who had been filing their returns did so by themselves, while 25.0% of the 58.7% respondents had their tax returns filed by tax officers. The implication is that a reasonable number of the respondents rely on the tax officers to file their returns and therefore, they may not be timely filing of returns.

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Tax Knowledge of Owners/Managers of SMEs

This section looks at the level of taxpayers' knowledge on tax related issues among owners/managers of SMEs in the Tamale Metropolis.

Taxpayers' General Responsibilities and Rights

The subsection assesses the respondents' level of knowledge on their rights and responsibilities on tax system in the country.

Table 6- *Objection to the Commissioners' Provisional Assessment*

Responses	Frequency	Percent
Not do	49	19.8
Slightly do	56	22.7
Moderately do	67	27.1
Highly do	31	12.6
Extremely do	44	17.8
Total	247	100.0

Source: Field survey, Abukari (2015)

From Table 6, the study reveals that 27.1% of the respondents would moderately do object to the Commissioners' provisional assessment if they felt dissatisfied within nine months after the commencement of the basis period, 22.7% of the respondents would slightly do object to the Commissioners' provisional assessment if they felt dissatisfied within nine months after the commencement of the basis period. However, 19.8% of the respondents would not be willing to object to the Commissioners' provisional assessment if they felt dissatisfied within nine months after the commencement of the basis period, while 17.8% of the respondents would extremely do object to the Commissioners' provisional assessment if they felt dissatisfied within nine

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months after the commencement of the basis period, and as low as 12.6% would highly do object to the Commissioners' provisional assessment if they felt dissatisfied within nine months after the commencement of the basis period among SMEs in the Tamale Metropolis. The implication of the result is that a reasonable number of the respondents do not know their rights or are unwilling to object to any assessment made by the Commissioner even if they felt dissatisfied with the assessment. This may discourage voluntary compliance with the tax laws.

Provision of information and declaration of actual profit/income

Table 7- *Provision of Information and Declaration of Actual Profit/Income*

Responses	Frequency	Percent
Not do	38	15.4
Slightly do	59	23.9
Moderately do	86	34.8
Highly do	12	4.9
Extremely do	52	21.1
Total	247	100.0

Source: Field survey Abukari (2015)

Table 7 deals with how taxpayers inform and declare actual profit/income earned from all sources to the GRA in Tamale Metropolis. It can be deduced from the study that, 86 out of 247 who responded to the question showed that 34.8.0% would moderately do inform and declare actual profit/income earned from all sources to GRA. Furthermore, 23.9% of the respondents would slightly do inform and declare actual profit/income earned from all sources to the GRA, while 21.1% of the respondents would extremely

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do inform and declare actual profit/income earned from all sources to the GRA in Tamale Metropolis. However, 4.9% of the respondents would highly do inform and declare actual profit/income earned from all sources to the GRA, while as high as 15.4% of the respondents would not willingly inform and declare actual profit/income earned from all sources to the GRA in Tamale metropolis in the Northern region of Ghana.

The results imply that majority of the respondents may not voluntarily inform and declare all profits or income from all sources to the tax authorities and this could affect tax revenue generation in the Metropolis.

Employment Income

This subsection looks at the respondents' knowledge on questions relating to employment income.

Taxation of Bonus and Overtime

Table 8-*Taxation of Bonus and Overtime*

Responses	Frequency	Percent
Not correct	67	`27.1
Slightly correct	48	19.4
Moderately correct	72	29.1
Highly correct	26	10.5
Extremely correct	34	13.8
Total	247	100.0

Source: Field survey, Abukari (2015)

From Table 8, it can be deduced that most of the respondents in Tamale Metropolis have the opinion that bonus and overtime is not added to a person's basic salary for tax purposes. The study shows that 29.1% of the

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respondents moderately agreed that it is correct that bonus and overtime is not added to a person's basic salary for tax purposes, 19.4% of the respondents slightly agreed and said it is correct that bonus and overtime is not added to a person's basic salary and taxed. Further, 27.1% of the respondents indicated that it is not correct that bonus and overtime is not added to a person's basic salary and taxed. However, 13.8% of the respondents indicated that it is extremely correct that bonus and overtime is not added to a person's basic salary and taxed while 10.5% of the respondents indicated that it is highly correct that bonus and overtime is not added to a person's basic salary and taxed within the Tamale Metropolis.

The findings imply that majority of the respondents are not well educated on concessions applicable to the taxation of overtime on qualified junior employees and bonus. The overall implication is that employees working under these respondents might have been over taxed or not taxed at all before payment is made to the employees.
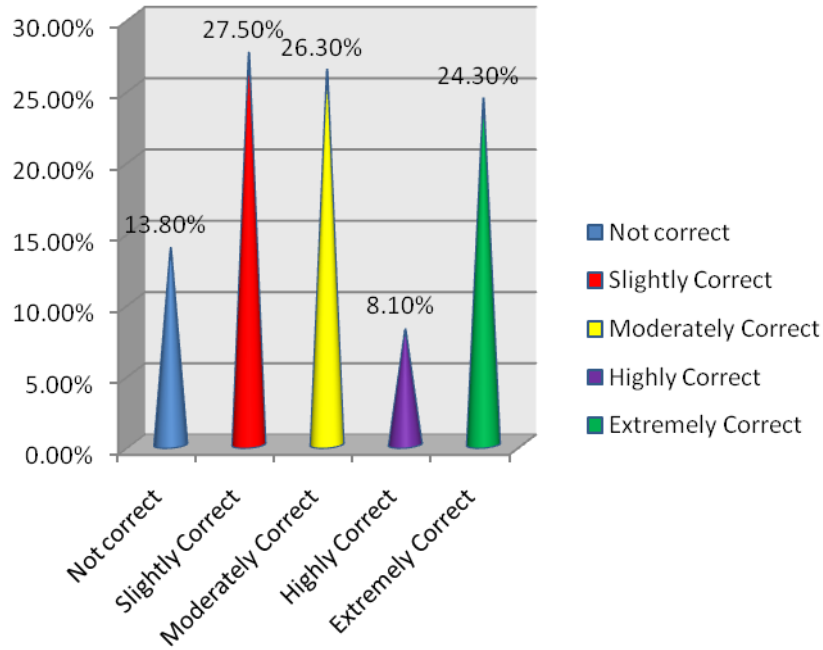
Figure 6: Taxation of Accommodation Provided by an Employer

Source: Field survey, Abukari (2015)

Figure 6 deals with the issue of whether accommodation provided by an employer to an employee must be excluded from taxable income. The study reveals that 27.5% of the respondents indicated that it is slightly correct that accommodation provided by an employer to an employee must be excluded from taxable income, 26.3% of the respondents agreed that it is moderately correct that accommodation provided by an employer to an employee must be excluded from taxable income. However, 24.3% of the respondents indicated that it is extremely correct that accommodation provided by an employer to an employee must be excluded from taxable income, whilst 13.8% of the respondents indicated that it is not correct that accommodation provided by an employer to an employee must be excluded from taxable income. Finally, 8.1% said it is highly correct that accommodation provided by an employer to an employee must be excluded from taxable income.

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The results show that a reasonable number of the respondents exclude accommodation provided to an employee by the employer to the basic salary for taxation. Thus, owners or managers of SMEs in Tamale Metropolis do not tax their employees for providing them accommodation. Therefore, respondents' knowledge on employment income is low.

Investment income

This subsection presents responses on questions on investment income.

Taxation of Dividend Received

Table 9- *Taxation of Dividend Received*

Responses	Frequency	Percent
Not correct	29	`11.7
Slightly correct	83	33.6
Moderately correct	71	28.7
Highly correct	41	16.6
Extremely correct	23	9.3
Total	247	100.0

Source: Field survey, Abukari (2015)

Table 9 shows that majority of the respondents (33.6%) are of the opinion that it is slightly correct that dividend income must be excluded from taxable income because it suffers withholding tax. 28.7% of the respondents indicated that it is moderately correct that dividend received must be excluded from taxable income. However, 16.6% of the respondents agreed that it is highly correct that dividend received must be excluded from taxable income, whilst 11.7% of the respondents indicated that it is not correct that dividend income must be excluded from taxable income, and 9.3% of the respondents

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said it is extremely correct that dividend income must be excluded from taxable income because it suffers withholding tax.

The findings reveal that majority of the respondents would have been including dividend income to their profits for the year for calculation of income tax or corporate tax. The implication is that owners or managers would be double taxing dividend income due to lack of knowledge on taxation of dividend income.

Taxation of interest received
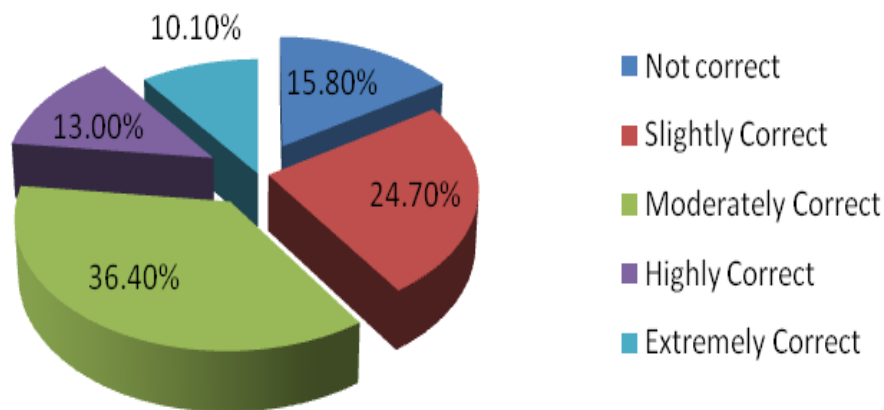
Figure 7: Taxation of Interest Received

Source: Field survey, Abukari (2015)

As shown in Figure 7, the study also shows that 36.4% of the respondents indicated that it is moderately correct that interest received from a resident bank must be excluded from taxable income, 24.7% of the respondents said it is slightly correct that interest received from a resident bank must be excluded from taxable income. However, 15.8% of the respondents indicated that it is not correct that interest received from a resident bank must be excluded from taxable income. Thirteen percent (13.0%) of the

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respondents said it is highly correct that interest received from a resident bank must be excluded from taxable income, while 10.1% of the respondents indicated that it is extremely correct that interest received from a resident bank must be excluded from taxable income.

Similarly, to the results on dividend income, respondents' knowledge on interest income from a resident bank is very low. The implication is that owners or managers of SMEs in the Metropolis would have been including interest income to the business profits for taxation.

Business Income

This subsection discusses responses on questions on business income.

Treatment of Depreciation for Tax Purposes

Table 10- *Treatment of Depreciation*

Responses	Frequency	Percent
Not correct	34	`13.8
Slightly correct	34	13.8
Moderately correct	98	39.7
Highly correct	6	2.4
Extremely correct	75	30.4
Total	247	100.0

Source: Field survey, Abukari (2015)

It can be observed from Table 10 that 39.7% of the respondents indicated that it is moderately correct that depreciation is a non-deductable expense, 30.4% of the respondents believe that it is extremely correct that depreciation is a non-deductable expense. Furthermore, 13.8% believe it is not correct and again 13.8% believe that it is slightly correct that depreciation is a

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non-deductable income, while as little as 2.4% of the respondents said it is highly correct that depreciation is a non-deductable expense. The results indicate that majority of the respondents know that depreciation is not allowed as deductible expenses, thus would have excluded it when filing tax returns.

Table 11- *Treatment of Capital Expenditure*

Responses	Frequency	Percent
Not correct	32	`13.0
Slightly correct	52	21.1
Moderately correct	101	40.9
Highly correct	22	T8.9
Extremely correct	40	16.2
Total	247	100.0

Source: Field survey, Abukari (2015)

Table 11 reveals that 40.9% of the respondents showed that it is moderately correct that capital expenditure is a non-allowable deductible expense closely followed by 21.1% who indicated that it is slightly correct that capital expenditure is a non-allowable deductible expense. Also, 16.2% of the respondents said it is extremely correct that capital expenditure is a non-allowable deductible expense, while 8.9% said it is highly correct that capital expenditure is a non-allowable deductible expense. However, 13.0% of the respondents said it is not correct that capital expenditure is a non-allowable deductible expense.

The implication of the findings is that a reasonable number of the respondents would have been including capital expenditures as deductible expenses, thus understating the business' profits for taxation.

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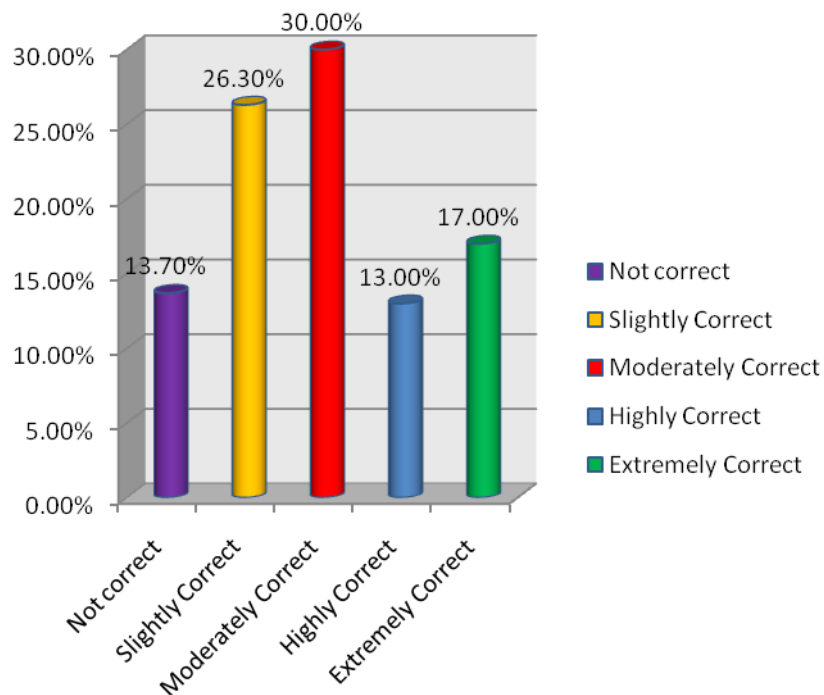
Figure 8: Granting of Capital Allowance to Businesses

Source: Field survey, Abukari (2015)

Figure 8 deals with the question of whether capital allowance is not granted automatically to all businesses. The study reveals that 30.0% of the respondents said it is moderately correct that capital allowance is not granted automatically to all businesses, 26.3% said it is slightly correct that capital allowance is not granted automatically to all businesses. Seventeen percent (17%) of the respondents indicated that it is extremely correct that capital allowance is not granted automatically to all businesses, 13.7% of the respondents said it is not correct that capital allowance is not granted automatically to all businesses, and 13.0% of the respondents indicate that it is highly correct that capital allowance is not granted automatically to all businesses.

In conclusion, the responses indicate that majority of the respondents have moderate knowledge on business income as compared to employment and investment income. This may partly be due to the nature of the respondents who are managers/owners of small and medium enterprises.

Tax Reliefs

Table 12- *Tax Reliefs to Partners and Sole Traders*

Responses	Frequency	Percent
Not correct	52	21.1
Slightly correct	25	10.1
Moderately correct	82	33.2
Highly correct	43	17.4
Extremely correct	45	18.2
Total	247	100.0

Source: Field survey, Abukari (2015)

It is shown in Table 12 that out of 247 respondents, 82 respondents which is about 33.2%, said it is moderately correct that partners and sole traders are entitled to personal tax reliefs, 21.1% said it is not correct that partners and sole traders are entitled to personal tax reliefs, and 18.2% of the respondents indicated that it is extremely correct that partners and sole traders are entitled to personal ax reliefs. The study further revealed that 17.4% of the respondents said it is highly correct that partners and sole traders are entitled to personal tax reliefs while 10.1% said it is slightly correct that partners and sole traders are entitled to personal tax reliefs. The findings reveal that a little over half of the respondents know that partners and sole traders thus may apply to the tax authority for any qualified relief.

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Table 13- *Additional Incentive to Agro-Processing Companies*

Responses	Frequency	Percent
Not correct	32	13.0
Slightly correct	29	11.7
Moderately correct	86	34.8
Highly correct	40	16.2
Extremely correct	60	24.3
Total	247	100.0

Source: Field survey, Abukari (2015)

It can be observed from Table 13 that 34.8% of the respondents indicated that it is moderately correct that Agro-Processing companies are entitled to any additional incentives after three years exemption. However, 13.0% said it is not correct that Agro-Processing companies are entitled to any additional incentives after three years exemption. It further reveals that 24.3% of the respondents said it is extremely correct that Agro-Processing companies are entitled to any additional incentives after three years exemption. Similarly 16.2% of the respondents indicated that it is highly correct whereas 11.7% percent said it is slightly correct that Agro-Processing companies are entitled to any additional incentives after three years exemption. The results implies that majority of the respondents knew about tax incentives available to agro-processing firms and may go into such operations in order to enjoy the concessions available to such firms.

Awareness on Offences, Penalties and Fines

This subsection assesses the respondents' knowledge on offences, penalties and fines.

Table 14- *Penalty for Failure to Furnish Tax Returns*

Responses	Frequency	Percent
Not Aware	49	19.7
Slightly Aware	34	14.0
Moderately Aware	82	33.2
Highly Aware	66	26.6
Extremely Aware	16	6.6
Total	247	100.0

Source: Field survey, Abukari (2015)

As shown in Table 14, the study shows that 33.2 % of the respondents are moderately aware that failure to furnish a return attracts one penalty unit and half penalty unit on a company and self employed respectively, while 26.6 % of the respondents also indicated that they were highly aware that failure to furnish a return attracts one penalty unit and half penalty unit on a company and self employed respectively. However, 19.7 %of the respondents said they were not aware that failure to furnish a return attracts one penalty unit and half penalty unit on a company and self employed respectively. Fourteen percent (14.0%) also indicated that they are slightly aware that failure to furnish a return attracts one penalty unit and half penalty unit on a company and self employed respectively. Finally, 6.6 % of the respondents said they are extremely aware that failure to furnish a return attracts one penalty unit and half penalty unit on a company and self employed respectively.

The implication of the findings are that majority of the respondents are fully aware of penalties for failing to file a tax return and this could induce them to furnish their tax returns to avoid paying a penalty.
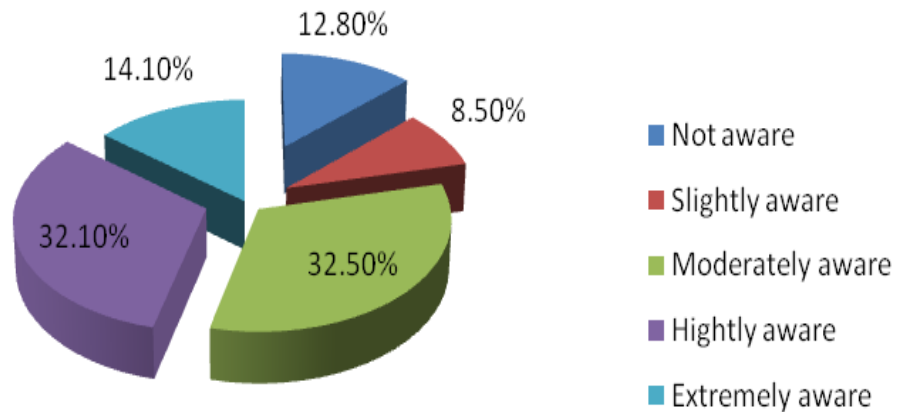
Figure 9: Awareness of Tax Penalty

Source: Field survey, Abukari (2015)

From Figure 9, 32.5% of the respondents said they are moderately aware that failure to pay tax on due date for not more than three months attracts 10% of the tax debt plus the tax debt, 32.1 % are highly aware that failure to pay tax on due date for not more than three months attracts 10% of the tax debt plus the tax debt. However 12.8% said they are not aware that failure to pay tax on due date for not more than three months attracts 10% of the tax debt plus the tax debt. It further revealed that 14.1% of the respondents indicate that they are extremely aware that failure to pay tax on due date for not more than three months attracts 10% of the tax debt plus the tax debt, and 8.5% of the respondents said they are slightly aware.

The overall conclusion on the level of knowledge of taxpayers revealed that taxpayers' general knowledge of tax laws is low since majority of the respondents were moderately correct on tax knowledge questions related to employment, business and investment incomes as well as issues relating to tax reliefs.

Perceived factors of tax compliance among SMEs

This section looks at the various factors affecting tax compliance among SMEs in the Metropolis. Respondents are questioned on matters relating to tax compliance and the findings are discussed below

Probability of being detected, fines and penalties

This subsection sought responses on specific questions on probability of being detected, fines and penalties.

Table 15-*Probability of Detection for Under Declaration of Profit*

Responses	Frequency	Percent
Not Agree	31	12.5
Slightly Agree	74	30.0
Moderately Agree	63	25.4
Highly Agree	53	21.7
Extremely Agree	26	10.4
Total	247	100.0

Source: Field survey, Abukari (2015)

It can be observed from Table 15 that, 30.0% of the respondents slightly agreed that they would comply if probability of being detected by the tax authority for declaring the exact profit/income for the year is low and 25.4% percent moderately agreed to comply if probability of being detected by

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the tax authority for declaring the exact profit/income for the year is low. However, 21.7% of the respondents highly agreed to comply if the probability of being detected by the tax authority for declaring the exact profit/income is low. Similarly, 10.4 % extremely agreed to comply and 12.5 % do not agree to comply if probability of being detected by the tax authority for declaring the exact profit/income is low.

The findings of this study reveal that majority of the respondents slightly agreed to comply with the tax laws if the probability of detection of profit is low which agrees with the findings of Beron et al., (1990). They concluded that tax audit exerts a modest positive on tax compliance. Similarly, the findings agree with the study of Evans et al., (2005). They argue that the frequency of audit has significant indirect impact on tax compliance in terms of record keeping. In contrast to this finding, Massimo (1993) claims that taxpayers normally would like to evade tax unless the probability of being caught is high.

Table 16-*Tax Authority Detection of Offence, Fines and Penalties*

Responses	Frequency	Percent
Not Agree	50	20.1
Slightly Agree	74	30.3
Moderately Agree	83	33.8
Highly Agree	19	7.7
Extremely Agree	20	8.1
Total	247	100.0

Source: Field survey, Abukari (2015)

Further findings from Table 16 show that 33.8 % of the respondents moderately agreed that they would comply with tax laws if the tax authority detects any offence, the fines and penalties charged are low, and 30.3% slightly agreed to comply if tax authority detects any offence, the fines and penalties are low. However, 20.1 % of the respondents do not agree that they would comply. In contrast, 8.1 % of the respondents extremely agreed to comply, and 7.7 % of the respondents highly agreed to comply if fines and charges on an offence detected by the tax authority are low.. In conclusion, the study reveals that a larger proportion of the respondents moderately agreed to comply with the tax laws if offences can be detected and fines are low; with a little number of about 8.1% extremely agreed to comply with the law. This however, contradicts with the findings of Kirchler et al. (2008). They argue that increasing fines and penalties result in more tax evasion.

All in all, it is observed that majority of the respondents' compliance is not dependent on the probability of detection of fraud, fines and penalties. This suggest that the findings do not support the economic deterrent theory which posits that taxpayers are amoral utility maximizers since their compliance level are influenced by economic motives.

Perception of government spending
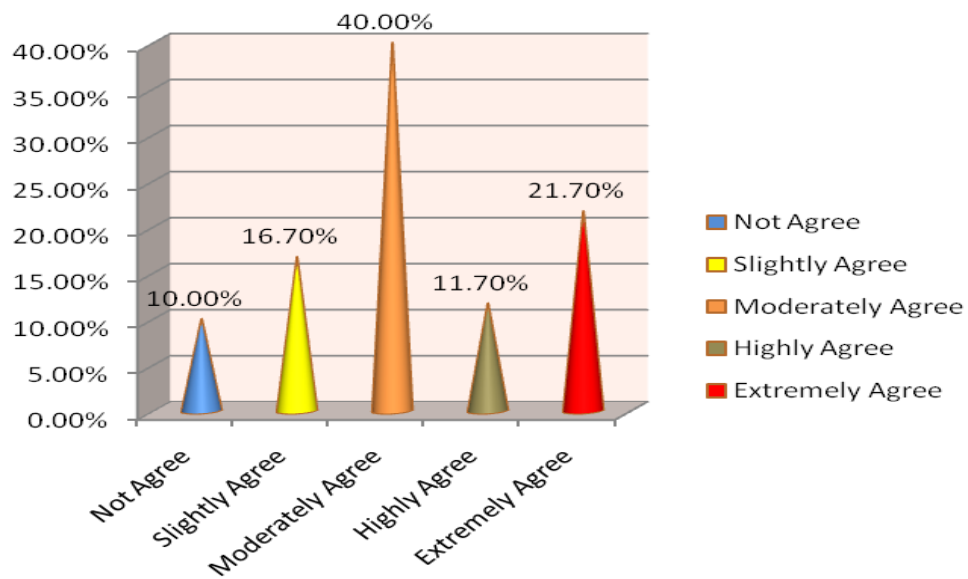
Figure 10: Provision of Government Services and Infrastructure

Field: survey, Abukari (2015)

From Figure 10, the study shows that 40.0 % of the respondents moderately agreed that they would wish to comply with the tax laws if there are a number of government services, facilities and infrastructure for which they are very happy with and 21.7 % of the respondents extremely agreed to comply. However, 16.7 % of the respondents slightly agreed to comply with tax laws, and 11.7 % of the respondents highly agreed to comply if there are a number of government services, facilities and infrastructure, while 10.0 % of the respondents did not agree that it will comply with tax laws if there are number of government services, facilities and infrastructure for which they are very happy with.

The perception of how government spends tax revenue influences taxpayers' compliance level. Evidence from the study indicates that majority, about (40%) of the respondents moderately agreed to comply with the tax laws

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followed by 21.7% of the respondents who extremely agree to comply if government spends tax revenue efficiently. The findings confirm the study of Chebusit et al. (2014). They conclude that a positive relationship exists between perception of government spending and tax compliance. In contrast to this study, Palil (2010) indicates that government spending was not significantly correlated with tax compliance when direct questions were directed to the respondents. However, government spending was significantly correlated with tax compliance when hypothetical questions were asked the respondents (Palil, 2010).

Perception of Equity and Fairness

Table 17- *Perception of Equity and Fairness*

Responses	Frequency	Percent
Not Agree	60	24.3
Slightly Agree	26	10.5
Moderately Agree	87	35.2
Highly Agree	55	22.3
Extremely Agree	19	7.7
Total	247	100.0

Source: Field survey, Abukari (2015)

Table 17 deals with the question of a business paying about the same amount of tax as other businesses making the same profit or income. Majority of the respondents, that is, 35.2% moderately agreed that they wish to comply with the tax laws if their business pays about the same amount of tax as other businesses making the same profit or income. In contrast, 24.3 % of the respondents do not agree to comply with the tax laws, while 22.3 % of the

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respondents highly agreed to comply if their business pays about the same amount of tax as other businesses making the same profit. However, 10.5 % of the respondents slightly agreed and 7.7 % of the respondents extremely agreed that they would comply if their business pays about the same amount of tax as other businesses making the same profit or income.

The study evidences that majority of the respondents' level of compliance is not dependent on how other businesses are taxed. The study indicates that majority of the respondents moderately agreed to comply if their businesses pay the same tax as other businesses making the same profit. The findings is in contrast with the findings of Palil and Mustafa (2011) which evidence that compliance level decreases at group level if one taxpayer pays more than another taxpayer earning the same profit/income. However, the findings from this study contradict that of Chan et al. (2000). They argue that voluntary compliance increases if the tax system is equitable and fair.

The findings confirm the socio-psychological theory which suggests that taxpayers have separate views with respect to looking after their self-interest as opposed to national interests.

Profit Level

The subsection below deals with questions as to whether owners or managers of SMEs would comply with tax laws when their profit increases or declines.

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Table 18-*Compliance Level When Business Makes Higher Profit*

Responses	Frequency	Percent
Not Agree	32	12.9
Slightly Agree	46	18.8
Moderately Agree	98	39.6
Highly Agree	45	18.3
Extremely Agree	26	10.4
Total	247	100.0

Source: Field survey, Abukari (2015)

Table 18 reveals that 39.6 % of the respondents moderately agreed that they would comply with tax laws when their businesses make higher profit and 18.8 % of the respondents slightly agreed to comply with tax laws when their businesses make higher profit. Also, 18.3% of the respondents highly agreed to comply with tax laws when their business makes higher profit, 12.9 % of the respondents do not agree and 10.4 % of the respondents extremely agreed to comply with tax laws when their businesses make higher profit.

The findings conclude that as profit level increases, majority of the respondents would moderately comply with tax laws. Similarly, the findings of Torgler (2007) and Wearing and Heady (1997) reveal that high income earners are more compliant than low income earners. In contrast to this finding, Park and Hyun (2003) indicate that the level of profit/income has no significant effect on tax compliance. The conclusion is in line with the economy based theory which posits that taxpayers consider economic motives before complying.

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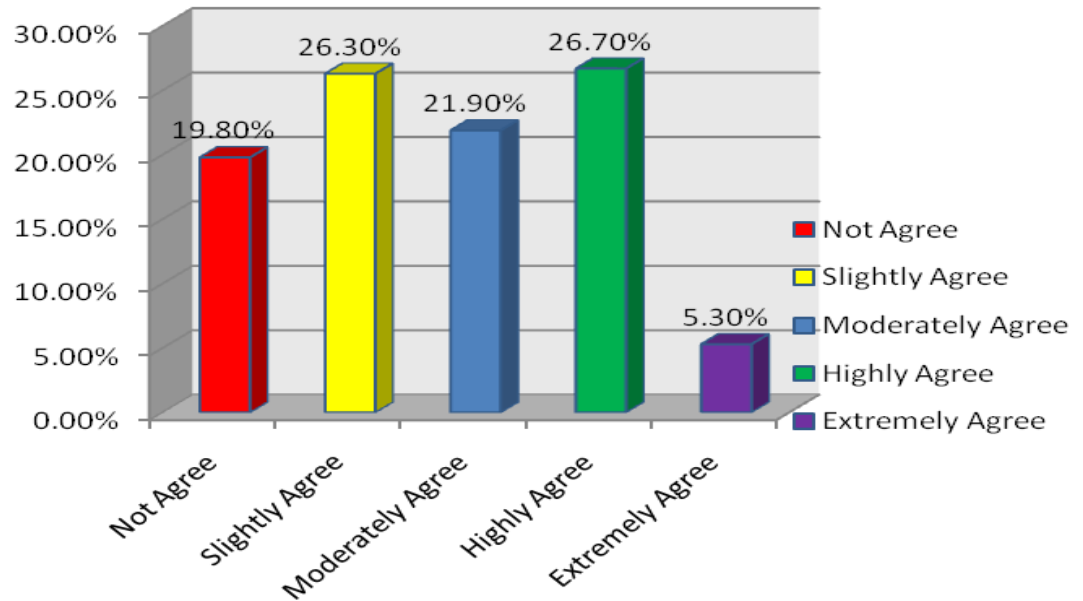
Figure 11: Compliance Level When Business Profit Continues to Decline

Source: Field survey, Abukari (2015)

From Figure 11, it can be deduced that most of the respondents have the opinion that they would not comply with tax laws when their businesses profit continues to decline. The study further reveals that 26.7 % of the respondents highly agreed not to comply with tax laws when their business profit continues to decline and 26.3 % of the respondents slightly agreed not to comply when business profit declines continuously. Furthermore, 21.9 % of the respondents moderately agreed not to comply with tax laws when their business profit continues to decline, and 19.8% of the respondents do not agree not to comply when their business profit continues to decline. The findings evidenced that as business profit level decreases; the respondents are more likely not to comply with tax laws. The implication of this finding is similar to the findings in Table 18 which indicates that as profit level increases tax compliance level is more likely to increase.

Peer Influence

Table 19-*Punishments to Non-Compliant Businesses*

Responses	Frequency	Percent
Not Agree	37	15.0
Slightly Agree	36	14.6
Moderately Agree	79	32.0
Highly Agree	51	20.6
Extremely Agree	44	17.8
Total	247	100.0

Source: Field survey, Abukari (2015)

As shown in Table 19, majority of the respondents, that is 32.0 %, moderately agreed not to comply with tax laws if other businesses which do not comply had never been penalized, 20.6 % of the respondents highly agreed not to comply with tax laws. Similarly, 17.8 % of the respondents extremely agreed not to comply with tax laws if other businesses which do not comply with tax laws have never been penalized. However, 14.6% of the respondents slightly agreed not to comply with tax laws if other businesses who do not comply go unpunished, while 15.0 % of the respondents do not agree to comply if other businesses which do not comply have never been penalized.

The findings are in agreement with the equity theory classified under the socio-psychological theory since the taxpayers are influenced by how their peers are treated for non-compliance.

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Complexity of the Tax System
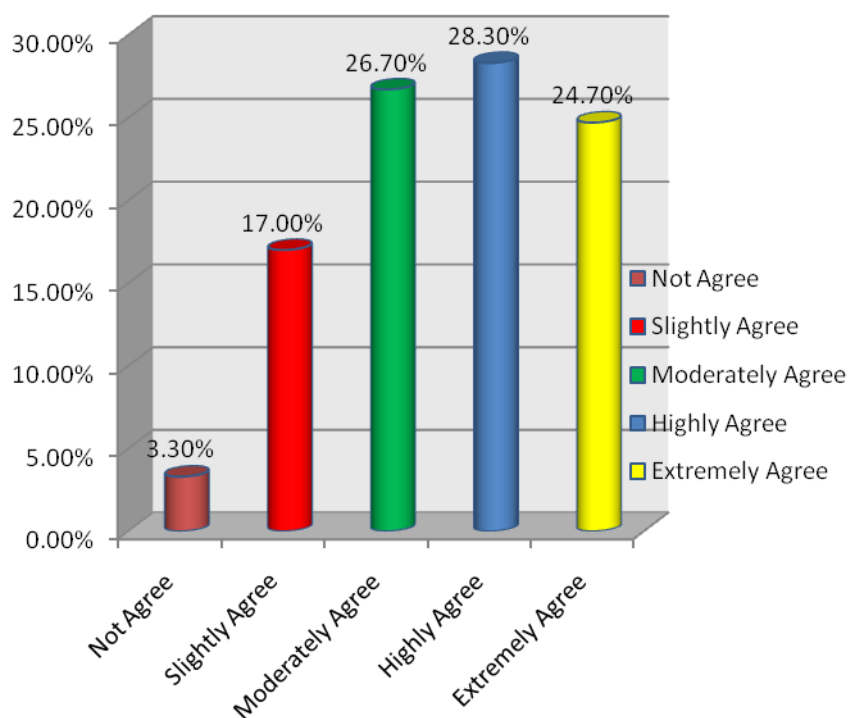
Figure 12: Complexity of Tax Return

Source: Field survey, Abukari (2015)

On the question of tax return being too complex and difficult to complete, Figure 12 shows that 28.3 % of the respondents highly agreed that tax return is too complex and difficult to complete, 26.7 % of the respondents moderately agreed that tax return is too complex and difficult to complete and 24.7 % of the respondents extremely agreed that tax return is too complex and difficult to complete. However, 17.0 % of the respondents slightly agreed that tax return is too complex and difficult to complete and 3.3 % do not agree that tax returns is too complex and difficult to complete.

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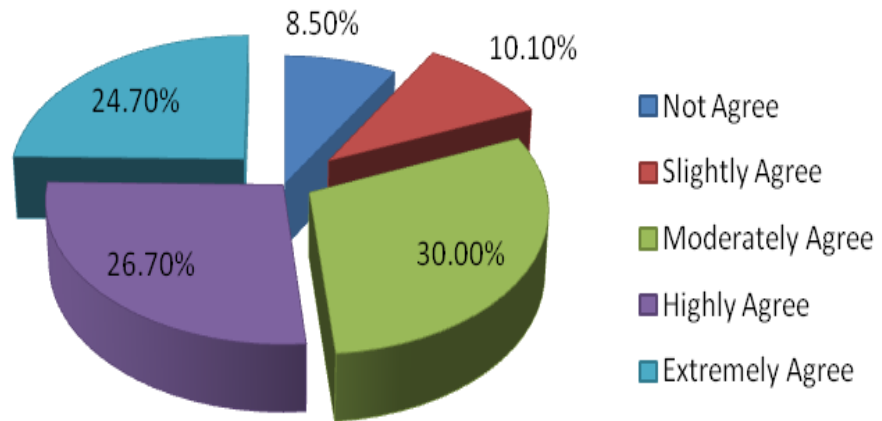
Figure 13: Cumbersome of Tax Laws and Regulations

Source: Field survey, Abukari (2015)

Figure 13 shows that 30.0 % of the respondents moderately agreed not to comply with tax laws because the tax laws and regulations are too cumbersome to understand, 26.7 % highly agreed that tax laws and regulations are too cumbersome to understand and as such wish not to comply with tax laws, and 24.7 % of the respondent extremely agreed not to comply. Further, 10.1 % slightly agreed not to comply with tax laws, while 8.5 % of the respondents did not agree to comply because tax laws and regulations are too cumbersome to understand**.**

In conclusion, the respondents see the complexity of the tax system as a major factor affecting their wish to comply with the tax laws. The general findings from this study confirm the findings of Richardson (2006) who argues that complexity of the tax laws is significantly related to tax evasion. Similarly, Clotfelter (1983) reveals that complexity of the tax system is associated with greater underreporting of tax liability

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Tax Rates

Table 20- *Tax Rates Applicable to Businesses and Individuals*

Responses	Frequency	Valid percent
Not Agree	48	19.4
Slightly Agree	42	17.0
Moderately Agree	66	26.7
Highly Agree	57	23.1
Extremely Agree	34	13.8
Total	247	100.0

Source: Field survey, Abukari (2015)

Table 20 focuses on the issue of different rates applying to other businesses or individuals. The study finds out that 26.7 % of the respondents moderatly agreed that they do not comply with the tax laws because different rates are applied to other businesses or individuals, 23.1 % of the respondents highly agreed that they do not comply with the tax laws because of different rates. However, 19.4 % of the respondents did not agree not to comply with the tax laws because of the application of different tax rates. Also, 17.0 % slightly agreed that they do not comply with tax laws because different rates are applied to other businesses or individuals. Finally, 13.8 % of the respondents extremely agreed that they do not wish to comply with the tax laws because different rates are applied to other businesses or individuals.

Table 21-*High Corporate/ Income Tax Rates*

Responses	Frequency	Valid percent
Not Agree	62	25.1
Slightly Agree	26	10.5
Moderately Agree	81	32.8
Highly Agree	65	26.3
Extremely Agree	13	5.3
Total	247	100.0

Source: Field survey, Abukari (2015)

Table 21 above depicts that 32.8 % of the respondents moderately agreed not to comply with tax laws while 26.3 % of the respondents highly agreed not to comply with the tax laws because the corporate or income tax rates remain very high. However, 25.1 % of the respondents do not agree not to comply with the tax laws because the corporate or income tax rates remain very high. Furthermore, 10.5 % of the respondents slightly agreed not to comply because the corporate or income tax rates remain very high, while 5.3 % of the respondents extremely agreed not to comply with the tax laws because of the high level of corporate or income tax rates.

The impact of tax rate on compliance in this study is not very clear since a reasonable number of the respondents agreed to comply with tax laws regardless of the tax rate, and almost an equal number of respondents agree not to comply if the tax rates are high. The findings of this study are in line with Kirchler et al. (2008) who argue that tax rates have a mixed impact on tax compliance. In contrast to this study, Torgler (2007) claims that raising marginal tax rates will be more likely to encourage taxpayers to evade tax.

Ethics and attitudes
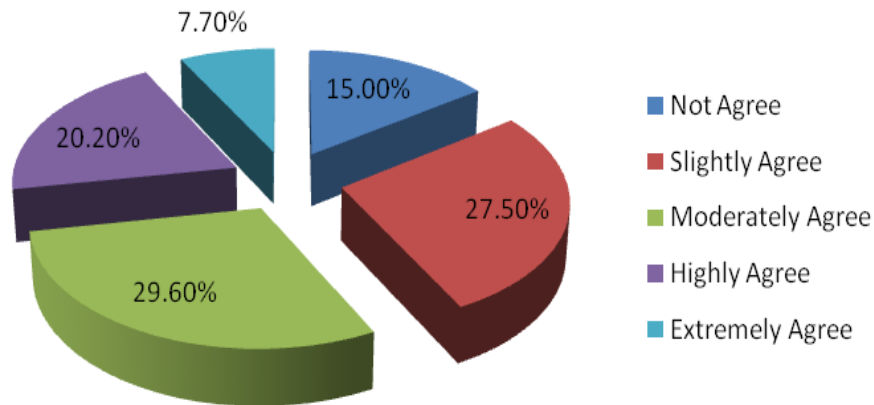
Figure 14: Attitude Towards Under Reporting Business Income

Source: Field survey, Abukari (2015)

It can be observed from figure 14 that 29.6 % of the respondents moderately agreed not to comply with tax laws because they do not feel guilty excluding some of the business profit/income when completing the tax return, 27.5 % slightly agreed not to comply with tax laws since they do not feel guilty for excluding some of the business profit/income when completing the tax return. However, 20.2 % of the respondents highly agreed not to comply, 15.0 % agreed to comply with tax laws, and 7.7 % percent of the respondents extremely agreed not to comply since they do not feel guilty if they exclude some of the business income when completing the tax return.

In conclusion, the findings indicate that behavioral attitude of taxpayers influences their compliance level thus, confirming the socio-psychological theory which suggest that taxpayers compliance level is influence by their attitude towards national interest instead of self-interest.

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Tax Agencies Effort towards Encouraging Tax Compliance

This section takes a look at the various efforts the tax authority put in place to encourage voluntary compliance with tax laws among SMEs in the Tamale Metropolis. The findings from responses on specific questions on measures to improve compliance are discussed below:

Table 22- *Impact of Self- Assessment System on Tax Compliance*

Responses	Frequency	Valid Percent
Not Agree	59	23.9
Slightly Agree	68	27.5
Moderately Agree	67	27.1
Highly Agree	47	19.0
Extremely Agree	6	2.4
Total	247	100.0

Source: Field survey, Abukari (2015)

It can be seen from Table 22 that a greater number of the respondents constituting 27.5 % of the respondents, slightly agreed that the introduction of the self-assessment system among businesses has improved their tax compliance level, 27.1 % moderately agreed that the introduction of self assessment system among businesses has improved their tax compliance level. However, 23.9 % of the respondents do not agree that the introduction of self assessment system among businesses has increased tax compliance level of SMEs. Furthermore, 19.0 % of the respondents highly agreed that the introduction of the self-assessment system among businesses has increased tax compliance among SMEs, and just 2.4 % of the respondents extremely agreed

that the introduction of self-assessment system among businesses has increased tax compliance level of SMEs.

Table 23- *Comparison of Self-Assessment and Assessment by the Commissioner*

Responses	Frequency	Valid Percent
Not Agree	66	26.7
Slightly Agree	60	24.3
Moderately Agree	53	21.5
Highly Agree	68	27.5
Total	247	100.0

Source: Field survey, Abukari (2015)

As shown in Table 23, majority of the respondents, that is 27.5%, highly agreed that self-assessment of their businesses is better than assessment by the Commissioner; whereas 26.7 % of the respondents do not agree that self assessment of their businesses is better than assessment by the Commissioner. Further findings indicate that 24.3 % of the respondents slightly agreed that self assessment of their businesses is better than assessment by the Commissioner, and 21.5 % moderately agreed that self assessment of their businesses is better than assessment by the commissioner. The findings indicate that the introduction of self assessment among SMEs has the potential of encouraging tax compliance.

The overall findings indicate that majority of the respondents are of the view that introduction of the self-assessment among SMEs has not increased their level of compliance. Similarly, Kirchler (2007) indicates that taxpayers choose to be less compliant since tax assessment has been shifted on them.

However, Sarker (2003) claims that tax compliance level has increased in Japan following the introduction of self assessment.

Education and training of taxpayers
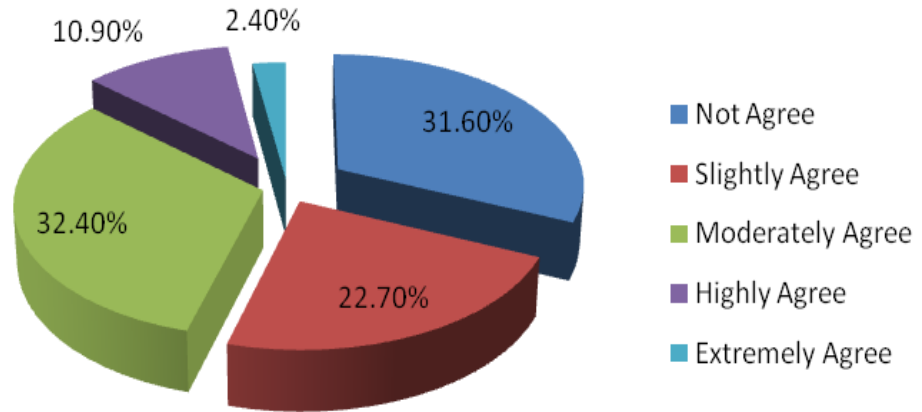
Figure 15: Provision of Education and Training and Compliance Level
Source: Field survey, Abukari (2015)

As shown in Figure 15, the study reveals that 32.4% of the respondents moderately agreed that education and training provided to businesses on the tax system has improved compliance level, however 31.6 % of the respondents did not agree that education and training of businesses has improved compliance level. Again, 22.7% percent slightly agreed that education and training of businesses has improved compliance level. However, 10.9% of the respondents highly agreed that education and training of businesses has improved compliance level and 2.4% of the respondents, extremely also agreed that education and training of businesses on the tax system has improved compliance level. It can be observed that the level of training and education provided to businesses has not increased compliance level of SMEs, probable due to inadequate education and training on tax issues. This implies

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that more education and training should be targeted at the SMEs to increase their knowledge on tax laws in order to improve compliance.

Simplification of the tax system
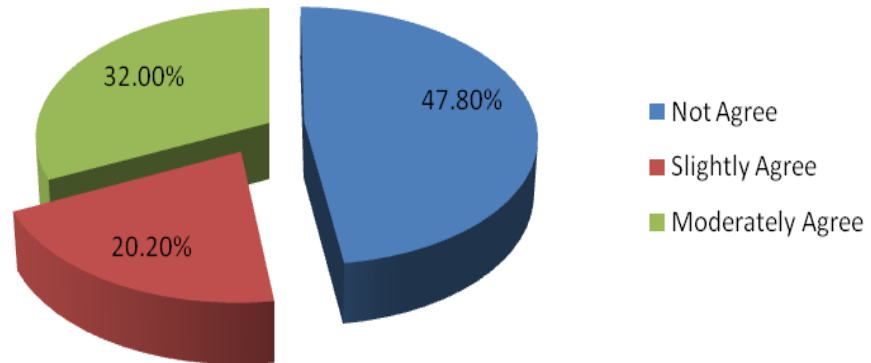
Figure 16: Simplicity of Tax Return

Source: Field survey, Abukari (2015)

It is shown from Figure 16 that majority of the respondents constituting 47.8% do not agree that tax return is easy and simple to complete, 32.0% of the respondents moderately agreed that tax returns is easy and simple to complete, and 20.2 % of the respondents slightly agreed that tax returns is easy and simple to complete. In conclusion, the study reveals that the tax returns are too complex to complete thus affects voluntary compliance.
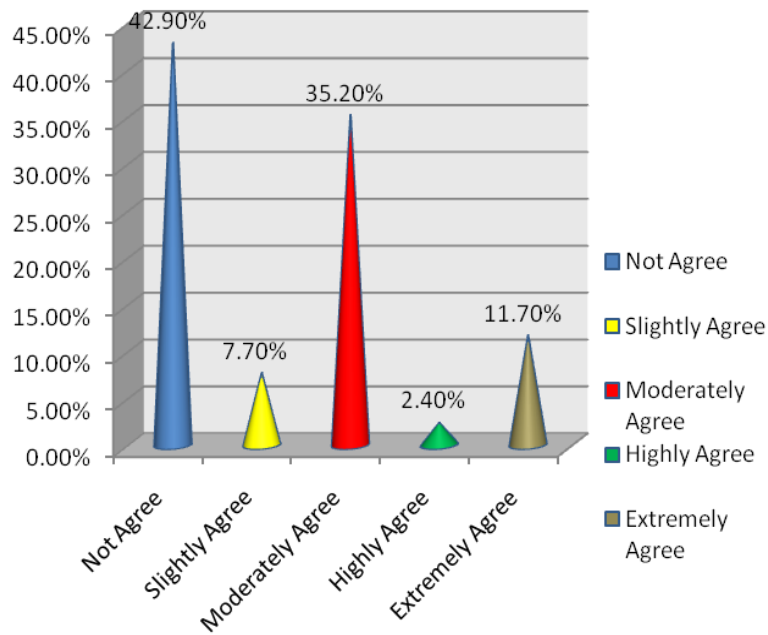
Figure 17: Cost of Compliance

Source: Field survey, Abukari (2015)

On the question of cost of compliance being very low**,** it can be observed in Figure 17 that 42.9% of the respondents do not agree that cost of compliance is very low, while 35.2% moderately agree that cost of compliance is very low. However, 11.7% of the respondents extremely agree that cost of compliance is very low, while 7.7% of the respondents slightly agree that cost of compliance is low and 2.4% of the respondents highly agree that cost of compliance is low.

Enforcement of the Tax Laws

Table 24- *Punishments to Offenders of the Tax Laws*

Responses	Frequency	Valid Percent
Not Agree	53	21.5
Slightly Agree	43	17.4
Moderately Agree	88	35.6
Highly Agree	44	17.8
Extremely Agree	19	7.7
Total	247	100.0

Source: Field survey, Abukari (2015)

From Table 24, 35.6% of the respondents moderately agree that offenders of the tax laws are severely punished, 21.5% of the respondents do not agree that offenders of the tax laws are punished. However, 17.8 % highly agree that offenders of the tax laws are severely dealt with, while 17.5% slightly agree that offenders of the tax laws are punished, and 7.7% of the respondents extremely agree that offenders of the tax laws are punished.

Table 25-*Capability of Tax Authority to Investigate all Tax Fraud*

Responses	Frequency	Valid Percent
Not Agree	26	10.5
Slightly Agree	23	9.3
Moderately Agree	116	47.0
Highly Agree	57	23.1
Extremely Agree	25	10.1
Total	247	100.0

Source: Field survey, Abukari (2015)

As shown in Table 25, available evidence from the study shows that 47.0% of the respondents moderately agree that tax authority has limited capability to investigate all tax fraud issues, 23.1% highly agree that tax authority has limited capability to investigate tax fraud issues. However, 10.5% of the respondents do not agree that tax authority has limited capability to investigate all tax fraud issues, while 10.1% extremely agree that tax authority has limited capability to investigate all tax fraud issues, and 9.3% of the respondents slightly agree that tax authority has limited capability to investigate all tax fraud issues.

The findings imply that since SMEs are in known the incapability of the tax authority to investigate fraud cases, they turn to indulge in practices that could result in evading tax.

Guidance and Examination

Table 26- *Examination of Business Tax Records*

Responses	Frequency	Valid Percent
Not Agree	93	37.7
Slightly Agree	19	7.7
Moderately Agree	109	44.7
Highly Agree	14	5.7
Extremely Agree	12	4.9
Total	247	100.0

Source: Field survey, Abukari (2015)

As showed in Table 26 it can be deduced from the study that 109 out of 247 respondents, representing 44.7%, moderately agree that the tax authority examines business' tax records regularly. However, 37.7% of the

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respondents do not agree that tax authority examines business tax records regularly. Furthermore, 7.7% of the respondents slightly agree business tax records are regularly examined, 5.7% highly agreed that the tax authority examines business tax records regularly, and 4.9% of the respondents extremely agree that their tax records are regularly examined by the tax authority.
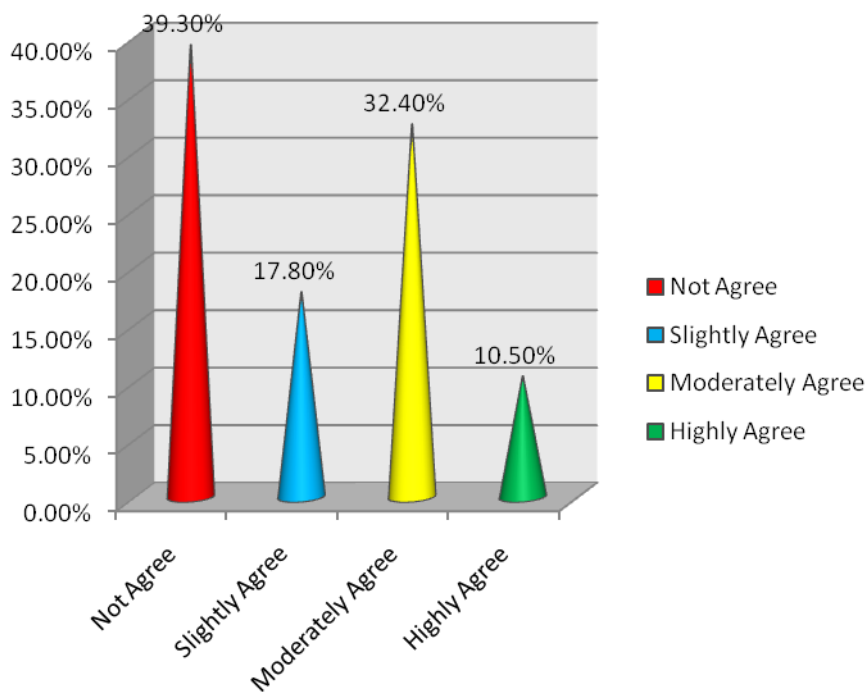
Figure 18: Guidance to Taxpayers on Bookkeeping and Filing of Tax
          Returns
Source: Field survey, Abukari (2015)

From Figure 18, it can be observed that 39.3% of the respondents do not agree that tax authority has been guiding tax payers on how to keep proper books, 32.4% moderately agree that tax authority has been guiding tax payers on how to keep proper books. Again, 17.8% of the respondents slightly agree that tax authority has been guiding tax payers on how to keep proper books

while 10.5% of the respondents highly agree that the tax authority has been guiding tax payers on how to keep proper books.

The implication of the findings suggest that SMEs may not be keeping proper books of account due to inadequate expertise in record keeping and this will ultimately affect proper furnishing of their returns to the tax authority.

Tax Kknowledge and Tax Ccompliance

This section discusses, the relationship between tax knowledge and tax compliance. As recommended by Leech, Barrett and Morgan (2005), the standard multiple regression technique was used in analyzing the fourth objective because of two reasons. In the first place, the regression technique allows the concurrent entry of different predictor variables into a model for analyses, findings and conclusions on a single scenario (Leech et al., 2005). Secondly the results generated by this technique indicate the separate contribution of each predictor variable to the total variance in a dependent variable, (Pallant, 2007).

Table 27-*Multicollinearity Test*

Variables	Tolerance	VIF
TKNRES	.118	8.445
TKNEMP	.192	5.210
TKNINV	.139	7.183
TKNBUS	.463	2.161
TKNREL	.113	8.844
TKNAWARE	.175	5.722

Dependent Variable-------Tax Compliance

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As shown in Table 27, none of the independent variables has violated the assumptions underlining the multicollinearity test. The tolerance value for all the independent variables are not less than 0.10. Further results from Table 27 show that VIF for each of the variables is not more than 10. The average mean of the VIF is (6.26) which is below the threshold of 10. Therefore, there was no multicollinearity among the variables, and as such all the variables are retained in the regression model.

Table 28- *Standardized Multiple Regression Analysis Summary for Tax Knowledge and Tax Compliance*

Variable	Unstd. Beta (β)	Std. Beta (β)	t	Sig	Zero-Order	Partial	Part
Constant	2.994		114.339	0.000			
TKNRES	-.045	-.043	-.808	.419	-.088	-.015	-.015
TKNEMP	-.100	-.093	-2.251	.02	-.079	-.041	-.041
TKNINV	-.185	-.168	-3.459	.001	-.104	-.063	-.063
TKNBUS	.025	.029	1.084	.278	-.053	.020	.020
TKNREL	-.038	-.031	-.720	.472	-.068	-.013	-.013
TKNAWARE	.254	.241	5.555	.000	-.027	.102	.101

R= .152, R^2=.023, Adjusted R^2=.021, F (6, 2957) 11.726, P<.05

As shown in Table 28, the P- value (.000) of the model is less than the alpha (.05), therefore, the null hypothesis was rejected and as such, there is a significant relationship between tax compliance and the predictor variables. Similarly, F – statistics (11.726) is greater than F-critical (2.10) indicating that

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there is significant relationship between tax compliance and tax knowledge. This means that owners/managers of SMEs level of compliance with tax laws is influence by tax knowledge. The findings confirms the study of Palil (2010)

However, in Table 28, the P-value (.419) for rights and responsibilities is greater than the alpha (.05) indicating that there is no significant relationship between tax compliance and knowledge on rights and responsibilities, as a single predicator variable. Similarly, the P-value of (.278 and .472) for business income and tax reliefs respectively is greater than the alpha of (.05). This indicates that no significant relationship exists between tax compliance and tax knowledge of these variables. In contrast to the three predicator variables above, the P-value for employment income, investment income and awareness of offences, penalties and fines respectively (.024, .001 and .000) are less than the alpha of (.05). Therefore, there is a significant relationship between tax compliance and those predicator variables.

In conclusion, the six predicator variables put together indicate that there is a significant relationship with the dependent variable (tax compliance). However, with specific predicator variables, only employment income, investment income and awareness of offences, penalties and fines show a significant relationship with the dependent variable but, the other three predicator variables (rights and responsibilities, business income and tax reliefs) have no significant relationship with tax compliance.

As shown in Table 28, the regression equation or the model is stated below

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Model: $Y = a + bi\ x, + \varepsilon$

$TCi = ao + x_1 TKNRESi + x_2\ TKNEMPi + x_3\ TKNINVi + x_4\ TKNBUSi + x_5\ TKNRELi + x_6\ TKNAWAREi + \varepsilon$

$TC = 2.994 - .045x_1 - .100x_2 - .189x_3 + .025x_4 - .038x_5 + .254x_6$

From the model above, a unit change in the taxpayers' knowledge on rights and responsibilities would result in tax compliance changing by (-.045). This means that a unit change in the taxpayers' knowledge on their rights and responsibilities leads to tax compliance decreasing by (.045). For knowledge on employment income, a unit change leads to tax compliance decreasing by (.100). Similarly, a unit change in both knowledge on investment income and tax reliefs lead to tax the compliance level decreasing by (.189) and (.038) respectively. In other words, when their knowledge on these variables increase, their level of compliance tends to be low, that is, they become less compliant.

However, a unit change in knowledge on business income and awareness of offences, penalties and fines lead to tax compliance changing by (.025 and .254) respectively. This means that changes in the taxpayers' knowledge on business income and awareness of offences, fines and penalties result in tax compliance increasing by (.025 and .254) respectively. The implication is that as taxpayers' knowledge on business income and awareness of offences, penalties and fines increase, their tax compliance level increases.

As illustrated in Table 28, the most important predictor variable is knowledge about awareness of offences, penalties and fines with a standardized beta coefficient of (.241) followed by knowledge on investment income with a standardized beta coefficient of (-.168). The rest of the predictor variables in terms of importance are knowledge on employment

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income, rights and responsibilities and tax reliefs with standardized beta coefficients of (-.093, .043, and -.039) respectively. The least important predictor variable is knowledge on business income with standardized beta coefficient of (.029). In conclusion, in terms of policy decision, more attention should be place on tax payers' knowledge on awareness of offences, penalties and fines since an improvement on that would result on tax compliance level of SMEs increasing.

From Table 28, (R^2= .023) indicates that 2.3% of change in tax compliance can be explained by the six predictor variables. After adjusting for errors, 2.1% of change in tax compliance can be explained by the six predictor variables. However, in Table 29 knowledge about rights and responsibilities uniquely contributing .00023% ($-.015^2$) out of the 2.3% change in tax compliance as obtained in Table 28. Knowledge on employment and investment income are uniquely contributing .0017% ($-.041^2$) and .004% ($-.063^2$) respectively to the total change of 2.3% on tax compliance. The rest of the predicator variables are uniquely contributing .0004% ($.02^2$), .00017% ($-.013^2$) and .01% ($.101^2$) for tax knowledge on business income, tax reliefs and awareness respectively.

Furthermore, as shown in Table 28, the zero-order correlation coefficient of knowledge on rights and responsibilities is (-.088) which indicates a very weak negative relationship with tax compliance. However, when other predicator variables are held constant, the co-efficient changes to (-.015) still indicating a negative relationship with tax compliance. This means that knowledge about rights and responsibilities alone as a predicator variable has an indirect relationship with tax compliance. Thus, a decrease in

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taxpayers' knowledge about rights and responsibilities would lead to an increase in the tax compliance level of SMEs and the vice versa.

Further findings from Table 28, indicate that the correlation coefficient of knowledge on employment income, investment income and tax reliefs are (-.079, -.104 and -.068) respectively. All the coefficients show a very weak negative relationship with tax compliance. The implication is that an increase of those variables results in tax compliance decreasing and a decrease results in tax compliance increasing. On the part of knowledge on business income and awareness of offences, penalties and fines, the zero – order correlation coefficients are (-.053 and -.027) respectively, showing a very weak negative relationship with tax compliance. However, when other variables are held constant the coefficients for business income and that of awareness of offences, penalties and fines change to (.020 and .102) respectively. Both coefficients indicate a very weak positive relationship with tax compliance. Thus an increase would lead to increase in tax compliance and a decrease results in tax compliance decreasing.

In conclusion, the findings of this study are in contrast with the findings of Mukasa (2011) who argued that there exists a significant positive relationship between tax knowledge and tax compliance. However, the finding of this study confirms the study of Palil (2010) who argued that tax knowledge has a significant impact on tax compliance. Finally, the findings show that except knowledge about business income and awareness of offence, penalties and fines, the other predicator variables show a very weak negative relationship with tax compliance.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The concluding chapter of this study opens with a summary of the objectives of the study, its methodology and data analyses techniques. It proceeds with a summary of the key findings pertaining to each objective and the conclusions drawn from them. Specific recommendations from the findings and conclusions are made to GRA and SMEs. The chapter ends with some suggestions for further research

Summary

The main purpose of this study was to examine tax compliance of small and medium-sized enterprises in Tamale in the Northern Region of Ghana. Specifically, the study sought firstly to ascertain the level of tax knowledge of owners/managers of SMEs in Tamale Metropolis. Secondly, the study sought to identify perceived factors of tax compliance of SMEs in the Tamale Metropolis. The study further examined tax agencies' effort towards encouraging tax compliance. Finally, the study sought to establish the relationship between tax knowledge and tax compliance.

From a population of 851 small and medium-sized enterprises, a sample size of 265 was taken based on Krejcie and Morgan's (1970) table. Sample sizes of the two categories of businesses were determined using the simple random sampling technique after employing stratified sampling. Following a successful pretest, self-administered questionnaires developed from a thorough review of the existing literature and tested for reliability and validity were distributed to respondents. Data on the business and personal

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characteristics of respondents as well as tax knowledge, perceived factors of tax compliance and efforts by the tax authority towards encouraging tax compliance were analyzed quantitatively using descriptive statistics including frequencies and percentages. Regression analysis was used to analyze the fourth objective which sought to establish relationship between tax knowledge and tax compliance. A summary of the key findings of the study follows.

The first objective focused on the level of tax knowledge of owners/managers of SMEs in the Tamale Metropolis and the main issues that emerged were:

Owners/Managers of SMEs' knowledge on taxation of employment income was low since 29.1% of the respondents indicated that it is moderately correct while 27.1% indicated that it is not correct on the question that bonus and overtime should not be added to a person's basic salary and taxed.

On tax knowledge on investment income, 33.6% of the respondents said that it is slightly correct to exclude dividend income from taxable income while only 9.3% indicated that it is extremely correct to exclude it. Majority of the respondents' knowledge on taxation of business income regarding depreciation and capital expenditure as non-deductible expenses showed that 39.7% indicated that it is moderately correct that depreciation is a non-deductible expense while 40.9% moderately agreed that capital expenditure is a non-deductible expense.

Furthermore, it is evidenced that 33.2% agreed that it is moderately correct that partners and sole traders are entitled to tax reliefs while only 18.2% believed it is extremely correct. Finally, on taxpayers' general responsibility and rights, 27.1% would moderately do object if they are

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dissatisfied with the provisional assessment while 34.8% indicated that they would moderately do declare all incomes from various sources to GRA.

Perceived factors of tax compliance SMEs were examined as the second objective. It emerged that the following factors may make owners/managers of SMEs less compliant: In the first place, majority of the respondents, that is 40%, agree to comply with tax laws while 21.7% extremely agree to comply if only government would spend their tax revenue on infrastructure and other government facilities. Furthermore, the level of profit was also a major factor contributing to tax compliance. About 26.7% of the respondents indicated that they would not comply if there was a decline in their profit level.

On complexity of the tax system, 28.3% and 24.7% highly and extremely respectively agreed not to comply with tax laws because the tax return is too complex to fill. Similarly, 26.7% and 24.7%, highly and extremely agreed respectively not to comply with tax laws since tax laws and regulations are too cumbersome. Finally, the level of tax rates has a mixed impact on tax compliance. It was evidenced that 26.3% highly agreed not to comply with tax laws if corporate and income tax rates remained very high. In contrast, 25.19% of the respondents did not agree that they would not comply because the tax rates remained very high.

The third objective assessed the tax authority measures towards encouraging tax compliance and a number of issues emerged: First of all, the introduction of self-assessment on businesses has not improved the tax compliance level of SMEs in Tamale. The study showed that 27.5% slightly agreed that their compliance level has improved as a result of the introduction

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of self-assessment and 23.9% did not agree that their compliance level has gone up after the introduction of self-assessment.

On simplification of the tax system, majority of the respondents did not agree that the tax system is simplified thus their level of compliance has not improved. About 47.8% and 42.9% respectively did not agree that tax return is easy to complete and the level of compliance cost is low. Furthermore, the respondents indicated that the level of education and training provided to SMEs was not adequate and thus compliance level has not seen significant improvement. The respondents, constituting 31.6% and 22.7%, did not agree and slightly agreed respectively that training and education were adequate to encourage compliance. Finally, it was established that guidance and examination provided to SMEs are not adequate to encourage tax compliance.

The relationship between tax knowledge and tax compliance was examined as the fourth objective and the following main issues emerged. In the first place, the null hypothesis could not be accepted since the P- Value (.000) was less than the alpha (.05). Therefore, there was a significant relationship between tax compliance and the predicator variables. However, the P-Values for three predicator variables (rights and responsibilities, business income and tax reliefs) were greater than the alpha. Thus, there was no significant relationship between tax compliance and those specific variables.

It further emerged that a unit change in knowledge about rights and responsibilities, employment income, investment income and tax reliefs result in tax compliance decreasing by (.045, .100, .189 and .038) respectively. In contrast, a unit change in business income and awareness of offences,

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penalties and fines result in tax compliance increasing by (.025 and .254) respectively. Furthermore, the study indicates that knowledge about awareness of offences, penalties and fines is the most important predicator variable with a standardised beta coefficient of (.241) and the least important variable being knowledge about business income with a standardised beta coefficient of (.029).

Furthermore, 2.3% of change in tax compliance can be explained by the six predicator variables. After adjusting for errors, 2.1% of change in tax compliance can be explained by the six predicator variables. Finally, zero-order correlation coefficients of all the six predicator variables show a very weak negative relationship with tax compliance, thus a decrease in those variables leads to tax compliance increasing and vice versa. However, when other variables are held constant, the zero-order correlation coefficients of business income and awareness of offences, penalties and fines show (.020 and .102) respectively. These indicate a very weak positive relationship with tax compliance.

Conclusions

The following conclusions are drawn based on the findings of the study. For the first objective, it is concluded that in spite of the evidence that the level of tax knowledge of owners/managers are low, some owners/managers have moderate knowledge on taxation. For instance, the study indicates that owners/managers' knowledge on employment income, business income and tax reliefs are moderate and can be improved upon further education and training. However, their knowledge on investment income is very low. Also, it is evidenced that owners/managers do moderately

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know their rights and responsibilities regarding declaration of all sources of income.

With regards to the second objective, it is concluded that complexity of the tax system is a major factor contributing to non-compliance of SMEs in relation to the nature of the tax returns and the cumbersome nature of the tax laws and regulations. Furthermore, perception of government spending and the level of business profit (declining profit) are also contributing to non-compliance. However, the level of tax rates has little impact on non-compliance.

Regarding the third objective, it is concluded that the introduction of self-assessment on businesses has not improved the compliance level of SMEs in Tamale. Also, the respondents revealed that the tax system has not been made simple in order to encourage businesses to voluntarily comply with the tax laws. Finally, the level of education and training are inadequate to improve their compliance levels and the tax authority has been guiding and examining businesses on bookkeeping.

Finally, the fourth objective concluded that there was a relationship between tax compliance and tax knowledge; thus, the study failed to reject the null hypothesis. It was further concluded that policy decision should be focused on increasing taxpayers' knowledge about awareness of offences, penalties and fines since an improvement on that would result in an increase of tax compliance of SMEs in Tamale Metropolis.

Recommendations

In the light of the key findings and conclusions made above, the following are recommended to the relevant authorities: In the first place, to

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improve tax revenue generation in the Tamale Metropolis and Ghana as a whole, policy direction should be tailored towards the various tax knowledge variables, especially, knowledge about awareness of offences, penalties and fines. When owners/managers of SMEs are fully aware of the sanctions for non-compliance, it is most likely to encourage voluntary tax compliance.

Furthermore, on the perceived factors of tax compliance, perception of government spending; complexity of the tax system and tax rates influences compliance behavior of the taxpayers. In view of this, tax revenues should be efficiently utilized on visible infrastructural developmental projects by the government to influence people to willingly comply with the tax laws. Also, the tax system should be simplified to the understanding of all taxpayers and consideration given to the downward revision of the various tax rates charged on SMEs.

Also, tax agencies should help businesses to keep proper accounting records by organizing workshops and training for managers/owners of SMEs on maintaining proper records. Managers/Owners of SMEs should be encouraged to embrace the concept of self-assessment introduced by GRA

Regarding recommendations for SMEs, owners/managers are also encouraged to regularly attend workshops organized by the GRA in order to improve and enhance their knowledge on tax related issues.

Again, owners/managers of SMEs should keep proper accounting records by engaging the services of qualified accountants to avoid committing tax offences that could affect their businesses greatly. Finally, owners/managers of SMEs should declare all incomes from all sources and

file tax returns promptly and hence, pay tax liabilities on due dates to avoid sanctions and penalties.

Limitations

It is evidenced that this study had a couple of limitations. In the first place, the scope of questions asked regarding tax knowledge in the questionnaire were only limited to some sections of the Internal Revenue Service Act (2000). This study was unable to ascertain all levels of tax knowledge as contained in the act as it would have made the questionnaire lengthy and time consuming. In addition to the above, some other perceived factors of tax compliance such as cultural influence, political affiliation, and religiosity could be explored in future studies. These variables were not included because each required a series of questions to be able to measure and could have made the questionnaire lengthy and time consuming for respondents.

Furthermore, there were difficulties in the administration of the questionnaires and the unwillingness of the respondents to fill in the questionnaires because of the nature of information sought from the respondents. Information on tax issues are sensitive and respondents may not honestly respond. Finally, inadequate resources and time constraint affected the scope and the design of the questionnaires as well as printing, administering the questionnaires and the analysis of the data collected. However, despite all these limitations and weaknesses, the findings of this study could help developing countries in their tax administration systems in order to improve compliance and hence, increase the tax revenue for development.

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Suggestions for further research

It is suggested that further research be carried out to test the hypothesis about the individual awareness measure to aid in policy recommendations. This would add to the existing body of knowledge. Furthermore, other components of tax knowledge could be examined and regressed to examine the effect on tax compliance.

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UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

Questionnaire for managers / owners of small and medium enterprises operating in Tamale Metropolis

Dear Sir/Madam,

The questionnaire has been designed to be filed by owners or managers of Small and Medium Enterprises operating in Tamale Metropolis to enable the researcher collect information on "Examining tax compliance of Small and Medium Enterprises in Tamale". The information provided would be purely for academic purpose and will be treated with utmost confidentiality. In order to accomplish this study, you are kindly requested to complete this questionnaire. Your kind cooperation is highly appreciated.

SECTION A: RESPONDENT'S BACKGROUND

1. Gender;   Male ☐   Female ☐

2. Age;   18 - 27 ☐

         28 - 37 ☐

         38 - 47 ☐

         48 - 57 ☐

         58 and above ☐

3. Highest level of education;

   Primary ☐

   Secondary ☐

   Certificate/Diploma ☐

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Degree ☐

Masters ☐

PhD ☐

Others (Specify)…………………………………………………….

4. Category of respondent;   Owner of enterprise ☐   Manager ☐

5. Nature of business;   Small ☐   Medium ☐

6. Form of business;

Sole proprietorship ☐

Partnership ☐

Company ☐

7. What kind of business are you in?

Trade ☐   Service ☐ Manufacturing ☐ Other (Specify) ……….

8. For how long has this business been in existence?

1 – 5 years ☐

6 – 10 years ☐

11 – 15 years ☐

16 years and above ☐

9. Have you ever filed the business's tax return?   Yes ☐   No ☐

10. If yes, when was the last time you filed?   2015 ☐   2014 ☐

11. Who prepares the business's tax return?

Personally ☐

Accounting firm ☐

Others (Specify) ……………………………………………

SECTION B: TAX KNOWLEDGE

This section comprises part B1 to B4. Please read each statement carefully and answer (tick) according to your knowledge.

Part B1- (Taxpayer General Responsibilities and Rights) for each question in this part, please tick:

The following are my responsibilities and rights as taxpayers:

Statement	Response				
	Not do	Slightly do	Moderately do	Highly do	Extremely do
1. Commissioner's provisional assessment may be objected if feel dissatisfied within 9 months after the commencement of the basis period	1	2	3	4	5
2. To inform and declare actual profit/ income earned from all source of the GRA	1	2	3	4	5

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Part B2 – (Types of Income)

For each question in part B2 and B3, please tick

Employment Income

Statement	Response				
	Not Correct	**Slightly Correct**	**Moderately Correct**	**Highly Correct**	**Extremely Correct**
3. Bonus and over time is not added to a person's basic salary and taxed using graduated tax table	1	2	3	4	5
4. Accommodation provided by an employer to an employee must be excluded in taxable income	1	2	3	4	5

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Investment Income

Statement	Response				
	Not Correct	**Slightly Correct**	**Moderately Correct**	**Highly Correct**	**Extremely Correct**
5. Dividend received must be excluded in taxable income because it suffers withholding tax	1	2	3	4	5
6. interest received from a resident bank must be excluded in taxable income	1	2	3	4	5

Business Income

Statement	Response				
	Not Correct	**Slightly Correct**	**Moderately Correct**	**Highly Correct**	**Extremely Correct**
7. Depreciation is a non – deductible expenses	1	2	3	4	5
8.Capital expenditures are non-allowable	1	2	3	4	5

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Statement					
deductible expenses					
9. Capital allowance is not granted automatically to all businesses	1	2	3	4	5

Part B3 – (Tax Reliefs)

	Response				
Statement	**Not Correct**	**Slightly Correct**	**Moderately Correct**	**Highly Correct**	**Extremely Correct**
10. Partners and Sole traders are entitled to personal tax reliefs available	1	2	3	4	5
11. Agro – process companies are entitled to any additional incentives after three (3) years exemption	1	2	3	4	5

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Part B4 – (Awareness on Offences, Penalties and Fines)

From the following questions, please tick according to the scale

Statement	Response				
	Not Aware	**Slightly Aware**	**Moderately Aware**	**Highly Aware**	**Extremely Aware**
12. Failure to furnish a return attracts one penalty unit and half penalty unit on a company and self employed respectively	1	2	3	4	5
13. Failure to pay tax on due date not more than three (3) months attracts 10% of the tax debt plus the tax debt	1	2	3	4	5

SECTION C (TAX COMPLIANCE FACTORS)

Please state your opinion for each given statements using the following scales

I wish **to comply** with the tax laws for the following reasons:

Probability of Being Detected, Fines and Penalties

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
14. The probability of being detected by the tax authority for	1	2	3	4	5

declaring the exact profit/income for the year are low					
15.If tax authority detect any offence, the fines and penalties are low	1	2	3	4	5

Perception of Government Spending

Statement	Response				
	Not Agree	Slightly Agree	Moderately Agree	Highly Agree	Extremely Agree
16. There are number of government services, facilities and infrastructure for which I am very happy	1	2	3	4	5
17. The government spend reasonable amount on welfare	1	2	3	4	5

Perception of Equity and Fairness

Statement	Response				
	Not Agree	Slightly Agree	Moderately Agree	Highly Agree	Extremely Agree
18. The business pay about the same amount of tax as other businesses making the same income	1	2	3	4	5

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Profit Level

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
19. When the business makes higher profit	1	2	3	4	5

I wish **not to comply** with tax laws for the following reasons

Peer Influence

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
20. Other business do not comply and they have never been penalized	1	2	3	4	5

Complexity of Tax System

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
21. The tax return is too complex and difficult to complete	1	2	3	4	5
22. The tax laws and regulations are too cumbersome to understand	1	2	3	4	5

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Tax Rates

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
23. If different rates are applied to other business or individuals	1	2	3	4	5
24. If the corporate or income tax rates remain very high	1	2	3	4	5

Profit Level

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
25. When the business profit continuous to decline	1	2	3	4	5

Ethics and Attitudes

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
26. I would not feel guilty if I excluded some of the business' income when completing the tax return	1	2	3	4	5

SECTION D (TAX COMPLIANCE)

Please indicate your level of agreement for each given statements using the following scales 1 to 5 with 1 indicating the lowest level and 5 being the highest level of agreement.

When the appropriate tax education is provided by GRA, I would

1. Report accurately on all income earned and related expenses incurred

   1   2   3   4   5

2. Timely submit tax returns

   1   2   3   4   5

3. Pay my tax liability on time

   1   2   3   4   5

SECTION E (MEASURES TAX AUTHORITIES HAVE ADOPTED TO IMPROVE TAX COMPLIANCE)

Please state your opinion for each given statements using the following scales.

Self-Assessment of Businesses

Statement	Response				
	Not Agree	Slightly Agree	Moderately Agree	Highly Agree	Extremely Agree
27. The introduction of self assessment system among businesses has increased your tax compliance level	1	2	3	4	5
28. Self assessment of businesses is better than assessment by the Commissioner	1	2	3	4	5

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Tax Education and Training

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
29. Education and training of businesses on the tax system has improved compliance level	1	2	3	4	5

Simplification of Tax System

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
30. The tax return is easy and simple to complete	1	2	3	4	5
31. Cost of compliance is very low	1	2	3	4	5

Enforcement of Tax Laws

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
32. Offenders of the tax laws are severely punished	1	2	3	4	5
33. The tax authority has limited capability to investigate all tax fraud issues	1	2	3	4	5

Guidance and Examination

Statement	Response				
	Not Agree	**Slightly Agree**	**Moderately Agree**	**Highly Agree**	**Extremely Agree**
34. The tax authority examines business tax records regularly	1	2	3	4	5
35. The tax authority has been guiding you on how to keep proper books and file tax return	1	2	3	4	5

UNIVERSITY OF CAPE COAST

CAPE COAST, GHANA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

11th December, 2014

Dear Sir/Madam,

LETTER OF INTRODUCTION

The bearer of this letter, Mr. Abukari Wahabu is a Master of Commerce (Accounting) student at the Department of Accounting and Finance, School of Business, University of Cape Coast. As part of the postgraduate programme, he is conducting a research on the topic: "**Examining Tax Compliance of Small and Medium Enterprises in the Tamale Metropolis**"

Kindly offer him the needed assistance he may require.

Counting on your co-operation.

Thank you.

Yours faithfully,

Signed by

Siaw Frimpong (PhD)

HEAD

KREJCIE AND MORGAN (1970) - TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size, and "S" is sample size.