UNIVERSITY OF CAPE COAST

VALUE ADDED TAX FLAT RATE SCHEME FOR RETAILERS IN THE CAPE COAST METROPOLIS

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BY

FREDERICK KOFI INKOOM

THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING OF THE SCHOOL OF BUSINESS, COLLEGE OF HUMANITIES AND LEGAL STUDIES, UNIVERSITY OF CAPE COAST, IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF COMMERCE DECREE IN ACCOUNTING

JULY 2016

DECLARATION

Candidate's Declaration

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

Candidate's Name: Frederick Kofi Inkoom

Signature: ………………………………………… Date: ………………………

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.

Principal Supervisor's Name; Dr. Camara K. Obeng

Signature: …………………………………… Date: …………………………

Co-supervisor's Name: Dr. John Gartchie Gatsi

Signature: …………………………………… Date: …………………………

ABSTRACT

The purpose of the study was to examine the VAT flat rate scheme for retail businesses in Cape Coast Metropolis. Specifically, the study focused on the VAT flat rate scheme on sales of retail products. Again, the study dealt with the level of VAT flat rate compliance by the retailers. The study further identified the major challenges faced by both the retailers and the service in the implementation and the administration of the scheme in the Cape Coast Metropolis.

The descriptive survey design was used. The stratified random sampling procedure was used to select 125 respondents made up of 120 retail business operators and 5 VAT officials in the study area. Information was obtained from primary source using questionnaires and interview guide. The analyses of collected data were presented using cross tabulation, frequency and percentage distributions.

The findings from the study show that most retailers prepare VAT account only when demanded because they sometimes regard the VAT collected as part of their sales revenue; hence they feel that what they pay to the Domestic Tax Revenue Division of Ghana Revenue Authority is regarded as tax slapped on them. Also, retailers' compliance level to the VAT Act (Act, 870) was found to be below expectation. It has boosted their sales. However, VFRS has increased the work load and labour cost of their business leading to reduction in profit. Based on the key findings and conclusions of this study, it is recommended to the management of the VAT section of Ghana Revenue Agencies to ensure that VAT Flat Rate Scheme is redesigned to operate like the standard VAT rate where input tax is reclaimable.

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DEDICATION

To my wife, Florence and my children; Adjoa, Kobina, Joojoe and Papa.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER ONE

INTRODUCTION

Background to the study

Generally, a country cannot experience any meaningful economic growth "without positive stimulus from intelligent governments". However, the development agenda and programmes of a country can only be brought to reality through the availability of funds. A reliable source of government revenue is taxes. Webley, Adams and Elffers (2002) aver that one of the most important policies for emerging nations was for them to increasingly mobilise their own internal resources to provide economic growth. Webley et al. further posited that the most important instrument by which resources are marshalled is through the implementation of an effective tax policy. Taxation is one of the important elements in managing national income, especially in developed countries (Moore & Schneider, 2004; Lymer & Oats, 2009). Taxation has played an important role in civilised societies since their birth thousands of years ago.

In most African countries, there is a necessity for raising a larger volume of funds to meet development and administration expenses of the government. The important role taxes play in economic development of a nation cannot, therefore, be over-emphasised. Taxes are major fiscal policy instruments and important government policy tools that have an important role in increasing the rate of capital formation and thereby a high rate of economic growth can be achieved (Agyei, 2002).

A tax is a compulsory levy imposed by the law-making body of a country or by a decree that is enforceable by law (Musgrave, 2004). The idea of taxation developed closely with the idea of orderly society and the institution of a government with authority (Moore & Schneider, 2004). In ancient times the mere power of the sovereign was the foundation of its entitlement to commit acts of aggression against its subjects, including its claim against their resources (Moore, 2008). Moore refers to clay tablet found in Iraq which dates more than 3500 years ago with the inscription "You can have a lord, you can have a King but the man to fear is the tax collector".

Apparently, the first known system of taxation can be found in ancient Egypt around 3000BCE – 2800BCE where Pharaoh conducted a biennial tour of the kingdom; collecting contributions from the people. The contribution (tax) was at some point calculated by measuring the rise and fall of Nile River (Moore & Schneider, 2004).

The first extensive direct taxes were imposed on Roman citizens based on heads (*capita*) and land (*iuga*), to provide funding for the increasing expenditure needs of the empire. After the decline and fall of the Western Roman Empire - *Circa 476 CE*, the capitation and property taxes, being symbols of oppression, became unenforceable and disappeared completely (Verburg as cited in Silvani & Baer, 2005).

According to Seligman (as cited in Shoup, 2007), with the subsequent rise of various empires and kingships, for example the empire of Charlemagne in Europe and the Saxon Kings in England, contributions to the sovereign were initially voluntary. It was unacceptable for a sovereign to impose taxation on its subjects, unless in times of war, or in exchange for a specific benefit. Indirect collection of revenue through excise taxation on, for example, salt, beer, soap, candles, leather and meat became the principal way of filling the ruler's coffers (Musgrave, 2004).

These voluntary contributions were based on the principles of social contract, the so-called "Contractual taxation". However, the difficulty with contractual taxation is that it requires a consensual undertaking by the citizen, and could therefore not serve as a foundation for inter alia the redistribution of resources (Moore, 2008).

During the middle ages, the idea developed that taxation is actually an inherent and indispensable power of the government to coerce its subjects to surrender their property without their consent, a process of "forced exchange" or "Coercive taxation" (Musgrave, 2004). Adriani and Van Hoorn (as cited in Moore & Schneider, 2004) aver that this ideology was re-enforced with the development of nation-states and increased need for public revenue. This theory implies that an express provision conferring on a government a power to tax is not essential. The fiscal legislation need furthermore not conform to the 'canons of taxation' as propounded by Adams Smith in the Wealth of Nations namely; equity, neutrality, certainty and administrative efficiency (Moore, 2008).

However, a government does not have unlimited powers as far as taxation is concerned in view of the modern idea that a government should be accountable to its citizens, requiring fiscal legislation to comply with the relevant country's constitutional restrictions (Farrell et al., 2000). The concept of accountability is a significant in the realm of taxation, if one considers that taxation, as a means of oppression, has played an important role in numerous revolts, revolutions and wars.

Ghana has a relatively long history of taxation. The first customs law was passed under colonial rule in 1855 and later replaced in 1876 by a customs law based on the U.K. Customs Consolidated Act, 1876. The Department of Customs in the Gold Coast dates back to 1839 when a Principal Collector of Customs was posted to the former British Colony. By 1850, the collection of customs duty was firm on the ground with an annual collection of 884 pounds, 11 shillings and 11.5 pence. On 19th April, 1852, the governor of the Gold Coast convened a general meeting of chiefs to form the first Legislative Assembly in the Gold Coast (Adom, 2000). The assembly passed the Poll Tax law which imposed a tax of one shilling payable by every man, woman and child resident under British Protection. Thereafter, there were series of tax reforms aimed at widening the tax base and by 1966 the customs ordinance of 1855 had been replaced by the Customs and Excise Tariff Act of 1966 (Act 318) for the administration of indirect taxes.

As part of the measures aimed at expanding the tax base, the Governor of the Gold Coast tried to introduce the payment of Income Tax in September 1931. This was fiercely resisted because the chiefs and opinion leaders were not consulted. Besides, in their opinion the Income and Poll Tax were duplications (Adom, 2000). The colonial government instead introduced export tax on cocoa to raise funds to finance its operations. However, demand for cocoa and chocolate declined as a result of the Second World War in 1939. Government revenue from cocoa therefore declined drastically, hence the reintroduction of Income Tax in 1943 (Acquaye, 2001).

Therefore, in August 1943, the commissioner of Income Tax for West Africa who was stationed in Nigeria introduced the Income Tax Bill in the Gold Coast Legislative Council which was passed into law, Income Tax Ordinance No.27, 1943. The Income Tax Ordinance was modelled to a large extent, on general principles of taxation then in force in the United Kingdom colonies. Assessments were successfully raised on companies, the self-employed and high ranking civil servants in April 1944 (Adom, 2000).

The main policy framework underlying the system of taxation was the "source jurisdiction" principle. Tax was generally imposed on income having its source in Ghana. All taxpayers also paid their taxes on preceding year basis. The source jurisdiction regime sought to protect the overseas income of expatriate employees of the Colonial Government (Adom, 2000). The 1943 Ordinance provided a multitude of generous personal reliefs aimed at bringing equity into the tax system. As a result of the generous personal allowances, there was a considerable abuse of the relief system.

In 1961, Ghana faced some economic difficulties as a result of fall in the prices of Ghana's exports. A study of the tax system revealed that personal reliefs were too high and therefore recommended a reduction in the reliefs. As a result, the Income Tax Ordinance (No. 27) of 1943 was therefore amended slightly in 1958 to bring into the tax net those taxpayers who should have paid but for the numerous reliefs available and its consequent abuse.

The amendment proposed a minimum tax of six pounds on any individual earning a total income of 600 pounds per annum or more irrespective of the personal reliefs he may be eligible. Another significant landmark in tax administration in Ghana occurred in 1961, when the government invited Professor Nicholas Kaldor, an economist from Cambridge University to study the tax system and to make recommendation for its improvement. Professor Kaldor advised government to abolish all personal reliefs and substitute it with a basic tax-free income. Following the Kaldor report, government enacted the Income Tax Amendment (2) Act of 1961, Act 68 introducing the Pay As You Earn (PAYE) system for all employees. It also abolished business loss deductions (Kaldor, 2002). As part of Kaldor's recommendation, Capital Gains Tax was also introduced in 1965 by Act 289, but replaced in 1967 by NLCD 197. Other taxes introduced were estate duty, property tax, entertainment duty and foreign travel tax.

In the context of generating high revenue for economic growth, Ghana undertook a major reconstruction of its tax system in early 1980s. The introduction of Value Added Tax (VAT) was parts of the overall tax reform package (Allingham & Sandmo, 2002).

According to Agyei (2002), VAT was initially designed for businesses with annual turnover of more than GH¢10,000. This condition excluded many retailers from charging VAT on their goods because they could not attain the annual revenue threshold. Hence, retailers lost all the advantages that VAT operators gained. A new form of VAT known as VAT Flat Rate Scheme (VFRS) with the rate of 3% was introduced for retailers.

The VAT Flat Rate Scheme is a VAT collection or accounting mechanism that applies a marginal tax rate of 3% representing the net VAT payable, on value of taxable goods supplied. It is an alternative to the invoice credit method (i.e. standard VAT system of $17^1/_2$%). It is not a separate tax or additional impost but only an amendment of the VAT Act in 2007 (Act 734) with the main aim of simplifying the VAT accounting system for retailers (Agyeman, 2011; Arthur, 2013). This study provides the assessment of VAT flat rate scheme for retailers in Ghana with special reference to retail businesses in Cape Coast Metropolis as a case study.

Statement of the problem

Many countries in the world including Ghana reform their tax systems with the main aim of raising revenue. This is because taxes contribute a significant amount to public revenues. The introduction of Value Added Tax (VAT) in 1998 governed by (ACT 546) was parts of the overall tax reforms package in Ghana (Agyeman, 2011). VAT is essentially a tax on consumption expenditure. A pure consumption tax has important economic advantage because it encourages saving and investment. Only money that I spend is taxed; earnings that I save and invest are not taxed until I come to spend them (and any returns earned in the meantime) later (Mirrlees et al, 2011).

VAT which is a multi-stage tax was introduced through tax reforms to replace the sales tax (single-stage tax) because of the problems associated with the sales tax in 1998 in Ghana (Agyeman, 2011)

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

The exclusion of retailers from charging and collecting VAT led to agitations from Ghana Union of Traders Association (GUTA) for its members to be included in the charging and collection of VAT (Agyeman 2011). GUTA is the umbrella body for retailers in Ghana. The agitations of GUTA stem from the fact that the Procurement Act of Ghana, (ACT 663) mandated all governmental agencies, departments and institutions to transact businesses with only VAT registered traders. The procurement Act therefore placed all the retailers at a disadvantage position in the competitive market because they lost all their customers from government establishments (Agyeman, 2011).

The agitations from members of GUTA led to the amendment of VAT Act in 2007 (Act 734) to give birth to the VAT Flat Rate Scheme (VFRS) for retailers. The VFRS is an alternative form of VAT designed for retailers with annual turnover of less than GH¢10,000. The VFRS is a collection or accounting mechanism that applies a marginal tax rate of 3% representing the net tax payable, on the value of taxable supplies (Act 734).

Retailers were happy for the introduction of VFRS. However, five years within its implementation, they (retailers) began complaining bitterly about the scheme they fought and contributed to its establishment (Agbadi, 2013).

Based on the retailers' complains, the researcher decided to examine the VAT Flat Rate Scheme for retail businesses in the Cape Coast Metropolis and in Ghana at large. This would help to uncover the reasons behind the retailers' complains for necessary action to be taken to address the situation.

Research objectives

The general objective of the study was to examine the VAT flat rate scheme for retail businesses in Cape Coast Metropolis. However, the specific objectives of the study are to:

1. Examine the VAT flat rate scheme on sale of retail products in the Cape Coast Metropolis.
2. Ascertain the VAT compliance level of retailers in the Cape Coast Metropolis.
3. Identify the major challenges faced by the retailers in the implementation of VAT flat rate scheme in the Cape Coast Metropolis.
4. Identify the problems faced by DTRD of GRA in administering the VFRS designed for retailers.

Research questions

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

1. Is the VAT flat rate scheme boosting the sale of your retail products in the Cape Coast Metropolis?
2. Do you comply with the demands of the VFRS as specified in the VAT Act?
3. What major challenges do you face in implementing the VAT flat rate scheme as a retailer?

4. What problems do you face in administering the VFRS for retailers as a VAT official?

Significance of the study

The study was to explore the VAT flat rate scheme for retail businesses in Ghana. Another objective of this research was to find out the problems of effective administration and implementation of VAT in Ghana. So the research work is significant in the sense that its thorough study would:

1. Draw the attention of government to problems related to VAT administration in Ghana thereby making policies to address them.
2. Keep retailers informed about the current issues related to the administration and implementation of VAT in Ghana thereby encouraging compliance.
3. Help other researchers who are interested in doing research on topics related to Value Added Tax in Ghana.

Delimitation of the study

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

Organisation of the study

The write-up is divided into five chapters. Chapter One comprises background to the study, statement of the problem, objectives of the study, research questions, significance of the study and delimitation of the study. The Chapter Two, which is the literature review comprised a brief history of tax and tax administration in Ghana; the Value Added Tax, income tax, the three percent Vat Flat Rate Scheme and discussion on distinguishing characteristics of the retail business in Ghana, The chapter also covered the empirical review of the study.

Chapter Three is the methodology of the study. It consists of the description of the study area, research design, population, sample and sampling procedure, instruments, data collection procedure and data analysis. Chapter Four is about the results and discussion of data. It comprises an analysis and discussion of the general characteristics of the respondents and that of the objectives of the study. Chapter Five comprised the summary, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter is devoted to a review of the literature that relate to the research. The chapter focuses on concept of taxation, tax and tax administration reforms in Ghana, focusing on VAT and VAT flat rate scheme for retail businesses. Also reviewed are empirical studies that are of relevance to the current study. Focus was also made on retail businesses in Ghana and Accounting for Value Added Tax.

The Concept of Taxation

Taxation is the process by which the sovereign, through its law-making body, raises revenues used to defray expenses of government. It is the collection of the share of individual and organisational income by a government under the authority of the law (Mundan 2010).

Taxation is defined as "the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities" Ali-Nakyea, (2008). No specific reward is gained by the tax payer. The money collected is used by the state for the production of certain goods and services, provision of infrastructure and maintenance of law and order.

Agyeman (2005) also defines taxation as "the demand by the central 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". Other importance of taxation are to reduce inequalities arising from the distribution of wealth, to restrain certain types of consumption, example, alcoholic beverages and cigarettes, to protect home industries and to control certain aspects of the country's economy e.g. balance of payment, investment and productivity.

Taxation is the inherent power of the state, acting through the legislature to impose and collect revenue to support the government and its recognised objects. Simply stated, taxation is the power of the state to collect revenue for public purpose. The power of taxation is based upon the theory that no government can exist or stand without taxation, thus taxation is an utmost necessity. However, the power to tax has constitutional and inherent limitations. Example, taxes may be levied only for public purpose and on the taxable persons and properties within a defined jurisdiction only (Mundan, 2012).

Aside from purely financing government operational expenditures, taxation is also utilized as a tool to carry out the national objectives of social and economic development. Among non-revenue objectives of taxation are:

1. to strengthen anaemic enterprises by granting them tax exemptions or other conditions or incentives for growth;
2. to protect local industries against foreign competition by increasing local import taxes;
3. as a bargaining tool in trade negotiations with other countries;
4. to counter the effects of inflation or depression;
5. to reduce inequality in the distribution of wealth;
6. to implement police power and promote general welfare.

Canons of Taxation

Adam Smith, a British Economist, outlined four canons of taxation in his book "The Wealth of Nations" (1776). He said, "The evident justice and utility of these maxims have recommended them more or less to the attention of all nations". The principles outlined below are very significant in modern Economics.

Equity: The subject of every state is to contribute towards the support of the government in equal proportions to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. Horizontal equity: all purchasers of the same equity pay the same tax. Thus persons with the same income level pay the same amount of tax. Vertical equity: unequally situated taxpayers being taxed on their ability to pay as per progressive taxation philosophies. Those who earn higher pay more than others who earn lesser than them.

Certainty: The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.

Convenience: Every tax ought to be levied at the time or in a manner in which it is most likely to be convenient for the contributor.

Economy: Every tax ought to be contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. Compliance and administration of tax should be minimal in terms of costs.

Definition and classification of tax

A tax is a compulsory contribution to state revenue, levied by government on workers' income and business profits, or added to the cost of some goods, services, and transactions (Mundan, 2012). Tax is a fee charged/levied by a government on a product, income, or activity. If tax is levied directly on personal or company income, then it is a direct tax. If tax is levied on the price of goods and services, then it is called an indirect tax (Musgrave 2005).

Mundan, (2012), classified taxes into two groups according to their burden as; direct and indirect taxes.

Direct tax- the tax is imposed on the person who also bears the burden thereof. Examples are income tax, estate tax, company tax etc.

Indirect tax – imposed on the taxpayer who shifts the burden of the tax to another. Examples are; custom duties, VAT, excise duty, etc.

Essential characteristics of tax

The following are the essential characteristics of tax according to Mundan, 2012.

1. it is an enforceable contribution;
2. it is generally payable in money;
3. it is proportion in character, usually based on the ability to pay;
4. it is levied on persons and property within the jurisdiction of the state;
5. it is levied pursuant to legislative authority, the power to tax can only be exercised by the law making body or parliament;
6. it is levied for public purpose;

7. it is commonly required to be paid at a regular interval.

Tax reforms in Ghana

Taxation has gone through a number of reforms in all economies in which it is applied and Ghana is no exception to this phenomenon. Caminada (2001) stated, "In the Netherlands for instance, personal income taxes have been subjected to considerable reform efforts lately; a major revision took place in 1990 and another reform came into effect on 1 January 2001. In both cases the tax reforms are characterized by base broadening, reduction of tax rates and flattening of the rate structure".

Tax reforms in developing countries involve broad issues of economic policy as well as specific problems of tax structure design and administration. Among the more specific tax issues, attention needs to be given to the composition of the tax structure as well as to the design of its major components (Musgrave, 2005). Broadening the bases may raise the threshold of taxation and have fewer and lower tax rates. Some countries have attempted to protect the poor by exempting or zero rating foods under a value added tax (VAT) and by raising the threshold of taxes on personal income, urban property and agricultural land (Musgrave, 2005).

Tax administration in developing countries has, however, not been effective due to some challenges it poses. According to Tanzi and Zee (2010), the establishment of effective and efficient tax systems in developing countries faces some formidable challenges. These challenges include the structure of the economy, limited capacity of the tax administration, the paucity or the poor quality of basic data and the political set up.

Tax reform process since the inception of the Economic Recovery Programme (ERP) in Ghana in 1983 can broadly be divided into three overlapping stages, namely:

(i) a restoration of the tax base, which involved exchange rate liberalisation and de-control of prices;

(ii) strengthening production incentives for domestic and foreign investors, and

(iii) enhancing efficiency in tax administration and equity, which involved building capacity and morale within the revenue collection agencies so as to facilitate and monitor taxpayer compliance and prevent non- compliance (Kusi, 1998).

In 1986, a new minerals law, Minerals Commission Law, 1986, was introduced. The minerals law modified eight existing laws, and sought to clarify mining rights as well as provide new incentives for investors. The incentives extend to corporate tax allowances, capital allowances under which it is possible for companies to write-off between 40 percent and 100 percent of capital investment against taxes. Companies are also permitted to use offshore bank accounts to service foreign loans, dividend payments and expatriate staff remuneration (Job, Stout & Smith, 2007).

Other direct tax reforms continued in Ghana. In 1987, the corporate tax rate on manufacturing concerns was reduced from 55 per cent to 45 per cent. Also, all excise duties on products other than petroleum, beverages and tobacco were abolished with the revenue loss being compensated with an increase in the general sales tax rate from 10 per cent to 20 per cent and subsequently to 25 per cent. It was believed in 1998 that an across-the-board increase in import duties would be undesirable; hence the special tax levied on locally produced textiles, tobacco, alcoholic beverages and others (Joshi, 2002) was also applied to similar imported items. According to Joshi (2002), the general sales tax was reduced to 22.5 percent in 1989.

Another major shift in the Ghanaian tax system that was intended to improve tax efficiency was the introduction of the value-added tax (VAT). Ghana, first introduced VAT in 1995 by the Value Added Act, 1994 (Act 486) as part of Tax Reform Programme which began in 1993. The contract for the design and implementation of VAT was signed in 1993. In December 1994, the VAT bill similar to the Canadian system was passed into law to become effective March 1995, when it became operational at a flat rate of 17.5 percent compared with the earlier sales tax rate of 15 percent (Terkper, 1999).

It was however, repealed by government on 14th June, 1995 in response to a general public outcry, including demonstrations, against a study increase in the prices of goods which was blamed mainly on the introduction of VAT. VAT was reintroduced in 1998 backed by the Value Added Act 1998 (Act 546) and Value Added Tax Regulations, 1998 (L.I 1646). In 1999, the VAT offices in all the regional capitals were re-opened. In addition to the re-introduction of VAT, renovation and rehabilitation work on residential houses for the staff of CEPS and the computerisation of the Long Room at CEPS (Tema) were completed.

VAT is a tax applied on the value added to goods and services at each stage in the production and distribution chain. It forms part of the final price the consumer pays for goods or services (Bird & Gendron, 2007). In some countries it is called 'Goods and Services Tax. VAT is a general consumption tax which came to replace the sales and services taxes in Ghana on 30th December, 1998. VAT is not an additional tax, but has replaced sales and services tax. VAT is a broad based tax as it covers the value added to each commodity by a firm during all stages of production and distribution.

The initial rate of VAT when it was reintroduced in 1998 was 12½% (2½% meant for GETFund) but it was increased to 15% due to the introduction of National Health Insurance Levy (NHIL) in 2003 (Act 650). The VAT Act was amended in 2007 (Act 734) to give birth to VAT Flat Rate Scheme (VFRS) of 3% to facilitate VAT collection in the informal retail distribution trade sector (Ghana, Republic of, 2009).

The Government of Ghana in its 2008 Budget Statements introduced a new tax on Communication Service usage by consumers. Communication Service users beginning June 2008 are liable to a six percent communication service tax on the charges made by the service providers for the use of the communication service. The communication services providers in Ghana are required by the Communication Service Tax Act, 2008 (Act 754) to collect the tax and account to the VAT Service of Ghana on monthly basis. The due date for filing this monthly return is the last working day of the month immediately after the month to which the tax return and payment relates (Ghana, Republic of, 2008).

The Communication Service Tax (CST) was initially designed for communication service providers like mobile communication networks such as MTN, Vodafone Ghana Ltd, Tigo and the like, but in the Ghana's 2011 budget, the Minister for Finance and Economic Planning amended CST Act 2008 (Act754). The Communication Service Tax (CST) was extended to all companies and persons across the communication industry and now includes the following: Public Corporate Data Operators, Providers of Radio (FM) broadcasting services and Providers of Free-to-air television services (Ghana, Republic of, 2009).

The VAT Act of 1998 (Act 546) was also repealed in 2013 to give birth to VAT Act, 2013 (Act 870). The change brought about the inclusion of financial services into the tax net of VAT (Ghana, Republic, 2013). In 2015, a New Income Tax Act, 2015 (Act 896) was introduced to replace the old Income Tax Act. The Act incorporated all Acts on Incomes into one.

Tax administration reforms in Ghana

Ghana is widely acknowledged for the successful implementation of its far-reaching Structural Adjustment Program (SAP) since 1983. The rapid increase in tax revenue recorded in recent years is often cited among the achievements of the Economic Recovery Program (ERP). The three factors primarily cited for the increases in revenue are: the expansion in the bases of taxation as a result of liberalising the economy; the changes made to the structure of taxation; and the extensive reorganisation of the institutions that administer taxes in the country (NDPC, 2003).

The thrust of the administrative reforms in Ghana centred on removing the revenue institutions from the civil service and granting them operational autonomy, with a view to improving efficiency through enhanced work and employment conditions. Between 1985 and 1991, the National Revenue Secretariat (NRS) had complete responsibility for supervising the activities of the revenue institutions and recommending revenue policy directly to the government. This role was performed with virtual autonomy from the Ministry of Finance. This change occurred simultaneously with making the operations of Internal Revenue Service (IRS) and Customs Excise Preventive Service (CEPS) independent of the civil service structure. They were placed directly under the supervision of the NRS. In 1991, the NRS was relocated under the Ministry of Finance and Economic Planning (MFEP).

The two main revenue institutions before 1995 were the CEPS and the IRS. A third service known as the VAT service was established in 1995 to consolidate domestic tax administration in the country. Until 1986, both the CEPS and the IRS formed part of the civil service. In 1985, two laws, the Customs, Excise and Preventive Law (PNDC Law 144) and the Internal Revenue Service Law (PNDC Law 143), were enacted to grant full operational and partial financial autonomy to these institutions. Each of the three revenue services had a commissioner as its head (Ghana, Republic of, 2008).

It takes less time on average when VAT is administered by the same tax authority as corporate income taxes (a similar lesson on the benefits of different taxes being administered by the same authority is drawn by a recent World Bank study on costs and benefits of integrating tax administration (World Bank 2010));

In 2009, the government of Ghana integrated all Revenue Collection Agencies (RCA) into one agency called the Ghana Revenue Authority (GRA). The Ghana Revenue Authority was a merger of the Internal Revenue Service (IRS), Customs, Excise and Preventive Service (CEPS, Value Added Tax Service (VATS), and the Revenue Agencies Governing Board (RAGB) Secretariat (Ghana, Republic, 2010).

The Ghana Revenue Authority is headed by the Commissioner-General. The Commissioner General is assisted by three Deputy Commissioners who are heading the three divisions of Ghana Revenue Authority. The three divisions are: the Domestic Tax Revenue Division (DTRD), the Customs Division (CD) and the Support Service Division (SSD).

The Domestic Tax Revenue Division of GRA is charged with domestic taxation. This division incorporated VAT Service and Internal Revenues Service under one umbrella. The division is responsible for the collection of Income Tax, Value Added Tax, Domestic Excise Duty, Stamp Duty, Royalties, National Health Insurance Levy, Ghana Education Trust Fund Levy and Communication Service Tax (Ghana, Republic, 2010).

The Customs Division of GRA also incorporated the Customs, Excise and Preventive Service into one. The Customs Division if responsible for the collection of Import Duty, Import VAT, Export Duty, Petroleum Tax, Import Excise and other taxes. The Customs Division also ensure the protection of revenue by preventing smuggling. This is done by physically patrolling the borders and other strategic points, examination of goods and search of premises, as well as documents relating to the goods (Ghana, Republic 2010).

The Support Service Division is responsible for Finance, Transport, Research Planning & Monitoring, Information Technology, Human Resources and Administration. The Division if Headed by Deputy Commissioner-General (Ghana, Republic, 2010).

The Concept of VAT

VAT which is an acronym for Value Added Tax is a tax that is levied on the value added along different stages of production and distribution of goods or services. In this sense, it is equivalent to a retail sales tax which would be collected only at the retailing stage. This means VAT is charged when taxable person sells to another taxable person or to a final consumer (Shome, 2006).

The term "Value Added" according to the VAT Act, 1998 (Act 546) which was repealed and replaced with VAT Act, 2013 (Act 870) of Ghana refers to increase in value of goods and services at each stage of production or transfer of goods and services. Thus, Value Added Tax is basically a tax levied on the value added by an organization at each stage of production of goods or rendering of services. VAT is a tax on the final consumer on consumption expenditure. It is ultimately borne by the consumer although it is collected at every stage of production or distribution. A tax credit is granted at every stage for tax paid (input VAT) in the chain of transfer or sale of goods and services till it reaches the final consumer.

According the VAT Act 2013 (Act 870), an input tax is deductible. The system of deduction of input VAT ensures that at each stage of production and distribution, VAT is levied only on the 'value added' to the product. The 'value added' means the difference between the cost of inputs into the product and the price at which it is sold to the consumer. As VAT is collected fractionally on the 'value added' to the product at each stage of production and distribution, the VAT revenue is not affected by the length of production and distribution chain.

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

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

VAT is a consumption tax applied on the value added resulting from the own-activity of the business enterprise. It is imposed on the expenditure incurred in buying goods and services. Value added is the difference between the value of sales and the value of purchased inputs used in producing the commodity sold. Though by its definition, it is a consumption tax borne by the consumer, it is practically impossible to collect the tax from each individual consumer. Thus, the trader, manufacturer or importer, is often registered as an agent for collecting the tax on behalf of the VAT Service (Ali-Nakyea, 2008).

Maurice Lauré, Joint Director of the French Tax Authority and Director General of Imports was the first to introduce VAT on April 10, 1954, though German industrialist Dr. Wilhelm Von Siemens proposed the concept in 1918 (Minh Le, 2003). The invoice-credit form of the VAT is the universal basis of all national level VAT accounting with the exception of Japan. Under this method, registered businesses offset the VAT they have been charged on their purchases (input VAT) against the liability (output VAT) on their sales, remitting only the net amount due. The result, if this chain of output tax and input credit remains unbroken, is that no net revenue is collected from the taxation of intermediate goods sales (business-to-business sales), so that the ultimate base of the tax is final consumption. The universal practice is to zero-rate exports and fully subject all imports to the VAT. This is as a way of ensuring that the VAT applies only to domestic consumption, consistent with the destination principle and contrasted with the origin principle of taxation i.e. taxation by place of production. (Crawford et al, 2010).

Denmark, though not a member of the European Economic Community (EEC), was the first European Country to extend the VAT to the retail sector followed by France and Germany. Several developing countries have also given increased attention to VAT as a means of rationalizing the system of taxation. Among them are: Nigeria, Senegal, Cote D'Ivoire, Morocco and Tunisia. Almost unknown in 1960,VAT is now found in over 130 countries around the world, generates about 20% of the world's tax revenue and has been the center piece of tax reform in most developing countries because it is intended to impose a neutral effect on businesses' (Quarshie, 2009).

The value added tax (VAT) in Ghana

Another major shift in the Ghanaian tax system that was intended to improve tax efficiency was the introduction of the Value-Added Tax (VAT). VAT was first introduced in France in the year 1954 and its scope was expanded to include services in 1978, agriculture in 1983, resulting in VAT becoming one of the most important fiscal innovations of the last century. It is presently adopted by over 130 countries all over the world (Bhattarai & Koirala, 2007).

Ghana, first introduced VAT in 1995 by the Value Added Act, 1994 (Act 486) as part of Tax Reform Programme which began in 1993. The contract for the design and implementation of VAT was signed in 1993. In December 1994, the VAT bill similar to the Canadian system was passed into law to become effective March 1995, when it became operational at a flat rate of 17.5 percent compared with the earlier sales tax rate of 15 percent (Terkper, 1999).

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

Adom (2000) opined that VAT failed at the early stage of its implementation because of the following reasons:

1. Conflict between the newly established VAT service and CEPS was acute and eventually led to significant delays in the appointment of senior staff to VAT Service and transfer of staff from CEPS to the VAT Service.
2. The initial VAT rate of 17½% was considered too harsh. For instance, the VAT was among others, to replace the sales tax, which was at 15% and covered fewer transactions.
3. Wrong timing, VAT was introduced at a time when economic situation in was not favourable.
4. The boycott of debate on the issue at parliament by the minority members of parliament.
5. Public education on the new tax system was not sufficient.
6. Personnel of the VAT Service were not sufficiently trained to handle all aspects of the new tax system efficiently.
7. Annual turnover of GH¢ 2,500 being the threshold was too low and therefore persons who were not capable of administering the VAT became taxable persons.
8. Traders and service providers who where to serve as agents of the service were not properly educated on how to incorporate the new tax into their operations.
9. The introduction of the VAT was perceived to have worsened the already high inflation that existed by then as prices of goods and services shot up and there were agitations from the general public.

In response to a general public outcry, including demonstrations, against a study increase in the prices of goods which were blamed mainly on the introduction of VAT. VAT was successfully reintroduced in 1998 backed by the Value Added Act 1998 (Act 546) and Value Added Tax Regulations, 1998 (L.I 1646). The reintroduction of the Value Added Tax System was done at a rate of 10% but GETFund of 2½% was later added to make it 12½%. VAT offices in all the regional capitals were re-opened (Ghana, Republic, 2009).

With the benefits of the hindsight, Chapman, (2001) outlined the following as some of the key factors that contributed to the success of the reintroduction of VAT in 1998;

1. Strong, clear political commitment from both government and the opposition members of parliament.
2. Good preparation for the tax administration (selecting experience tax administrators, and allowing sufficient time to prepare for VAT registration and collection)
3. Reasonable low introductory rate, high registration threshold, and good timing for introduction.
4. Well-designed public education campaign.

The introduction of National Health Insurance Levy (NHIL) in 2003 (ACT 650) also brought a levy of $2^{1}/_{2}$% to be paid in addition to the $12^{1}/_{2}$% VAT. In 2013, the existing VAT Act (Act 546) was repealed and a new VAT Act 2013 (Act, 870) was introduced. VAT rate was also increase to 15% in addition to NHIL of $2^{1}/_{2}$%. Registered traders were made to charge

VAT/NHIL at a rate of $17^1/_2$% and the threshold was also increased to an annual turnover of one hundred and twenty thousand Ghana cedis (GHS120,000) or more (Ghana, Republic, 2014).

The VAT Flat Rate Scheme in Ghana

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

In 2005, the Ghana Union of Traders Association (GUTA), one of the leading trade associations in the country, in a ten point resolution to the VAT service, copied to the Ministries of Finance and Trade, sought for the cooperation and involvement of the two ministries to address the problems and frustrations that their members faced at retail level in their effort to comply with the requirements of the standard VAT system. GUTA, in the resolution, also proposed a special flat scheme for all retailers with the objective of simplifying the tax accounting system and widening the tax net to encompass the entire retail sector (Ghana, Republic of, 2009).

It was against this background that VAT Service /GUTA working group was constituted with mandate to come up with a special scheme for informal retail sector that was simpler and easier to operate, that would reduce the burden of compliance for operatives in the sector, and would lead to widening of the tax net. In executing their mandate, the GUTA/VAT service working group recommended the flat rate scheme for implementation. The

VAT service after parliamentary approval officially launched the 3% VAT Flat Rate Scheme, and was later implemented nationwide (NDPC, 2009).

The VAT Flat Rate Scheme is a VAT collection or accounting mechanism that applies a marginal tax rate of 3% representing the net VAT payable, on value of taxable goods supplied. It is an alternative to the invoice credit method (i.e. standard VAT system of 15%). It is not a separate tax or additional impost but only an amendment of the VAT Act (Act 546) with the main aim of simplifying the VAT accounting system for retailers.

According to section 5(1) of the VAT Law 1998 Act (546) as amended by Act 593, 2001, the standard VAT scheme was designed for retailers that have an annual turnover of more than GHS10,000. The three percent VFRS was initially designed for retailers of goods only however, in the 2011 budget, the Minister for Finance and Economic Planning amended this to read three percent VFRS for ‘all goods and services providers with a turnover between GHS10,000 and GHS90,000 will be required to charge a flat rate of three percent instead of the standard rate of 15 percent.’ Again, the Minister of Financial in budget statement of 2013 changed the threshold to annual turnover of between GHS100,000 and GHS120,000.Such categorised businesses are not allowed to take credit for input VAT (Ghana, Republic of, 2014). This amendment brought many businesses which were formerly operating the standard VAT scheme to the net of the three percent VFRS.

VAT exempt supplies

Both the standard VAT and the three percent VAT flat rate scheme have the same exempt supplies. To enhance the production and supply of some goods and services in Ghana, A number of goods and services are exempt from VAT under the VAT law (Ghana, Republic of, 1998). A summary of the goods and services which are exempt from VAT/NHIL include:

Live animals: this classification includes all live animals such as cattle, sheep, goats, swine and poultry, but excludes horses, asses, mules, hinnies and similar exotic animals. Goods for the disabled: articles designed exclusively for use by the disabled.

Educational items/services: the supply of educational services at any level by an educational establishment approved by the Minister for Education. Medical supplies and services: medical services, essential drugs as listed under Chapter 30 of the 'HS Code' produced or supplied by retail in Ghana, specified active ingredients for essential drugs, and selected imported special drugs determined by the Minister for Health and approved by Parliament.

Transportation: includes transportation by bus and similar vehicles, train, boat and air. Machinery: machinery, apparatus, appliances and parts thereof, designed for use in agriculture, veterinary, fishing and horticulture, industry, mining (as specified in the mining list) and dredging; and railway and tramway.

Crude oil and hydrocarbon products: petrol, diesel, liquefied petroleum gas, kerosene and residual fuel oil. Land Building and Construction: the granting, assignment or surrender of an interest in land or buildings; the right to occupy land or buildings excluding hotel accommodation, warehousing, storage and similar occupancy incidental to the provision of the related services. Civil engineering works. This exemption excludes professional services such as architectural or surveying (i.e. these are taxable services).

Animals, livestock, poultry and fish imported for breeding purposes - Live asses, mules, and hinnies, live bovine animals, live swine; live sheep and goats; live marine mammals, live fish and aquatic invertebrates. Animal product in its raw state produced in Ghana: edible meat and offal of the animals, livestock and poultry earlier listed, provided any processing is restricted to salting, smoking, freezing or similar simple processes of preparation or preservation. This exemption excludes pate, fatty livers of geese and ducks and similar products (i.e. these are taxable). These items listed are considered to be in their raw state even if they have undergone simple processes of preparation or preservation such as freezing, chilling, drying, salting, smoking, stripping or polishing.

Agricultural and aquatic food product in its raw state produced in Ghana: fish, crustaceans and molluscs, vegetables, fruits, nuts, coffee, cocoa, Shea butter, maize, sorghum, millet, tubers, guinea corn and rice. This exemption excludes ornamental fish (i.e. the supply of ornamental fish is taxable).

Seeds, bulbs, rooting, and other forms of propagation: of edible fruits, nuts, cereals, tubers and vegetables. Agricultural inputs: chemicals including all forms of fertilisers, acaricides, fungicides, nematicides, growth regulators, pesticides, veterinary drugs and vaccines, feed and feed ingredient.

Fishing equipment: this include boats, nets, floats, twines, hooks and other fishing gear as well as imported inputs for fishing nets and twines. Water

- Supply of water. The exemption excludes packaged and distilled water (i.e. they are taxable).

Electricity: domestic use of electricity up to a specified consumption level prescribed in regulations by the Minister (i.e. all commercial use of electricity and domestic consumption above the limit specified is taxable).

Printed matter: these must be fully printed or produced by any duplicating process. It includes atlases, books, charts, maps and music. The exemption excludes imported newspapers, plans and drawings, scientific and technical works, periodicals, magazines, price lists, greeting cards, almanacs, calendars and stationery.

Postal services: supply of postage stamps. That is, other commercial services rendered by postal agencies are taxable (Ghana, Republic of, 2007).

VAT/NHIL is not chargeable on the sale of exempt supplies but at the same time no credit may be allowed to the business making exempt sales for the VAT/NHIL paid on purchases or expenses applied for the purpose of the exempt sales – S. 24(3). The business can however recover these input taxes by including it in the cost of production and distribution. It must be noted that businesses which make only exempt supplies cannot register for VAT.

Taxation and Union cooperation

A major recent focus of efforts at the IRS and VATS (now under DTRD), which is equally being pushed by international organisations, is to expand the tax base by reaching a greater share of those working in the informal sector (Musgrave 2005). Among these efforts three tax initiatives stand out: the introduction of taxes on public transport operators, the introduction of a Tax Stamp programme for small traders, and the introduction of a Flat Rate VAT for retailers, who now pay three percent of turnover in tax, as a substitute for standard VAT accounting. Of these three, the first and last are particularly interesting because they involved explicit participation by leaders of the respective unions: the Ghana Private Road Transport Union (GPRTU) and the Ghana Union of Traders' Associations (GUTA) (Prichard, 2009).

The case of the introduction of taxes for public transport is summarised by Joshi and Ayee (2008), and amounted to an agreement with the GPRTU leadership that taxes would be collected by the union itself and then remitted to government. This agreement was based on taxes being collected on a daily or weekly basis, which was deemed less problematic for transport operators who were assumed to have a limited ability to accumulate wealth and make individual large tax payments. The GPRTU membership expected to benefit by being protected from the arbitrary assessment of penalties by the police and tax officials. This agreement was facilitated by the fact that the leadership of the GPRTU and the NDC government were close allies.

Yet, while Joshi and Ayee (2008) paint a relatively optimistic picture of this relationship, the reality seems to have progressively soured, particularly since the completion of their primary research around 2002. From the perspective of government, the union proved to be a less effective partner than had been hoped, as revenues failed to expand at the expected rate and 'checks and balances' were progressively eroded. Meanwhile, the membership of the union became increasingly disenchanted due to a feeling that the union leadership was pocketing much of the tax money that was being paid. In 2003 the agreement with the GPRTU was replaced by a Vehicle Income Tax (VIT), which mandated that every commercial operator would purchase a tax sticker from the IRS on a quarterly basis and display it on the windshield.

The new scheme has, indeed, yielded significantly more revenue, while also being more popular with much of the membership of the GPRTU, which has found the scheme simpler and more effective for curbing abuses. This provides a slightly different retrospective on the original deal between the GPRTU and NDC. It suggests that while the original scheme was well intentioned, and helpful for initially bringing transport operators into the tax net, it evolved into a corporatist relationship in which the NDC gained the support of the union leadership by allowing them to retain collection power, the union leadership remained in the good graces of government by offering legitimacy to the tax, and individual operators were forced to accept a relatively high cost and increasingly corrupt system. It was only after the exit of the NDC that the tax system was regularised, reflecting the difficulty of transforming this relationship of mutual reliance (Prichard, 2009).

The Flat Rate Scheme seems to reveal a similar relationship. The government was eager to introduce a turnover tax as a means to more effectively reach small scale retailers, but sought to negotiate the new tax with GUTA in order to head-off potential opposition. In this case GUT A was not interested in collecting taxes directly, but nonetheless gave a very public blessing to the new tax scheme, which seems to have significantly facilitated its implementation. So why would the leadership of GUTA so actively support a measure to increase the tax paid by its membership? One possibility is the reduced cost of compliance, but those involved point to two other factors instead: the desire to make a contribution to the welfare of the country, and the desire for the tax to be more equitably distributed (Prichard, 2009)

While these desires are seemingly highly desirable, they mask a more nuanced reality. The expansion of the tax base was in the interest of the leadership, who wanted to find a way to ensure that smaller traders paid as much tax as larger traders, thus improving the competitive position of those large traders. This is consistent with relationships between formal and informal sector businesses observed elsewhere (Goldsmith, 2009). As to the desire to make a contribution to national welfare, it is hard to imagine this being a primary concern for small retailers, and thus is often attributed to the political aspirations of the union leadership.

Others go further, suggesting that the larger traders have a strong interest in maintaining a positive relationship with government as a means to improve their access to government contracts. Thus there is a strong sense that behind the appearance of a strong relationship of accountability is a relationship that is at least equally one of corporatism or co-optation (Goldsmith, 2009). This does not imply a total absence of accountability, but does point to the need to be discerning in assessing the internal dynamics of what appear to be highly accountable relationships at a macro level.

Empirical review of related literature

Carbonnier (2007) studies the impact of two French VAT reforms by using the price index time series IPC. He analyses a decrease of the rate on car sales from 33.3 to 18.6 percent in 1987 and a decrease of the rate on housing repair services from 20.6 to 5.5 percent in 1999. The consumer share of a sales tax burden is measured by using the new car sales index and the housing repair service index as well as the general index168 in order to implement a double difference regression. Production costs are used as a control variable.

Similar to Copenhagen Economics (2007), the author argues that an analysis of these large changes is superior to an analysis of smaller changes because estimates of the consumer share will be more precise in the former case. The author finds that the consumer share in housing repair services is 77 percent and 57 percent in new car sales. Both values are precisely estimated so that the difference between these two shares is also highly significant and both shares are significantly lower than 100 percent. The author argues that the difference between those two shares can be explained by the different degree of competitiveness on the markets. While the housing repair service market is close to being a perfectly competitive market, the new cars market is quite close to an oligopoly with very few firms competing. Intuitively, as prices are close to marginal costs in perfect competition markets, firms cannot pay a large sales tax share (which would imply a consumer share of 100 percent).

On the other hand, oligopoly firms already capture a consumer surplus portion without sales taxes and hence bear a larger sales tax burden share. A further result of his analysis is that, for both goods, tax shifting on prices happens very fast. Almost the entire shift takes place in the first two months after the VAT reform.

“Modern taxation systems have the capacity to impose a heavy burden on taxpayers, and particularly on small business taxpayers. That burden typically consists of three elements. In the first place there are the taxes themselves. Secondly, there are the efficiency costs (variously referred to as deadweight losses or excess burden), involving tax-induced market distortions. And finally there are the operating costs of the tax system: the costs to the government (ultimately born by taxpayers) of administering and collecting the taxes (usually referred to as administrative costs), and the costs expended by taxpayers in complying (or sometimes not complying) with their tax obligation (usually referred to as "compliance costs)", (Evans 2008).

"Administrative and compliance costs depend on a wide range of factors, including the complexity of the tax, characteristics of the tax base, structure of tax rates, frequency of reform, and organisation and efficiency of the tax authority. Taxes should therefore be kept as simple and stable as possible. In other areas, there is a trade-off between administrative and compliance costs: for example, whether it is the tax authority or taxpayers who have responsibility for calculating tax liability. Providing help and guidance increases administration costs, but reduces compliance costs." (Shaw et. al., 2010).

Evans (2008) goes on to note that "in addition to this generally accepted hard core of compliance costs, there are a number of other costs that need to be considered. For example, there is little doubt that there will always be a measure of psychological cost that is induced by the operation of the tax system. Taxpayers suffer stress, anxiety and frustration as a result of attempting to comply with their tax obligations. Unfortunately, no studies have yet managed to successfully quantify these psychological costs, although research in this area is now taking place." For this reason, we will not pursue this strand of the literature further in the present review, although James and Edwards (2010) list several interesting examples of behavioural and experimental research which appear to offer some promise of future practical relevance (e.g. Coleman et al. 2003). In particular, it is perhaps worth noting that at least one such study (Hasseldine and Hansford, 2002) suggests that psychic costs are positively associated with financial costs of compliance.

Tax reform is the process of changing the way taxes are collected or managed by the government. Tax reformers have different goals. Some seek to reduce the level of taxation of all people by the government. Some seek to make the tax system more progressive or less progressive. Others seek to simplify the tax system and make the system more understandable or more accountable (Allingham & Sandmo, 2002; Osei & Quartey, 2005).

Recent experience with growth-oriented adjustment programmes in developing countries indicates that tax reform is an essential component of any comprehensive strategy for structural adjustment and resumption of growth (Moore & Schneider, 2004). As Musgrave (2004) has pointed out, however, tax reform in developing countries involves broad issues of economic policy as well as specific problems of tax structure design and administration. First, there are the central problems of revenue requirements and how to fit the revenue structure into development policy. This area of concern includes the impact of alternative taxes on saving and investment and their implications for the macro balance of the economy. Second, there is the important goal of securing a fair distribution of the tax burden. Among the more specific tax issues, attention needs to be given to the composition of the tax structure as well as to the design of its major components.

An analysis of tax reforms in Ghana (1983 – 2002) indicated that the problem throughout is not simply to determine what would be desirable but also to assess what is administratively practicable and within the ballpark of political feasibility (Appiah-Kubi, 2003). Appiah-Kubi further avers that a common feature of the tax structures in most developing countries is that they are complex (difficult to administer and comply with), inelastic (nonresponsive to growth and discretionary policy measures),inefficient (raise little revenue but introduce serious economic distortions), inequitable (treat individuals and businesses in similar circumstances differently), and unfair (tax administration and enforcement are selective and skewed in favour of those with the resources to defeat the system). There is a heavy reliance on taxes on international trade, which undermines long-term international competitiveness. User charges and taxes on income and property contribute only a small proportion of total revenues.

In analysing tax reform in a normative framework, Otieku (2008) provided the theory of optimal taxation. Otieku (2008) analysis attempts to account for the impact of tax reform on tax-induced losses in the efficiency of resource allocation and on vertical equity norms. The former dimension of the reform is captured by the responsiveness of taxpayers to tax-induced relative price changes, and the latter on the particular specifications of a social welfare function. Optimal tax reforms in this context tend to be those that minimize efficiency costs of taxation and pay attention to income inequality. An interesting feature of these reforms is that they seldom endorse a uniform pattern of tax rates. The Ramsey rule taxation, for example, calls for a highly differentiated structure of taxation by varying the tax rate inversely with the elasticity of demand and supply.

Tax reform experiences to date offer some important insights into useful tax policy design and institutional development. A detailed discussion of this issue is provided in James and Alley (2012) work. A brief summary is presented below:

The value added tax should be an instrument of choice for developing countries contemplating reform of their sales tax. According to James and Alley (2012), there was no such thing as value added tax (VAT) some fifty years ago. Since its introduction in the early1950s, however, VAT has become a fiscal innovation that has swept half of the world, including many developing countries. The VAT has thus become an instrument of choice for most developing countries contemplating reform of their sales tax. A VAT can provide greater revenue, tax neutrality and, under certain circumstances and to a limited extent, vertical equity.

The base of existing taxes should be broadened at the same time that tax administration reform is carried out. Base broadening is compatible with a number of economic objectives. It can increase revenues and improve the simplicity, neutrality and equity of the tax system. The use of the tax system for special tax preferences should be carefully evaluated. Using the system to provide tax incentives usually causes a serious drain on the national treasury by conferring windfall gains on existing activities or by shifting resources to tax-preferred activities (James & Alley, 2012).

Tax reform must take into account the initial conditions at home and abroad. In reforming their tax systems, developing countries are severally constrained not only by their own institutional settings but also by the tax structure in capital-importing countries. Moreover, the circumstances in many developing countries are usually such that they would experience serious transitional difficulties if the tax system were to be redesigned from scratch (Agbadi, 2011). Developing countries must therefore take into account initial conditions at home and abroad.

The credibility of the tax regime is the key to the success of any tax reform. A stable tax policy environment encourages businesses to take a longer-term perspective in their finance and investment decisions. Making tax changes without giving adequate consideration to transitional arrangements can undermine the credibility of the tax regime. Therefore, transitional arrangements require much more careful analysis than they have hitherto been given in developing countries. In addition, tax changes must be presented as part of longer term strategy to improve the public sector environment for the private sector. The tax regime will gain the confidence of business if more attention is paid to the preparation and analysis of reforms, advance consultation, providing a reasonable period of adjustment prior to implementation and ensuring consistency of the reform measures (Barwa, 2010; Agyeman, 2011).

The tax reform process must be well coordinated. Coordinated tax reform offers significant advantage over isolated piecemeal tinkering with the tax system. A coordinated reform ensures that individual tax changes will be consistent with the central objective. For example, a reduction in tariffs without a corresponding increase in other taxes, generally of a value added type, can increase the fiscal deficit and exacerbate macroeconomic difficulties (Adebayo, 2012). Adebayo added that to improve economic performance in general, tax reform should be closely integrated with structural adjustment measures.

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

Furthermore, Bagahwa and Naho (2005) found in their study that the main source of employment in Ghana is the informal sector. The sector provides employment opportunities for at least 80% of the labour force. However, tax evasion in the sector has been identified as one of the major problems confronting tax administration especially in the developing countries. Evasion of tax is more problematic with respect to the informal/retail sector. Agyei (2002) also avers that in Ghana, one of the greatest problems facing tax administration is that of income tax evasion.

With regard to the problems facing tax administration in Ghana, Otieku (2008) identified tax evasion as one of the major problem. Otieku posited that tax evasion is the deliberate distortion of the facts relating to an assessment after the tax liability has been incurred so as to reduce the liability. According to Otieku, any deliberate attempts by a taxpayer, his agent or tax officer to reduce the ultimate tax liability of the taxpayer by the use of any unlawful means constitute tax evasion. It is the deliberate attempt by the taxpayer to distort facts relevant for an objective ascertainment of his liability.

The tax evasion is as a result of factors such as large scale of illiteracy among populace, ignorance of tax laws, dominance of difficult-to-identify sole-proprietor, inadequate number of tax offices and officers, complex tax laws and so on. The results of Otieku (2008) study show that evidence of income tax evasion is difficult to obtain in any country, particularly the developing countries, since it is an illegal activity.

However, in developed countries, more is known about tax evasion than in developing ones. This is due to the fact that there is refinement of statistics and wealth of research resources in the developed countries (Agyei, 2002). Tax evasion, apart from resulting in loss of revenue to the government undermines confidence in the fairness of the tax law. The extent of tax evasion is extremely difficult to determine in any country, especially in the developing countries. Attempts have been made in the developed economies to estimate the extent of its occurrence. One of such studies in the United States of America compared the totals reported on the federal incomes tax returns to those determine in the national income accounts. The difference between these two income totals provided an approximated evidence of the extent of tax evasion (Otieku, 2008). The evasion by the ‘difficult-to-tax’ (i.e. largely informal sector businesses) group may take three forms: non-declaration of income; under-declaration of income; and inflation of deduction from income (Goldsmith, 2009).

Concept of Retailing and retail business

Retailing is a distribution channel function where one organisation buys products from supplying firms or manufactures the product themselves, and then sells these directly to consumers (Smith, 2004). A retailer is a reseller from which a consumer purchases products and also who obtains product from one party in order to sell to another. In Ghana and East African countries alone there are over 1,100,000 retailers (Terkper, 1999).

Retail comes from the Old French word ‘tailer’ which means "to cut off, clip, pare, divide" in terms of tailoring. It was first recorded as a noun with the meaning of a "sale in small quantities" in 1433. Like the French, the word retail in both Dutch and German (detailhandel and Einzelhandel, respectively) also refers to the sale of small quantities of items. The concise oxford dictionary defines retail as the sale of goods to the public for use or consumption rather than for resale. In short to retail means the act of selling in bits to the direct or final consumer (Adu-Amankwaa, 2009).

In the majority of retail situations, the organisation from which a consumer makes purchases is a reseller of products obtained from others and not the product manufacturer. But, some manufacturers also operate their own retail outlets in a corporate channel arrangement (Bagahwa & Naho, 2005). While consumers are the retailer’s buyers, a consumer does not always buy from retailers. For instance, when a consumer purchases from another consumer, the consumer purchase would not be classified as a retail purchase. This distinction can get confusing but in Ghana and other countries the dividing line is whether the one selling to consumers is classified as a business (e.g. legal and tax purposes) or is selling as a hobby without a legal business standing (Osei, 2000).

Distinguishing characteristics of the retail businesses in Ghana

Retail business in Ghana and other developing countries are common phenomenon in the economy of such countries. It provides employment to a lot of citizens in the business sector. Predominance of self-employment work-retailers could only employ few people most of whom are immediate family members (Farrell, John & Fleming, 2000). Absence of trade union organisation, apart from trade unions for workers, owners themselves don't belong to any formidable trade association. This characteristic of retail businesses make it difficult for policy makers to target the owners and to support those that are in need (Ghana Business News, 2009).

According to Farrell et al. (2000), most retail businesses have little or no job security - The employees in the retail sector could lose their jobs at any time at the whims and caprices of their employers. The employees cannot take any legal actions for any unfair dismal as there is usually no binding contract of employment. No compensation is usually paid for such dismissal (Ghana Business News, 2009). The retail business is also characterised by unregulated and competitive markets. Nobody, not even the government is able to regulate the activities of the informal sector because of its fluid nature. The cost of such an enterprise (i.e. regulation of the informal sector) will far exceed the benefits and in fact such an attempt will be a 'wild - goose chase' be an impossible mission (Barwa, 2010).

Again, because of the many operators in that sector the market arena is highly competitive as competitors attempt to outdo one another for customers. A classical case in point is pure water sellers in the streets of Accra as they chase vehicles to sell. It is the 'survival of the fittest'. It is also labour intensive and adopted technology. The level of technology, employed in the informal sector business units surveyed in Ghana by Yankson (1992), was reported low and in poor conditions. The equipment used by informal sector entrepreneurs are self-crafted or bought locally with subsequent improvements made by the entrepreneurs. The informal sector displays 'technological ingenuity' by using locally made equipment. The operators lack adequate financial resources to import more advanced technology. The sector relies heavily on the labour for its production.

According to Barwa (2010), informal sector operators' function from clusters, closer to cities, especially those engaged in auto repairs, metal works, but may also be strategically located at specific points to reach the maximum number of clients. In developing countries, kiosks and small containers owned by the informal sector operators litter every conceivable nook and cranny in the cities and towns. Most retailers also indulge in construction of unauthorised structure and buildings. Low administrative and procedural cost-many retail outlets operate in such a way that costs associated with administrative procedures are minimised (Joshi & Ayee, 2008).

A marketplace is a location where goods and services are exchanged (Allingham & Sandmo, 2002). The traditional market square is a city square where traders set up stalls and buyers browse the merchandise. This kind of market is very old, and countless such markets are still in operation around the whole world. In some parts of the world, the retail business is still dominated by small family-run stores, but this market is increasingly being taken over by large retail chains (Arnold, 2005).

Assibey-Mensah (2003) and Atuguba (2006) classified retailers in Ghana by type of products they offer as follows; hairdressers and wig retailers, hardware retailers, electrical supplies retailers, food retailers, department stores, convenience stores, network and electricity credit retailers, internet operators, personal selling/mobile retailers, and vending retailers,

Concerns of retailers

Retailers are faced with many issues as they attempt to be successful. The key issues include customer satisfaction. Retailers know that satisfied customers are loyal customers (Musgrave, 2004). Consequently, retailers must develop strategies intended to build relationships that result in customers returning to make more purchases. Ability to acquire the right products is also another issue faced by retailers. A customer will only be satisfied if they can purchase the right products to satisfy their needs (Slemrod, 2007). Since a large percentage of retailers do not manufacture their own products, they must seek suppliers who will supply products demanded by customers. Thus, an important objective for retailers is to identify the products customers will demand and negotiate with suppliers to obtain these products.

Product presentation is also relevant to retailers. Once obtained products must be presented or merchandised to customers in a way that generates interest. Retail merchandising often requires hiring creative people who understand and can relate to the market (Anderson & Sullivan, 2003). Like any marketer, retailers must use promotional methods to build customer interest. For retailers a key measure of interest is the number of people visiting a retail location or website. Building "traffic" is accomplished with a variety of promotional techniques such as advertising, including local newspapers or internet, and specialised promotional activities, such as coupons (Anderson, Fornell & Lehmann, 2004).

Another issue to consider is layout and location. For store-based retailers a store's physical layout is an important component in creating a retail experience that will attract customers. The physical layout is more than just deciding in what part of the store to locate products (Christy, Oliver & Penn, 2006). For many retailers designing the right shopping atmosphere (e.g., objects, light, and sound) can add to the appeal of a store. Layout is also important in the online world where site navigation and usability may be deciding factors in whether of a retail website is successful. Also, where to physically locate a retail store may help or hinder store traffic. Well placed stores with high visibility and easy access, while possibly commanding higher land usage fees, may hold significantly more value than lower cost sites that yield less traffic (Deighton, 2009). Understanding the trade-off between costs and benefits of locations is an important retail decision.

Keeping pace with technology is also an issue to look at. Technology has invaded all areas of retailing including customer knowledge (e.g. customer relationship management software), product movement (e.g. use of RFID tags for tracking), point-of-purchase (e.g. scanners, kiosks, self-serve checkout), web technologies (e.g. online shopping carts, purchase recommendations) and many more (De Wulf, Odekerken-Schroder & Iacobucci, 2001). Another issue is the compliance with technically crafted tax laws in Ghana. Local authorities levy them either on daily or weekly bases, as if that is not enough, tax laws are not static. Almost every year a change is made in the tax laws. Some retailers do not know which tax to pay to which agency or division of Ghana revenue authority (Joshi, 2002). Couple with this lack of national or international accounting standard to regulate their financial statement.

With regard to high illiteracy rate, it is well established that about 60 percent of the retail businesses in Ghana are unlettered (Osei & Quartey, 2005). Associated with this problem (i.e. illiteracy) is the problem of filing out of income returns, preparation of accounts and in general the lack of voluntary compliance. Osei and Quartey (2005) added that the sex category of retailers do not have any significant impact on their level of tax compliance. Generally, income return forms are complex to complete and hence calls for one to be fairly educated to enable one peruse the return and complete it appropriately (Otieku, 2008). Otieku further posits that the VAT return form does not come in the local languages that the illiterates can easily understand, hence the non-declaration of VAT form of tax evasion.

The VAT Mechanism

1. The value added: how to measure it

The VAT, by definition, is the tax on the value added at each stage of a production - distribution chain. The value added, in turn, can be defined in two alternative ways. First, value added is equivalent to the sum of wages to labor and profits to owners of the production factors including land and capital. Second, value added is simply measured as the difference between the value of output and the cost of inputs. The two ways of definition of value added give rise to three major alternatives for computing the VAT liability as described below (Mirrlees et al, 2011).

It is worth illustrating how the system works with a very simple example as emphasised by Mirrlees et al (2011). The example illustrates the 'invoice-credit' method of implementing a VAT. This is universally used in most parts of the world, though there are other ways in which a VAT can be implemented.

Suppose firm A makes a sale to firm B for GHS100 plus 20% VAT GHS120 in total. Firm B uses what it has bought to make products worth GHS300; GHS60 VAT is due when these products are sold to firm C, but B can also reclaim the GHS20 VAT charged on its inputs. And, similarly, C can in turn reclaim the GHS60 VAT on its input purchases. Firm C, a retailer, sells its products to final consumers for GHS500 plus GHS100 VAT. This movement of VAT is shown on the table below:

A simple supply chain with 20% VAT

Firm	**VAT charged on sales**	**VAT reclaimed on purchases**	**Net VAT payable**
	GHS	GHS	GHS
Firm A	20	0	20
Firm B	60	20	40
Firm C	100	60	40
Total VAT pay	payable		**100**

Mirrlees et al (2011) explained that, the above table demonstrate how VAT works - firm A paid the output VAT of GHS20 collected from firm B to the tax authority, firm B deducted the input VAT paid to firm A from the output VAT of GHS60 collected from firm C and paid only the difference of GHS40 to the VAT office. Finally, firm C also paid GHS40 which is the difference between the output VAT of GHS100 collected from the final consumer and the input tax of GHS60 paid to firm B to the VAT office. At the end, the sum of VAT paid to the VAT authority was GHS100 which was equal to the tax burden on the final consumer.

2. Three alternatives in VAT computation

The addition method

The tax liability is equal to the tax rate multiplied by the value added defined as the sum of wages and profits. If t_1 and t_2 are the rates on wages and profits respectively, then the tax liability will be the sum of (t_1 x wages) and (t_2 x profits). The addition method, in practice, would be politically hard to sell to the public, as taxpayers would simply view the VAT as an additional layer of tax burden on top of corporate and personal income taxes. On the other hand, the structure of the tax implies that the VAT, theoretically, can be used to replace both personal income tax and corporate income tax (Bilson, 2012).

The subtraction method

The tax liability at any stage is equal to the tax rate multiplied by the tax base or value added measured as the difference between the values of outputs and inputs.

The invoice-based credit method

This is the most common method of the VAT computation. Under the invoice-based credit method, a firm at any stage of the production-distribution chain charges its customers the VAT on its output, submits the tax to the treasury, and then claims for the VAT already paid on its input purchase. Let t_1 and t_2 be the tax rates on output and inputs respectively, then the tax liability is the difference between (t_1 x output) and (t_2 x inputs).

The invoice-based credit VAT apparently has advantages over both addition and subtraction methods. The addition method relies on accurate information on wages and profits which are hard to obtain in developing countries, and thereby runs into the same problems faced in income taxation. The subtraction method, on the other hand, requires an explicit estimation of the tax base—this would be fine for a VAT with a single rate structure but would result in serious problems for a multiple-rate VAT regime.

Accounting for the VAT Flat Rate Scheme

The scheme was simplified for retailers to minimise administration and compliance costs. However, the scheme involves levying tax as a flat-rate percentage of turnover rather than on value added calculated transaction –by-transaction (Bilson, 2013).

For example, such a scheme has existed in UK since 2002 for small firms with annual turnover of below £150,000. Under the flat rate scheme, retailers pay VAT at a single rate on their total sales and give up the right to reclaim VAT on inputs. For example, if a retailer is to sell taxable product of

£20,000 at a flat rate of 3%, then he/she will sell the product for £20,600 and remit £600 to the VAT authorities (Lee, 2013).

Bilson, (2013) illustrated the relationship between the Standard VAT and flat rate scheme using the following example; a VAT registered trader bought taxable product at GHS9,000 (VAT inclusive at rate of 15%) added his profit margin of 10% and sold the product to the final consumer.

Assumed that;

i, the person was a standard VAT registered trader who charges VAT at 15%. Determine how much will be paid as VAT to the VAT authorities if no other cost was considered

ii. the person was a 6% VAT Flat-rate Scheme operator with all other things remaining the same. Determine how much will be paid as VAT to the VAT authorities.

Bilson, (2013) suggested the following as a solution to his illustration:

i. Tax payable by the Standard VAT trader:

Net VAT payable = Output – Input VAT

GHS311 = 1,485 (0.15 x 9900) – 1,174 ($15/_{115}$ x 9000)

ii. VAT payable by the flat rate registered trader

VAT payable = 6% of sales value

GHS594 = .06 x GHS9,900

At the end of the period, the standard VAT trader will file returns for GHS311.00 while the flat rate operator files the full output VAT of GHS594.00. Bilson, (2013) concluded that the flat rate registered operator ended up even paying more tax to the service than the standard VAT operator because the standard VAT operator claimed the input VAT while the VFRS operator could not do same.

The flat rate scheme has problem. By disallowing the recovery of VAT on inputs, it distorts production decision, making retailers who had registered with the scheme to regret. What do retailers get from becoming agents of the Service? They incur compliance cost and upwards adjustment of prices of their products, (Lee, 2013).

Summary of the chapter

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

CHAPTER THREE

METHODOLOGY

Introduction

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

Study area

The study area is Cape Coast Metropolis and adjoining villages. Cape Coast is the capital of central region of Ghana. It was the first capital of the then Gold Coast (now Ghana) before it was moved to Accra in 1877. Cape Coast is boarded in the south by the Atlantic Ocean - to be precise the Gulf of Guinea, in the north by Twifo Hemang Lower Denkira District, in the West by Komenda Edina Eguafo Aburem District and in the East by Abura Asebu Kwamankese District.

Cape Coast has a settlement population of 169,894 of people with 82,810 males and 87,084 females (2010 census). Even though Cape Coast is a coastal city, majority of its citizens are not fishermen but rather traders in various retail activities. Perhaps the booming tourism business in the city as a result of the presence of Cape Coast castle and other tourist sites in the area contributed to the people's choice of occupation.

The preliminary survey conducted by the writer showed that every form of retail sector enterprises and activities in Ghana can be found in the areas selected for the study. Again, the selected area is the most convenient as the researcher and those to be engaged to assist in data collection are located in the named area and this will ensure effective and efficient administration of the questionnaires and interviews. This in the long run would facilitate the collection of primary data within the limited stipulated time for the submission of the final work.

Research design

The designed adopted by the study was the descriptive survey design. Descriptive survey design was deemed the most appropriate because the study entailed a survey of the VAT registered enterprise operators and VAT officials' view on the issues, situations and processes. Descriptive research design involves systematic gathering of data about individuals and collectivities in order to test hypotheses or answer research questions concerning the current status of the subject of the study (Gay & Airasian, 2003). It determines and reports the way things are. Saunders, Lewis and Thornhill (2007) consider this design to be wholesome when information is needed about conditions or relationships that exist; practices that prevail; beliefs, points of view, or attitudes that are held or process that are going on.

In the view of DePoy and Gitlin (2008), this type of design is appropriate for it allows the researcher to collect data to assess current practices for improvement. The design gives a more accurate and meaningful picture of events and seek to explain people's perception and behaviour on the basis of data gathered at any particular time. An advantage of a descriptive survey is that it helps the researcher to collect data to enable him draw the relationship between variables and analyse the data. It helps to observe, describe and document aspect of a situation as it naturally occurs.

However, it is a relatively laborious and time consuming method. It is susceptible or easily influenced to distortions through the introduction of biases in the measuring of instruments and so on. It is sometimes regarded as focusing too much on the individual level, neglecting the network of relations and institutions of societies (Malhotra & Birks, 2010).

The data was organised and presented systematically in order to arrive at valid and accurate conclusions. With regard to the population characteristics and data analysis procedures, meaningful and representative sample was select. I also described the variables and procedures accurately and completely as possible so that the study can be replicated by others. This design was used appropriately to examine the effects of VAT Flat Rate Scheme on retail businesses in the Cape Coast Metropolis.

Population

Population can be seen as the entire aggregation of cases that meet a designed set of criteria (Ary, Jacobs, Razavieh & Sorensen, 2006). It must be noted that whatever the basic unit, the population always comprises the entire aggregation of elements in which the researcher is interested in gaining information and drawing conclusions. It can also be seen as the target group about which the researcher will be interested in gaining information and drawing conclusions. The population for the study consist of all VAT registered retail business operators and VAT officials from the Domestic Tax Revenue Division of Ghana Revenue Authority within the Cape Coast Metropolis and other surrounding communities.

The study concentrated on VAT registered enterprises (retailers) with common characteristics. There is no gainsaying the fact that most of the retail businesses in Ghana belong to the informal sector whose activities are very heterogeneous in nature, hence the justification for focusing on only those that are registered is to have accurate data and also to achieve a fairly representative sample size from the population.

Sample and sampling procedure

The ever increasing demand for research has created a need for an efficient method of determining the sample size needed to be representative of a given population. Researchers such as Krejcie and Morgan (1970), Ary et al. (2006) and Malhotra and Birks (2010) aver that in a descriptive survey study, it is appropriate to select a sample size of five percent or more.

The sample frame for this study included the list of VAT registered enterprise operators within the Cape Coast Metropolis and other surrounding communities. A sample size of 120 retail respondents being 10% of the total VAT registered enterprise operators of 1200 was selected for this study.

Again, five VAT officials being 10% of the total staff strength of 50 obtained from the staff register at the Metro VAT office was selected for the study. The sample size for this study therefore was 125 made up of 120 VAT retail business operators and 5 VAT officials.

The sample size for each category of retail establishment was 10% of total members in each group. The total number of retailers in each category of retailers was obtained from the GRA office and confirmed with the leaders of the associations representing each group.

Table 1: Sample size by the various strata of enterprises used

Categories of retail businesses	Operators of VAT registered enterprises	
	Population size	Sample size
Hardware	100	10
Electrical supplies	140	14
Handicraft	90	09
Repair services	130	13
General &Provisional stores	250	25
Computer and computer accessories	150	15
Restaurants and bars	200	20
Textile/Leather Works	140	14
Total	1,200	120

Source: Ghana Revenue Authority, 2013.

The lottery method of simple random sampling procedure was used to select the required sample size for the study. The lottery method was done from one classification or group to another. As indicated in Table 1, there were eight groups or classification of VAT operators which was done based on the work of Yankson (2002). Each would-be respondent was assigned a numbers on a piece of paper. The papers were then put into an opaque polythene bag. The slips of paper were shuffled well and one slip was picked one at a time from the polythene bag without looking into it. Each assigned number picked was recorded. Each selected and recorded slip was thrown back into the polythene bag before the next one was picked.

This was necessary to maintain a degree of probability of selecting the respondents. This ensured that every respondent had an equal chance of being picked. Slips drawn and assigned numbers that had already been selected were ignored. This means they were thrown back into the polythene bag and the picking process continued. The processes continued until the required number (120) of registered retail businesses in the metropolis were randomly selected.

Data collection

The data collected involves issues bordering the VAT flat rate scheme on retail businesses in the Cape Coast Metropolis and other surrounding communities. Focused was on the VAT flat rate scheme on sale of retail products and level of its compliance by the retailers. Also the challenges faced by the retailers in the implementation of VAT flat rate scheme were considered. Finally, the administration problems faced by the VAT authorities were also considered. The data collected were basically quantitative using questionnaires and interview guide. Information was elicited from the respondents directly using the questionnaire while the interview guide was used to obtain information from the staff of Domestic Tax Revenue Division

(VAT Section). Information was also obtained from documents concerning the VAT Flat Rate Scheme.

Instrument

The questionnaire and interview guide questions were the main data collection instruments used in collecting the data. A questionnaire is an instrument with predetermined items to be answered by the respondents by writing. A questionnaire is administered to respondents who can read and understand the individual items in the instrument. This form of instrument is more flexible than interview guide. It has a high respond rate, easy to administer, create opportunity to observe non-verbal behaviour and also has the capacity for correcting misunderstanding by respondents when administered personally (Ary et al., 2006). However it is more time consuming, inconvenient and less effective than other methods when sensitive issues are needed. This instrument is believed to help the researcher in collecting reliable and reasonable data within a relatively simple and cheap in short space of time.

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

The respondents completed the questionnaires on their own with minimum assistance from the researcher. Some rating scale questions were used. Questionnaires were used because data collected using questions can be stable, constant and has uniform measure without variation. It also reduces bias caused by the researcher's presentation of issues (Bryman & Bell, 2003).

Interview guide was used to solicit information from VAT authorities on administrative problems they are encountering in the implementation of VFRS for retailers. This instrument was used due to lack of time. The VAT officials were interviewed during their break time. Five working-days were used, each day for each respondent during the break time.

Validity and reliability of the instrument

Pallant (2001) explained validity as a term describing a measure that accurately reflects the concept it is intended to measure. In this regard validity simply refers to how accurate the questionnaire was able to collect the responses from the respondents as intended by the researcher. Validity is the degree to which the study accurately answers the questions it was intended to answer. It examines the truthfulness or the quality of the research process and the accuracy of the results. Gravetter and Forzano (2006) on the other hand defined content validity as the degree to which a test measures an intended content area. For them, content validity is determined by expert judgment and that content validity cannot be calculated through quantitative technique.

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

Again, the instruments were pre-tested in March, 2013, on a sample of 12 respondents in the Komenda-Edina-Eguafo-Abrem (KEEA) Municipality to refine it. The number of respondents used for the pilot study was sufficient to include any major variations in the population as confirmed by Ary et al. (2006) that for most studies using questionnaires and descriptive design, a range of five to ten percent (5% - 10%), of the sample size, for pilot study is sufficient. Hence 10% of the sample size of 120 retailers was used. The respondents were selected because they share similar in characteristics as those in the Cape Coast Metropolis. These selected respondents at the KEEA Municipality were also selected due to their closeness and easy accessibility to the researcher. The instrument was administered personally to the respondents.

Reliability is the degree of stability or consistency of measurement (Gravetter & Forzano, 2006). The internal consistency of the instrument was calculated using Cronbach's alpha. The Cronbach's alpha of the instrument generated was .782 with the help of Test Analytics for Surveys (TAfS), a tool of Predictive Analytic Software (PASW) Version 18.0. The calculation of reliability of the questionnaire was done on section bases. This statistical validation on the items in the sections was based on the Cronbach's alpha reliability test. With the help of the same statistical software the internal consistency of the sections and the demographic data for Cronbach's alpha co-efficient was determined. There was 100 percent response rate. The reliability co-efficient of the sections are presented in Table 2.

Table 2: Computed reliability co-efficient of the instrument

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

Source: Field Data, 2013. (Sample size for the pre-testing = 12)

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

Ethical consideration

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

Anonymity and confidentiality were guaranteed and the research did not cause harm or mental stress to those who chose to participate. This research and its associated methodology adhered to all of these ethical considerations. An organisational entry protocol was observed before the data were collected. Individual traders and groups within the retail businesses were informed of the reason for the whole exercise and the tremendous benefit their enterprises would derive if the research was carried out successfully.

Field work

A period of three month was used to collect the data. The data collection started on May 6 and ended on July 31, 2014. The respondents were given at most 30 minutes to complete the questionnaires. Not all the targeted respondents were met on the day of visit and that demanded a considerable length of time to reach the stipulated number of respondents. Prior to the administration of the questionnaire, an informal familiarisation visit was made to the study area for the confirmation of the number of VAT registered enterprises operators and to seek more information concerning the VFRS registered operators.

The questionnaires were self-administered, but with some support from the heads of the enterprises, units and divisions. For the purpose of data collection, respondents in each enterprise, division, section or unit were gathered together at their respective break time with assistance from their heads to explain the purpose of the study and to administer the questionnaire. The questionnaires were given out to the research participants. They were taken through all the questionnaire items and anything that may not be clear was explained. They were again taken through how to respond to the items. They were asked to complete the questionnaires during their break time or immediately after working hours in order not to disturb working time. Those that were not able to read and write were assisted by the researcher to answer the questionnaires.

Respondents were encouraged to complete the questionnaire the same day and as independently and honestly as possible. Most of the completed questionnaires were retrieved the same day the instrument was administered. The administering of the questionnaires was done from one enterprise to another and from unit to another unit of the study area. As stated earlier, it took the researcher three month to administer the instrument. The researcher was able to retrieve all the 120 questionnaires administered.

The researcher used interview guide to solicit information from the VAT officials at the Domestic Tax Revenue Division of Ghana Revenue Authority at their office in the Cape Coast Metropolis. The researcher also had discussions with VAT officials basically for the purpose of triangulation. In other words, to confirm or disconfirm the data elicited from the enterprise operators.

Data analysis

According to Creswell (2008), data analysis is a process that involves drawing conclusions and explaining findings in words about a study. The data collected from the questionnaires were edited, coded and analysed based on the procedures within the statistical analysis software tool known as the Predictive Analytic Software (PASW) Version 18.0. The data elicited from the respondents were first grouped for editing. After the editing, they were coded using numerical values (coded manual) for the variable view of the PASW Version 18.0. Test Analytics for Surveys (TAfS), a tool of PASW, was used for coding the data and analysing responses to closed-ended items in the questionnaire.

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

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The main objective of the study was to examine the VAT flat rate scheme for retail businesses in Cape Coast Metropolis. Specifically, the study examines the VAT flat rate scheme on sales of retail products in the Cape Coast Metropolis, the VAT compliance level of retailers, identify the major challenges faced by the retailers in the implementation of VAT flat rate scheme and to identify the challenges faced by VAT officials in the administration of the VFRS in the Cape Coast Metropolis.

The chapter is divided into two main parts. The first part focused on the background characteristics of the respondents. Some of the issues considered were the sex of respondents, age, years of experience as retailers, and highest educational qualification. The second part concentrated on the objectives of the study.

Background characteristics of the respondents

This section deals mainly with the distribution of the respondents by sex, age, years of experience as retailers, and highest educational qualification. The section further examines the number of years the retail business operators have been in active business and the number of years they have been registered as VAT operators. Eight items were formulated in order to collect data on the background characteristics of the respondents. The results are depicted as follow:

Table 3: Age distribution of respondents by sex using cross tabulation

Age group of respondents in years	Sex of respondent				**Total**	
	Male		Female			
	Freq.	%	Freq.	%	**Freq.**	**%**
Less than 30	1	0.8	4	3.3	**5**	**4.1**
30 – 39	4	3.3	11	9.2	**15**	**12.5**
40 – 49	45	37.5	30	25.0	**75**	**62.5**
50 and above	17	14.2	8	6.7	**25**	**20.9**
Total	**67**	**55.8**	**53**	**44.2**	**120**	**100**

Source: Field Data, 2014.

Table 3 present's results on respondents' age distribution by sex. As contained in the table, majority (55.8%) of the retail business operators in the study area were males. The table further shows that majority of both male (67.1%) and female (56.6%) retail business operators were within the age group of 40 – 49 years. However, only 4.1 percent of the retail business operators were less than 30 years. The results in Table 3 show that majority (62.5%) of the retail business operators are within the youthful age group. Based on the probability sampling method used, all respondents were randomly sampled and also all respondents had equal chance of being selected. Therefore, the results is a good indication since the future of the retail business in Ghana is bright because most of the operators still have number of years to work in the business before retirement.

Table 4 contains findings on respondents' highest academic qualification. The table shows that more (37.5%) of the retail business operators had WASSCE/SSSCE/O' Level/A' Level as their highest academic qualification. However, only 8.3 percent and 10.0 percent of the respondents had Bachelor's Degree and Diploma respectively. The results show that most of the retail business operators have relatively lower credentials. However, all the respondents had some level of education which is a good thing for the business.

Table 4: Distribution of respondents by highest academic qualification

Highest academic qualification	Freq.	%
MSLC/BECE	35	29.2
WASSCE/SSSCE/O' Level/A' Level	45	37.5
Diploma	12	10.0
Bachelor's Degree	10	8.3
Others	18	15.0
Total	**120**	**100**

Source: Field Data, 2014.

The study further elicited information on the category of business that the retail business operators are involved in. A close-ended item was used to elicit the data. The results are presented in Table 5. The results in Table 5 show that more (20.8%) of the respondents retail business was categorise as general and provisional stores. Among the operators in this category were 14 males and 11 females. Again, 16.7 percent of the respondents were operating as retailers in the restaurants and bars businesses. Among those in this category were 11 males and 9 females. However, only 7.5 percent of the respondents were operating as handicraft. This was also made up of 5 males and 4 females. The results further show that the study covers most of the categories in the retail business gender consideration in the Cape Coast Metropolis.

Table 5: Distribution of respondents by category business and gender

Highest academic qualification	Frequency (Freq.)		Total
	Male	Female	
Hardware	6	4	10 (08.3%)
Electrical supplies	8	6	14 (11.7%)
Handicraft	5	4	09 (07.5%)
Repair services	7	6	13 (10.8%)
General and provisional stores	14	11	25 (20.8%)
Computer and computer accessories	8	7	15(12.5%)
Restaurants and bars	11	9	20 (16.7%)
Textile/leather works	8	6	14 (11.7%)
Total	67	53	120 (100%)

Source: Field Data, 2014.

The study further elicited information on the respondents' years of trading as retailers. The distribution of number of year's respondents' trade as retail business operators is depicted in Table 6.

Table 6: Number of years trading as a retail business operator

Years of trading as a retailer	Frequency (Freq.)	Percent (%)
Less than 3 years	17	14.2
3 – 5 years	38	31.6
6 years and above	65	54.2
Total	120	100

Source: Field Data, 2014.

As presented in Table 6, majority (54.2%) of the retail business operators indicated that they have been trading as retail business operators for six years and above. The table further shows that 31.6 percent of the retail business operators have been in the business for three to five years. This mean that large chunk of the respondents have been in the retail business for some time now. This is a good sign since the respondents have enough experience in the business which will enrich the study in terms of getting reliable data.

Additionally, the study elicited information on the numbers of year's retail business operators had been in business as VAT registered retailers. The results are presented in Table 7.

Table 7: Distribution of respondents by years of operating as a VAT registered trader

Years of operating as a VAT registered trader	Frequency	Percent
Less than 2 year	7	5.8
2 – 4 years	48	40.0
More than 4 years	65	54.2
Total	**120**	**100**

Source: Field Data, 2014.

As contained in Table 7, out of the 120 respondents, the largest proportion of retailers, that is, 65 representing 54.2 percent had been in continuous business as VAT registered retailers for more than 4 years. Again, it can be observed that 48 retailers (40.0%) had been in active business for 2 – 4 years. However, only 5.8 percent of the respondents had been in business as VAT registered retailers for just less than two years. The findings show that most of the retail business operators captured for the study had been in continuous business as VAT registered retailers for some time now. This is a good sign for the study since the respondents are in good position to provide reliable information to enhance the validity of the study.

Analysis pertaining to the research objectives

This section presents the results pertaining to the research objectives. It focused on the VAT flat rate scheme for retail businesses in Cape Coast Metropolis. Specifically, this section examines the effect of VAT flat rate scheme on sales of retail products in the Cape Coast Metropolis and also the level of VAT compliance by retailers in the Cape Coast Metropolis. The section further identifies the major challenges faced by the retailers in implementing VAT flat rate scheme in the Cape Coast Metropolis. Finally, challenges faced by the VAT officials in administering the scheme would also be discussed. Statistical tools such as frequency and percentage distributions were used to analyse the data. The results are presented as follow:

Objective one - VAT flat rate scheme on sales of retail products in the Cape Coast Metropolis

The first substantive objective of the study was to examine the VAT flat rate scheme on sale of retail products in the Cape Coast Metropolis. Some of the issues considered were; contributions of VFRS to the prices & sales of retail products and business profit for the past five years. Again, competitive advantage of VFRS to retailers was considered since they agitated for VFRS with the main aim of boosting their competitive abilities with the standard VAT operators for customers from government establishments.

Closed-ended items were used to elicit information on these issues. In all, fourteen items were used to elicit information on the effects of VAT flat rate scheme on sale of retail products in the metropolis. The results are presented as follow:

First, the retail business operators respondents were asked to indicate whether the introduction of VFRS brought any changes to the prices of their products. The results are presented in Table 8. The results in Table 8 show that large chunk (93.3%) of the retail business operators were of the view that the introduction of VFRS has slightly resulted to increase in prices of their products. Naturally, there will be a slight increase in prices of the taxable products that will be affected by the VFRS. This is so because the retailers will not absorb the incremental changes that will be caused by the VFRS. The findings support the amended Value Added Tax Act (Act 734). According to the Ghana, Republic of (2007), VFRS operators are not required to keep or maintain a separate register on input taxes and do not take credit for input taxes, but recover such input taxes as part of their costs in arriving at selling price. This condition will automatically leads to an increase in selling price of the various products.

Table 8: Retailers' view on price changes due to the implementation of VFRS

Effect of VFRS on prices of products	Frequency	Percent
Prices went up slightly	112	93.3
Prices went down slightly	0	0.0
No change in price	8	6.7
Total	**120**	**100**

Source: Field Data, 2014.

From the table above, 8 respondents representing 6.7 percent of the respondents opined that there was no change in prices of their retail products. As a follow up question, they were asked to provide reason(s) for their answer. It was a shock to discover that such retailers thought the 3% VAT was a tax slap on them to pay on their sales every month. Others argued that they didn't want non-VAT registered operators in the same market with them take away their customers as a result of 3% marginal increase in prices of their products. The retailers in this group decided to absorb and pay the VFRS for their customers.

Table 9 shows in absolute terms sum of five years' sales for all categories of retailers under study from 2009 to 2013 financial years. The sales figures were obtained by converting the yearly VAT paid to the DTRD by the retailers into sales using ratio. That is, if 3% percent equal to the tax amount then 100% of the tax amount will be sales. This strategy was used to obtain the sales figures because retailers were found not to be keeping proper records on their sales.

Table 9: Total revenue and the yearly average revenue of retailers for five fiscal years all in Ghana cedis

Type of retailer	2009	2010	2011	2012	2013
Hardware	105,000	132,000	170,000	180,000	200,000
Electrical supplies	40,000	48,000	61,000	65,000	75,000
Handicraft	25,000	30,000	40,000	44,000	50,000
Repair services	20,000	23,000	30,000	35,000	45,000
Gen and prov. stores	80,000	83,080	110,000	115,000	125,000
Computer and accessories	105,000	120,000	150,000	156,,000	163,000
Restaurants and bars	120,000	130,000	160,000	165,000	180,000
Text &leather works	55,000	56,400	79,000	80,000	90,000
Total Revenue	**550,000**	**622,480**	**800,000**	**840,000**	**928,000**
Average Revenue	**68,750**	**77,810**	**100,000**	**105,000**	**116,000**

Source: Ghana Revenue Authority, 2014.

For hardware retailers as shown in the above table, the year with the highest increase in total revenue is 2010 fiscal year. The increase of GHS38,000 is 28.80 percent of the previous year's sales. However, 2011 fiscal year saw the least increase in total revenue of same category of retailers. The increase was only by GHS10,000 which is just 5.9 percent of the previous year's total revenue.

The electrical supply retailers with all other retailers, except repair service retailers also saw a large increase in their sales in 2012 fiscal year. The average increase for all retailers for that year is about 23 percent of the previous year's income. The repair service retailers also saw the highest increase in revenue in 1013 fiscal year. The increase was 28.57 percent of the previous year's one. The electrical supply retailers saw the least increase in revenue in 2012 fiscal year. The increase was just 6.56 percent over the previous year's income. The retailers in the textile and leather works industry saw the least increase in revenue 2012 fiscal year just like the electrical supply retailers. The increase was just 1.26 percent of the previous year's income.

The annual total average revenue for all retailers also increased in ascending order. But the highest increase was recorded in 2011 fiscal year. This is in line with the increase in revenue of the individual retailers. The increase was 28.52 percent of the previous year's average sales for all retailers.

Majority of the retail business operators who admitted that VFRS has affected their sales when the figures were shown to them were asked to indicate further what accounted for the change in sales of their retail products. They were of the view that increase in number of customers from both government institutions NGOs and private institutions was the contributing factor to increase in their sales.

Respondents were asked to indicate whether the introduction of VFRS has affected the profit of their business, for the past five years. Majority of the respondents admitted that their sales had increased for the past five years but that didn't result in their profit going up as expected. The respondents were of the view that VFRS has led to a decline in the annual profit of their businesses. They supported their claim that administration and compliance costs increased and offset all gains made from operating as VAT (VFRS) registered traders. Most of the respondents in this group have low level of education and little knowledge on VAT issues. They employed additional hands such as account clerks to help them comply with all the requirements of the scheme and that accounted for the increased in administrative/operational cost of their business.

The profit figures were also obtained from the internal revenue section of DTRD of GRA. Income tax is paid on profit and that made it easier for the yearly net profit of respondents to be determined. However, not all retailers prepared and submitted account for tax purpose. Tax authorities however, had to estimate the net profit of such retailers and taxed them accordingly. The researcher was left with no choice than to also use these estimated net profit figures provided by the tax authorities for this analysis.

Table 10 presents information on the analysis of profit in relation to sales in percentage terms. The yearly averages were used to represent a fair view of all the categories. It can be observed that percentage of annual profit on sales increased only from year 1 to year 2 by 0.10 percent. However, from year 3 to year 5 there was an average decline in percentage of at least 0.40 per annum.

Table 10: Percentage of average profit on average total sales (Revenue)

Year	Average total revenue (ATR)	Average total profit (ATP)	Percentage (%) of ATP on ATR
1 – 2009	68,750	7,000	10.18
2 – 2010	77,810	8,000	10.28
3 – 2011	100,000	8,800	8.80
4 – 2012	105,000	9,000	8.57
5 – 2013	116,000	10,000	8.62

Source: Ghana Revenue Authority, 2014

This result supports the assertion made by the retailers that even though their sales had gone up yet the increase in sales did not result in commensurate increase in profit as expected.

The question on whether retailers had gained any competitive advantage over the market by becoming a VAT registered trader, the respondents gave varied answers. Respondents were to indicate either yes or no on the issue raised by the item. The results are presented in Table 11.

Table 11: The strength of VFRS on competitive ability of respondents

Responses	Has VFRS strengthened your competitive ability with your competitors?	
	Frequency (Freq.)	Percent (%)
Yes	59	49.2
No	61	50.8
Total	120	100

Source: Field Data, 2014.

As contained in Table 10, 50.8 percent of the retail business operators indicated that VFRS does not strengthened their competitive ability with their competitors. However, 49.2 percent of the respondents admitted that VFRS had strengthened their competitive ability with their competitors. The finding supports the view of Barwa (2010) who posits that the retail business is characterised by unregulated and competitive markets which makes it difficult for VAT to have a positive influence on sales. In a formalised market, VAT compliance help to boost business operators' sales because most customers in the formal sector always ensure that they collect VAT receipt when purchases are made. However, in the informal sector, it is difficult for government to regulate business activities of the sector because of its fluid nature. The cost of such an enterprise will far exceed the benefits and in fact such an attempt will be a 'wild - goose chase' is an impossible mission. Therefore, VFRS has less impact on the strength of retailers' competitive ability.

The respondents were further asked to give reasons behind their response. Some of the respondents were of the view that they have become more competitive as a results of VFRS because government agencies that are required by the procurement Act 2003 (ACT 663) to buy from only VAT registered traders had begun buying from them. They indicated further that VFRS has enhanced the image of their business because it saved them from prosecution by law enforcement agencies for non-compliance.

However, respondents who indicated that VFRS did not make them competitive were of the view that it has rather led to decrease in their customer base due to a slight increase in the prices of their goods. These respondents were of the view that non VAT registered traders among them sell their goods at a price lower than the prices charged by the registered traders. Individuals only buy base on the price of the item in a competitive market. This led to increase in sales of retailers who continued to sell their products at a lower/old price. As the 'law of demand' says, "The lower the price the higher the demand, the higher the price the lower the demand". The slight increase in prices of VFRS registered traders led to a reduction in their private customers.

Analysis of findings pertaining to objective two – the level of VFRS compliance by retailers

The researcher wanted to assess the level of retailers' compliance concerning basic VAT issues; respondents were asked to state how often they do some of the basic mandatory requirements of the VAT Act. The study used questionnaire to elicit information on retail business operators' level of compliance with regard to VAT issues. The items used were all close-ended and were measured with three point scale. Categorical scale labelling 'only when demanded', 'after every transaction' and 'once every month' were used. The results are presented in Table 12.

Table 12: Retail business operators' level of compliance on VAT issues

VAT issues	Only when demanded		After transaction		Once every month	
	Freq.	%	Freq.	%	Freq.	%
Issue of VAT invoice	72	60.0	48	40.0	0	0.0
Prepare VAT account	84	70.0	0	0.0	36	30.0
Prepare and send VAT returns	55	45.8	0	0.0	65	54.2
Pay VAT collected to the DTRD of GRA	60	50.0	0	0.0	60	50.0

Source: Field Data, 2014. (N = 120)

It can be observed from Table 12 that only 48 respondents representing 40 percent of the total respondents do issue VAT invoice to their clients after every transaction as required by the VAT Act 1998 (ACT 546). The rest of the respondents numbered 72 and representing 60 percent of the total respondents issue VAT invoice only when the customer demanded it. The findings are consistent with the comments of the Ghana, Republic of (2007) that most VFRS operators do not issue VAT invoices, and even if they do, they do so upon request.

The VAT Act demands that VAT collectors prepare and send VAT returns to the VAT section of DTRD of GRA once every month but from the data collected from the survey, it can be observed that only 65 retailers representing 54.2 percent do prepare and submit VAT returns to the VAT office as per the VAT Act. However, 55 retailers representing 45.8 percent responded that they prepare and submit VAT returns only when the VAT officials demanded them (VAT returns). On preparation of VAT account, 84 respondents representing 70 percent opined that they prepare VAT account only when demanded while 30 percent of the respondents indicated that they prepare VAT account once every month.

The VAT act mandate VAT collectors (i.e. VAT registered retailers of VFRS) to pay the net VAT payable to the Domestic Tax Revenue Division of Ghana Revenue Authority at least the last working day of the month following the month of transaction. However, from the survey it can be seen clearly that only half (50.0%) of the respondents indicated that they have been paying as per the VAT Act. The other half (50.0%) of the respondents also indicated that they go to the VAT office to pay the net VAT collected only when the VAT officials demanded it. Some of the retail business operators further added that they sometimes regard the VAT collected as part of their sales revenue; hence they feel that what they pay to the VAT section of DTRD of GRA is regarded as tax slapped on them. The findings mean that retail business operators do not fully comply with the VAT Act.

The findings are in line with the submission of Baldry (2004) who posits that tax base in most third world countries like Ghana is narrow and the burden of taxation is borne by a small section of the working population, usually those in the formal sector of the economy because most of the people in the informal sector sometimes regard the VAT collected as part of their sales revenue. This makes it difficult for them to comply with the VAT Act since they feel they are losing some part of their sales revenue to the state. According to Baldry (2004), it is difficult to achieve voluntary compliance or effect enforcement from traders and small businesses in such economies because they do not keep records. However, the country can reduced the cost of compliance on the part of the retail business operators if there are meaningful developmental activities within their communities and catchment area by the state, and the desire for the tax to be more equitably distributed (Prichard, 2009).

The study further elicited information on how has the compliance of VAT Flat Rate Scheme affected the administrative work of retailers. A close-ended item was used to tackle this issue. The results are presented in Table 13. As contained in Table 13, 25% of the respondents representing 30 retailers were of the view that the compliance of VAT Flat Rate Scheme has increased their administrative costs due to employment of new staff and monthly filling of returns at the DTRD office. 33.3% of the respondents representing 40 out of the 120 retailers indicated that VFRS had slowed down their work load. They supported their claim that issuing of VAT invoices in addition to their normal cash receipt to customers do not only slow down their work but also delay customers when waiting to collect those documents.

Table 13: VAT Flat Rate Scheme compliance on administrative work of retailers

Responses	How has the compliance of VAT Flat Rate Scheme affected the administrative work of your business?	
	Frequency	Percent
Increase my administrative cost	30	25.0
Slows down my operations and put pressure on me	40	33.3
Increased my bookkeeping load	40	33.3
Decreased my bookkeeping load	3	2.5
It has no effect on my administrative work	7	5.9
Total	**120**	**100**

Source: Field Data, 2014.

Again, from table 13, it could be seen that 40 retailers representing 33.3% indicated that VFRS had led to increase in their bookkeeping load. They argued that records have to be kept on their normal trading transactions as well as those on tax collected. VAT amount shouldn't be added to sales figure hence separation has to be done at the end of each trading day. Finally, 3 respondents representing 2.5% of the retailers opined that VFRS had not led to a decrease in their administrative work and 7 respondents representing 5.9% said VFRS has had no effect on their administrative work. However, these retailers failed to support the assertion with any tangible reason.

The finding corroborates with the comment of Agyeman (2011) who asserted that most retail business operators in Ghana has lower level credentials and even some are illiterate which result to absence of record keeping. They also face challenges such as lack of accountants and the resultant high cost of hiring them, non-accessibility of tax offices, corrupt tax officials and lack of the spirit of voluntary compliance. All these challenges increase retail business operators' administrative work.

The information was examined further to find out respondents' difference with regard to VAT compliance, focusing on certain demographic characteristics such as sex, highest academic qualification, age group and years of training as retailer. The items were measured with five-point scale where one (1) represents the least agreement to the issues while five (5) represents the strongest agreement to the issues. These items were pooled together to form VAT compliance variable.

The study examined the sex difference among respondents with regard to their VAT compliance. The independent sample t-test was used to analyse the data. The results are presented in Table 14.

Table 14: Sex difference among respondents with regard to VAT compliance

Variables	Sex of respondents	Sample size	Mean	SD	t-value	p-value
VAT compliance	Male	67	3.24	0.53	0.92	0.36
	Female	53	3.32	0.52		

Source: Field Data, 2014. (N = 120)

Where N = sample size, and SD = standard deviation.

The result in Table 14 indicates that there was no statistically significant sex difference in retail business operators VAT compliance. However, female retailers have higher VAT compliance level (Mean = 3.32, Std. Dev. = 0.52) than their male counterpart (Mean = 3.24, Std. Dev. = 0.53) relatively. The findings corroborate with the assertions of Osei and Quartey (2005) who posit that sex category of retailers do not have any significant impact on their level of tax compliance. Therefore, retailers' compliance or non-compliance level in the informal sector has nothing to do with their sex.

The next differences the study examined were the differences in their level of compliance with regard to their highest academic qualification. The one-way analysis of variance (ANOVA) was used to analyse these differences. The results are presented in Table 15

Table 15: Retailers level of VAT compliance differences with regards to their highest academic qualification

Dependent variable	AQ (I)	Mean	SD	AQ (J)	AQ (I-J)	F	η^2
VAT	A	3.60	0.28	B	0.24		
compliance				C	0.52		
level	B	3.36	0.50	C	0.28^{**}	13.70^{**}	0.15
	C	3.08	0.46	D	-0.62^{**}		
	D	3.70	0.59	A	0.10		
				B	0.34^{*}		

Source: Field Data, 2014. *p<0.05, **p<0.01 (N = 120)

Where N = sample size, η^2 = eta square, SD = standard deviation, AQ = academic qualification, A = diploma, B = O/A' Level/ SSCE /WASSCE, C = MSLCE/ BECE, and D = Bachelor's degree.

As contained in Table 15, a one-way analysis of variance was conducted to explore the differences in the highest academic qualification of respondents with regard to their level of VAT compliance. Highest academic qualification of respondents was divided into four groups (Group 1: MSLCE/BECE; Group 2: 0/A' Level/SSCE/WASSCE; Group 3: Diploma; Group 4: Bachelor's degree). The Table shows that there was statistically significant difference at the $p < 0.01$ level in retailers level of VAT compliance for the four groups [$F (3, 233) = 13.70$, $p < 0.01$]. The actual difference in the mean scores between the respondents' highest academic qualification groups was large. The effect size calculated using eta squared, was 0.15.

Post-hoc comparisons using the Tukey HSD test indicated that the mean score for the MSLCE/ BECE group (Mean = 3.08, SD = 0.46) was significantly different from O/A' Level/SSCE/WASSCE group (Mean = 3.36, SD = 0.50) and Bachelor's degree group (Mean = 3.70, SD = 0.59). Similarly, there was significant difference in the mean score of MSLCE/ BECE and Bachelor's degree group. However, Diploma group did not differ significantly from the other groups.

The findings show that retail business operators differ in their level of VAT compliance with regard to their highest academic qualification. The findings are congruent with the submissions of Osei and Quartey (2005) who assert that in relation to high illiteracy rate, it is well established that about 60 percent of the retail businesses in Ghana are unlettered which result to the problem of filing out of income returns, preparation of accounts and in general the lack of voluntary compliance. Generally, income return forms are complex to complete and hence calls for one to be fairly educated to enable one peruse the return and complete it appropriately (Otieku, 2008). Otieku added that the VAT return form does not come in the local languages that the illiterates can easily understand, hence the non- declaration of VAT form of tax evasion. Both Osei and Quartey (2005) and Otieku (2008) agree that those that are highly educated levels of VAT compliance are higher than those who are not highly educated.

Discussion of Findings Pertaining to Research Objective Three - challenges faced by retailers in the implementation of VAT flat rate scheme in the Cape Coast Metropolis

The next substantive objective of the study was to examine the challenges faced by the retailer in implementing the VAT flat rate scheme in the Cape Coast Metropolis. In tackling this objective, the study used 12 items in eliciting data from the respondents. Some of the issues considered were the difficulties retailers are encountering with the service, how has VAT compliance affected the image of retailers business, time spend when making payment/submitting VAT returns at the office of the DTRD, and how keeping of records affect retailers business. The analyses are done using frequency and percentage distributions. The results are presented as follow:

All (100%) the retail business operators admitted that they have been encountering some difficulties with the VAT service (DTRD) which to some extent has affected their compliance. The respondents were asked further to indicate some of the difficulties retail business operators are encountering with the service. The results are presented in Table 16.

Table 16: Difficulties retail business operators are encountering in the implementation of VFRS

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

Source: Field Data, 2014. (N = 120)

As depicted in Table 16, 59.2 percent of the retail business operators were of the view that VAT service (DTRD) does not give adequate VAT invoices (booklet) to them. Preponderance number (93.3%) of the retail business operators added that irregular visit to their business premises by VAT officials is a worry to them because element of surprise visit put unnecessary pressure on them. The findings support the decision of constituting the VAT Service /GUTA working group with mandate to come up with a special scheme for informal retail sector that was simpler and easier to operate, that would reduce the burden of compliance for operatives in the sector, and would lead to widening of the tax net (NDPC, 2009). This will go a long way to reduced cost of compliance on the part of retail business operators.

Large chunk (97.5%) of the retail business operators asserted that monthly payment of VAT collected to the service is a burden on them. Again, 42.5 percent of the respondents indicated that the compliance to the VAT act has slowed down their work. For example, the issue of VAT invoice delays their work. On the problem of competition from non VFRS registered trader, 98.5 percent of the respondents opined that they face stiff competition from them making them (VAT registered traders) lose their customers who are price sensitive. The findings are in line with the submission of Agyeman (2011) who posits that because of the low level of education among retail business operators in the country, they normally face challenges such as absence of record keeping, lack of accountants and the resultant high cost of hiring professional. Also, non-accessibility of tax offices, corrupt tax officials and lack of the spirit of voluntary compliance are some of the difficulties they face.

With regard to how VAT compliance has affected the image of the retail business, most of the respondents were of the view that it has saved them from prosecution from law enforcement agencies for non-compliance. They added that it has enhanced their ability to obtain loans from financial institutions and also increased their competitive abilities due to goodwill. The assertions of the retail business operators are congruent with the comments of Goldsmith (2009) who posits that the expansion of the tax base was in the interest of the leadership, who wanted to find a way to ensure that smaller traders paid as much tax as larger traders, thus improving the competitive position of those large traders. This is consistent with relationships between formal and informal sector businesses observed elsewhere.

The retail business operators for the study further indicated that averagely, they spend two hours when they are making payment/submitting VAT returns at the office of the DTRD or taking stationeries like VAT Invoices. According to them, this situation slows down their business operations and also it does not help in the smooth running of their business. This finding is consistent with the earlier ones which indicate that one of the difficulties face by retail business operators is high cost of compliance. This is so because there are only two offices in the region where they can file their VAT returns, and this makes it difficult for them.

Improving the VAT Flat Rate Scheme, the retailers' views

All retail respondents were asked to suggest at least three ways of improving upon the scheme and their suggestions are summarised below:

1. Restructuring of the scheme so that they can claim input VAT. Input VAT is the VAT paid when making purchases. At the current state of the scheme, it is not reclaimable even though their competitors who operate the standard VAT scheme do so. They continued that their inability to claim input VAT has resulted in a decline of their operational net profit.
2. Again, the retailers opined that officials from the service should be supplying them the VAT invoices on time. According to them, the invoices are not supply to them on time. This makes them lose customers who insist on only VAT invoice/receipts at every purchase.
3. Lowering the threshold for registration. As it stands now, the threshold is between the range of GHS100,000 and GHS120,000. This means all

retailers with annual turnover of less than GHS100,000 cannot be registered to charge VAT. They complained that, they are competing with the non-registered retailers for customers in the same market and price sensitive clients always buy from their competitors because of their lower prices due to absence of VAT element on their prices.

4. Improvement in coordination between them and the service. The retailers suggested that cordial interaction between the service and them (especially with their union leaders) will enable them share ideas and work together effectively. As it is now, the activities of tax officials are independent of the scheme operators without any coordination. The traders regard the officials as "police" who are not friends but only to find faults with their business activities. VAT officials on the other hand, regard the registered traders as "VAT fraudsters" who want to deprive government of the needed revenue. Due to this perception, the VAT official make unannounced visit to the premises of the retailers thus putting unnecessary pressure on retailers.
5. Reducing the compliance cost. They retailers suggested that compliance costs associated with monthly filling of returns should be reduced. Time spent at the VAT office in filling returns, pay VAT amount and collecting stationery burden them a lot. They suggested more accessible VAT offices, and an alternative means of making payment to the service (either at bank or through electronic means).
6. Target education on VAT issues. The retailers were of the view that education on VAT are only to the benefits of the standard VAT operators neglecting them. For instance, education on computation of

net tax payable always focuses on output VAT and input VAT. No such education had been limited to the retailers' scheme only. Issues on tax credit/refund as a benefit to the VAT operator are most of the time discussed.

What bores them most is the public perception on fraud associated with VAT. The general public had been made to belief that all VAT operators defraud government by increasing taxable expenditure and decreasing taxable revenue in order to claim more input VAT. This perception, whether true or false, does not apply to them but, distinction should be made for the public to know the difference.

Discussion of findings pertaining research objectives four – challenges faced by the VAT section of DTRD in administering VFRS.

The last substantive objective of the study was to examine the administrative challenges faced by the Domestic Tax Revenue Division of Ghana Revenue Authority in implementing the VAT flat rate scheme for retailers in the Cape Coast Metropolis. In tackling this objective, interview guide questions were used to elicit information from the tax officials. Five tax officials were interviewed during their break time. Five days were used, each day for one official. Each official was asked to mention at least four administrative problems the service is facing in administering the VFRS for retailers in Cape Coast Metropolis. The discussions with them unearthed the following:

First, all respondents in this category indicated that VAT fraud is a major challenge facing the service. VAT fraud was explained to mean under declaration of sales income leading to under payment of tax to DTRD of GRA. They opined that retailers do this by not issuing VAT invoices to cover all the sales made during a particular period even though the goods sold or services rendered were taxed. Out of ignorant many customers too; do not demand VAT invoices from the retailers. This means the retailers do not submit all the tax amount collected from their customers to the government through the DTRD of GRA. According to the tax officials, this singular act does not help them to achieve the targeted VAT revenue leading to reduction in the total revenue to the government of Ghana.

Again, the problem of logistics was also mentioned by the tax officials. They indicated that, logistics needed for effective monitoring are not readily available. Vehicles for patrols and monitoring of retailers are not adequate; invoices are not always available to be distributed to the retailers when they (retailers) need them, even the staff strength was not enough for effective administration and implementation of VFRS. This consequently retards the effort of the DTRD of GRA in ensuring the smooth execution of their mandate and the scheme.

Four out of five tax officials were of the view that VFRS registered traders do not forward their grievances to the service due to the perception that VAT officials are not responsive to their plight. This poses a great deal of challenge to the service due to difficulties they go through in identifying the grievances of the retailers and address them. This perception does not promote cordial relationship between the service and their agents (retailers are officially regarded as the agent of the DTRD when it comes to the collection of VAT)

Poor record keeping by retailers was another problem identified by all the five VAT officials. According to the officials, retailers do not keep proper records that could facilitate easy assessment of the right tax amount filed and paid as returns by the retailers. This has led to the registered retailers filing inaccurate returns. This again does not permit ease cross checking of figures submitted even at the premises of the retailers. The finding is in line with the submission of Bilson (2012) who posits that because of the low level of education and lack of adequate knowledge in accounting, retail business operators in the country do not maintain proper books of account in compliance with the VAT laws.

Inconsistence in filing VAT returns. The service personnel commented on the irregularity of traders in filing their returns. To them, retailers are not consistence in filing their returns. Inconsistence here was narrowed to mean irregular intervals for submitting returns. The VAT Act mandates all VAT collectors to submit returns latest by the last working day of the month following the month of transaction. This makes the filing cycle to be 30 days. This finding however, is a bit contrary to retailers' view in table 12 where more than 54% of them confirmed that they file their returns regularly. Due to the disparity between the two opinions, a valid conclusion cannot be drawn.

The tax officials were also of the view that understaffing has reduced the audit and enforcement capacity of the service. The officials opined that this challenge has put much pressure on them because they have to attend to all manner of people who visit their office, keep records and also monitor field work. Personal monitoring of retailers' activities concerning VFRS is very important especially in a developing country like Ghana where most of the retailers do not keep proper books of account for easy assessment by a third party (Bilson 2012). The VFRS is a self assessment form of tax hence it needs regular and properly monitoring to ensure proper implementation. However, in table 16, more than 93% of retailers were of the view that irregular visit to their business premises by VAT officials worry them because element of surprise visit put unnecessary pressure on them. Would more visit by VAT officials help achieve its aim of monitoring without putting unnecessary pressure on the retailers? Perhaps planned and regularised visit with retailers would do so.

Non- Utilization of online returns designed for the operators of VFRS. They again said that the flat rate registered traders are not utilizing the simplified online returns designed for them. Colossal sum of money was spent on the development of the online software but they are not using them to file returns. Cash was also spent on education on the usage of the system but all to no avail. Perhaps lack of; access to internet facility or interest or knowledge in the field of ICT had contributed to that.

The final challenged stated by the tax authorities during the guided interview was lack of proper control mechanism to enforce most of the issues raised by the VAT registered retailers and the service itself. For instance, voluntary registration clause in the Act does not permit the officials to persecute non VAT registered traders to register with the service. This is a problem because registered traders have being arguing that VFRS led to increase in the prices of their products by 3% whiles their competitors in the same market with them sell their goods and services at lower prices. This makes them lose their individual customers who are price sensitive. This finding is in line with table 16 where more than 98% of the retailers opined that they face stiff competition from non – VFRS registered retailers in the same market.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary of major findings and the conclusions drawn from the study. The key findings are reported, based on the substantive objectives of the study. These are followed by the conclusions and recommendations. The last section provides suggestions for further research.

Summary

The general objective of the study was to examine the VAT flat rate scheme for retail businesses in Cape Coast Metropolis. However, specific objectives of the study examined the VAT flat rate scheme on sales of retail products and services in the Cape Coast Metropolis, the level of VAT compliance by retailers the Cape Coast Metropolis, the major challenges faced by the retailers in the implementation of VAT flat rate scheme in the Cape Coast Metropolis and the challenges faced by the VAT officials in the administration of the VAT flat rate scheme. The study also makes some recommendations on the effective implementation of VAT flat rate scheme.

The study was carried out in the Cape Coast Metropolis and adjoining villages. The study adopted the descriptive survey design. The population for the study consists of retail business operators and VAT officials from the Domestic Tax Revenue Division of Ghana Revenue Authority within the Cape

Coast Metropolis and other surrounding rural communities. The study concentrated on VAT registered enterprises (retailers) with common characteristics. There is no gainsaying the fact that most of the retail businesses in Ghana belong to the informal sector whose activities are very heterogeneous in nature, hence the justification for focusing on only those that are registered is to have accurate data and also to achieve a fairly representative sample size from the population.

A sample size of 125 making up of 120 VAT registered enterprise operators and 5 VAT officials was selected from the population. Lottery method of simple random sampling procedure was used to select the required sample size. The section cut across all the eight groups that were categories based on certain unique features and skills. For purpose of triangulation, the study further elicited information from five of the VAT officers with regard to the VAT flat rate scheme for retailers since they are seen as key players in tax administration issues.

Both primary and secondary source data were used for the study. The questionnaire was the sole data collection instrument used in eliciting primary data from the retail business operators. The questionnaire was made up of both open-ended and close-ended items with four sections which were used to address the research objectives. Data analyses, including cross tabulation, frequencies, percentages, independent sample t-test and one-way ANOVA using the Predictive Analytical Software (PASW) Version 18.0 were applied.

The VAT flat rate scheme on sales of retail products in the Cape Coast Metropolis were examined as the first substantive objective and the key findings were that:

VFRS registered retail business operators admitted that their sales have increased for the past five years but did not result in their profit going up as expected.

Again, some of the retail business operators further added that they sometimes regard the VAT collected as part of their sales revenue; hence they feel that what they pay to the Service is regarded as tax slapped on them.

The finally, retailers opined that becoming VAT registered operators only improve their competition with the standard VAT operators but same could not be said with non-VAT registered retailers.

The second substantive objective of the study also examined the VAT compliance level of retailers in the Cape Coast Metropolis. The main findings that emerged were:

Only 40 percent of the retail business operators issue VAT invoice to their clients after every transaction as required by the VAT Act 1998 (ACT 546). However, 60 percent of them issue VAT invoice only when the customer demanded it.

Again, majority (54.2%) of the retail business operators prepare and submit VAT returns to the VAT office as per the VAT Act (i.e. once every month).

Furthermore, large chunk of the retail business operators asserted that monthly payment of VAT collected to the service is a burden on them. Some of the respondents also indicated that the compliance to the VAT Act (Act 546) has slowed down their work. For example, the issue of VAT invoice delays their work during business hours.

With regard to how VAT compliance has affected the image of the retail business, most of the respondents were of the view that it has saved them from prosecution from law enforcement agencies for non-compliance. They added that it has enhanced their ability to obtain loans from financial institutions and also increased their competitive abilities due to goodwill.

There was no significant sex difference in retailers' level of VAT compliance. However, in terms of academic qualification, those with higher qualification have higher level of VAT compliance than those with low level of academic qualification.

The next substantive objective of the study was to identify the major challenges faced by the registered retailers in implementing the VAT flat rate scheme in the Cape Coast Metropolis. The key findings were that:

First, the scheme has increased the administrative load leading to Increase in cost of registered retailers due to the hiring of personnel with accounting background to man the accounting (record keeping) aspect of their businesses.

The retail business operators opined that irregular visit to their business premises by VAT officials is a worry to them because element of surprise visit put unnecessary pressure on them.

Preponderance number of the respondents indicated that there is only one VAT office in the metropolis and this situation makes it difficult and more costly for retailers to visit at the end of every month to file their tax returns.

The various retail business operators for the study further indicated that averagely, they spend two hours when they are making payment/submitting VAT returns at the office of the DTRD or taking stationeries like VAT Invoices. According to them, the Service (DTRD) at times does not give adequate VAT invoices (booklet) to them.

Competition from non-VFRS registered retailers. The respondents admitted that their fellow retailers who had not registered with the Service had competitive advantage over them when it comes to private individual customers. Products of non-VFRS registered retailers have lower prices than the VFRS registered traders. The difference in prices being the three percent rate of tax on registered retail products.

On how to improve the VAT flat rate scheme, the retailers gave the following suggestions:

First, restructuring of the scheme so that they can claim input VAT. Input VAT is the VAT paid when making purchases. At the current state of the scheme, it is not reclaimable even though their competitors who operate the standard VAT scheme do so. They continued that their inability to claim input VAT has resulted in a decline in their operational net profit.

Again, the retailers opined that officials from the service should be supplying them the VAT invoices on time. According to them, the invoices are not supply to them on time. This makes them lose customers who insist on only VAT invoice/receipts at every purchase.

Lowering the threshold for registration was another suggestion from the retailers. As it stands now, the threshold is between the range of GHS100,000 and GHS120,000. This means all retailers with annual turnover of less than GHS100,000 cannot be registered to charge VAT. They complained that, they are competing with the non-registered retailers for customers in the same market and price sensitive clients always buy from their competitors because of their lower prices due to absence of VAT element on their prices.

Improvement in coordination between the retailers, and the service. The retailers suggested that cordial interaction between the service and them (especially with their union leaders) will enable them share ideas and work together effectively. As it is now, the activities of tax officials are independent of the scheme operators without any proper coordination. The traders regard the officials as "police" who are not friends but only to find faults with their business activities. VAT officials on the other hand, regard the registered traders as "VAT fraudsters" who want to deprive government of the needed revenue. Due to this perception, the VAT official make unannounced visit to the premises of the retailers thus putting unnecessary pressure on retailers.

Reducing the compliance cost. They retailers suggested that compliance costs associated with monthly filling of returns should be reduced. Time spent at the VAT office in filling returns, pay VAT amount and collecting stationery burden them a lot. They suggested more accessible VAT offices, and an alternative means of making payment to the service (either at bank or through electronic means).

Targeted retail education on issues pertaining to the flat rate scheme. The retailers were of the view that education on VAT are only to the benefits of the standard VAT operators neglecting them. For instance, education on computation of net tax payable always focuses on output VAT and input VAT. No such education had been limited to the retailers' scheme only. Issues on tax credit/refund as a benefit to the VAT operator are most of the time discussed. The public perception on fraud associated with VAT. The general public had been made to belief that all VAT operators defraud government by increasing taxable expenditure and decreasing taxable revenue in order to claim more input VAT. This perception, whether true or false, does not apply to them but, distinction is not made for the public to know the difference.

The last substantive objective of the study was to identify the major challenges faced by the VAT Officials in the administration of the VAT Flat Rate Scheme in the Cape Coast Metropolis. The key findings were that:

VAT fraud is a major challenge facing the service. VAT fraud was explained to mean the under declaration of VAT amount payable to the Service by the retailers. Retailers achieve this by understating their turnover.

The problem of logistics was also mentioned by the tax officials. They indicated that, logistics like VAT invoices and vehicles needed for effective monitoring are not readily available. They blamed the GRA for not supplying them on time to DTRD offices for onwards distribution to the retailers.

VFRS registered traders do not forward their grievances to the service due to the perception that VAT officials are not responsive to their plight. This poses a great deal of challenge to the service due to difficulties they go through in identifying the grievances of the retailers and address them.

Poor record keeping by retailers was another problem identified by all the five VAT officials. According to the officials, it is difficult to verify the returns made by the retailers due to lack of proper records keeping

Inconsistence in filing VAT returns. The service personnel commented on the irregularity of traders in filing their returns. Inconsistence here was narrowed to mean irregular intervals for submitting returns. The VAT Act mandates all VAT collectors to submit returns latest by the last working day of the month following the month of transaction but many retailers do not follow that.

Non- Utilization of online returns designed for the operators of VFRS. They again said that the flat rate registered traders are not utilizing the simplified online returns designed for them. Colossal sum of money was spent on the development of the online software but they are not using them to file returns. Cash was also spent on education on the usage of the system but all to no avail. Perhaps lack of; access to internet facility or interest or knowledge in the field of ICT had contributed to that.

The final challenged stated by the tax authorities during the guided interview was lack of proper control mechanism to enforce most of the requirement in the VAT ACT 2013(Act, 870). For instance, voluntary registration clause in the Act does not permit the officials to prosecute non - VAT registered traders to register with the service because they cannot have access to the records of non-VAT registered traders.

Conclusions

The ultimate aim of a lower middle income country like Ghana is to achieve the economic growth and ensure the rapid rate of economic development. It calls for a huge amount of investment in economic overheads and other developmental activities for which taxation is undoubtedly a primary source of internal revenue of government. Taxation is considered as a basic tool in the path of economic development for underdeveloped countries, but this should not be done with the necessary regards to the effects of such tools on the business in the country.

The VAT flat rate scheme do affect retailers positively but profit negatively. This is so because there is very low public awareness with regard to the VAT flat rate scheme. Most retailers or VAT collectors in the Cape Coast Metropolis are not used to issuing VAT invoices and that those who even do that do so upon customer request. This makes it difficult for retail business operators to comply with the VAT act. Some of the retail business operators comply only when the VAT officials come to then or demanded it. Some retail business operators regard the VAT collected as part of their sales revenue; hence they feel that what they pay to the VAT service is regarded as tax slapped on them.

Furthermore, most government agencies and institutions that are mandated to procure materials from only VAT registered traders are now buying in large quantities from the retail business operators which decrease their sale and profit as a whole. Most of the gains made from operating as VAT registered traders were offset by the compliance and additional administrative costs. This was so because there are only two VAT offices in the Central region which makes it more costly for retailers to visit at the end of every month to file their tax returns. However, retail business operators have been encountering some difficulties with the VAT service which to some extent has affected their compliance. Also, irregular visit to their business premises by VAT officials is a worry to retailers because element of surprise visit put unnecessary pressure on them.

It is clear that some retailers have a drop in their trading profit due to the way they treat VAT. They do not collect the VAT but they pay the VAT to the DTRD of GRA. Such traders need extensive education and orientation from the administrators of VAT. Again, there should be a way of enticing all eligible retailers to register with the service. This will remove the avoidable competition between the registered retailers and unregistered retailers. The view point is to broaden the tax base.

Recommendations

On the bases of the research, the following corrective measures are recommended to the management of the GRA for the better administration and implementation of VFRS in Ghana. The management should ensure that:

VFRS is redesigned to work/operate like the standard VAT rate where input tax is reclaimable. Under the current VAT Flat Rate Scheme, retailers have no means of reclaiming VAT they pay on purchases and this serves as a disincentive to many retailers to join the scheme. Retailers only add up input VAT to their operation cost which leads to increase in operational cost and this tends to increase the prices of the goods and services they offer for sale.

Again, the threshold should be lowered so that all retailers can be hooked into the scheme. This will prevent non – VFRS registered traders from gaining competitive advantage over their colleague registered traders in the same market using lower prices as a tool.

Furthermore, making payment of VAT amount with cash or cheque only at the tax office by the traders should be revolutionized. Payment to GRA through DTRD should be done through a named bank account or through an electronic medium so that retailers could make payment to the service at any corner of the country without necessarily going to tax office. Operators of DSTV are able to receive subscriptions from their clients using this innovative means. The GRA can do same to reduce the inconsistence and delay in payment of VAT returns by the VAT registered traders.

Refresher training for retailers should be instituted as annual or biennial events or at least whenever there is a change in the VAT Act. This training could serve as an avenue for sharing of ideas and addressing of grievances from both the retailers and tax officials. This could help reduce the perception that tax officials do not care about the grievances of the retailers. Again, refresher training will help uplift the VFRS compliance rate of retailers.

Finally, closely linked to refresher training is consistent education of all stakeholders of the scheme. This should be done using the various forms of mass media in Ghana. Retailers may refuse to issue VAT invoices with the main aim of under stating sales revenue so that output tax will be very small. However, if the clients of retailers are educated to always demand VAT invoice/receipts whenever the buy any taxable products, the problem of non issue of VAT invoice/receipts could be reduced if not totally eradicated. Linked to this is that non-VFRS registered retailers could be encouraged through education to register their business voluntarily. Providing various facilities to them can increase their compliance. The tax administration can select genuine business persons and reward them.

Limitation of the study

One major weakness of this study is the exclusion of the standard VAT rate of $17^1/_2$% collectors. The views of businesses operators that collect the standard VAT rate could have helped to enrich the research very well but this is beyond the scope of this study. Any further study on this matter should consider the impact of VAT on businesses in Ghana.

The study also cannot capture any change to the VAT Act after December 31st 2013. Tax laws all over the world are very dynamic. Hence some of the information in this study may be out of date by the time any person would be reading it.

Suggestions for further research

The following related areas can be researched on to add up to the knowledge of what this study has achieved. This study concentrated more on VAT Flat Rate Scheme for retail businesses in the Cape Coast Metropolis. The general impact of taxation on businesses in Ghana should be considered as an area for further research.

Another area for further research is to investigate the conduct of tax officials in the administration of tax systems in Ghana. This is because it is a known fact from the survey that in Ghana businesses persons prefer paying cash to some of the revenue officials for no receipt rather than to paying same to the state. The reason respondents provided to this was that they want to avoid been constantly harassed by the tax officials but, is this reason enough?

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APPENDIX A

QUESTIONNAIRE FOR VFRS REQISTERED RETAILERS

UNIVERSITY OF CAPE COAST - SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING

Dear respondent,

I am a student of University of Cape Coast, offering Master of Commerce Programme at the School of Business. This questionnaire is being used to gather information for my research work on the topic "Vat Flat Rate Scheme for retail businesses in the Cape Coast Metropolis". This research is in partial fulfilment of the requirement for the award of a Master of Commerce Degree in Accounting at University of Cape Coast. All the answers you provide will be treated as confidential and for academic purpose only. Kindly complete the questionnaire. Please feel free to answer the questions as objectively as you can. Please tick [√] the appropriate box or write your response which is applicable to you in each question.

Thank you for your co-operation.

SECTION A: DEMOGRAPHIC INFORMATION OF RESPONDENTS

1. What is your sex? Male [ ] Female [ ]
2. What age group do you belong? Less than 30yrs [ ]

   30-39yrs [ ] 40-49yrs [ ] ≥ 50yrs [ ]
3. Including this year, how many years have you been trading as a retailer?

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

4. What highest academic qualification have you obtained?

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

   Bachelors [ ] Other (specify) ……………………………………………

5. What type of retail business do you do?

   Hardware [ ] Electrical supplies [ ] Handicrafts [ ]

   Repair Services [ ] Provision stores [ ] Other (specify)………

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

   Owner [ ] On behalf of the owner [ ]

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

1-3hrs [ ] 4-6hrs [ ] 7-9hrs [ ] ≥10hrs [ ]

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

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

SECTION B: THE VAT FLAT SCHEME (VFRS) ON SALE AND PROFIT OF YOUR BUSINESS.

Please circle or write your response with a writing pen

15. How has the introduction of VFRS affected the prices of your products?

   a) Prices went up slightly.

   b) Prices went down slightly.

   c) No change in price.

16. In general, how has the introduction of VFRS affected the sale of your products for the past three years?

a) Sales went up from average of GH¢……… to GH¢………… per annum.

b) Sales went down from average of GH¢……..to GH¢………. per annum.

c) No change in sale.

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

a) Increase/decrease in number of customers from government agencies and institutions

b) Increase/decrease in number of customers from private institutions.

c) Increase/decrease in number of customers from the general public (individuals).

d) Others (specify)……..……………………………………………………
……………………………………………………………………………..…
……………………………………………………………………………..……

18. How has the introduction of VFRS affected the profit of your business, for the past five years?

a) Profit went up from annual average of GH¢……… to GH¢……………

b) Profit went down from average of GH¢………to GH¢………per annum.

c) No change in profit.

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

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

b) It has increased the numbers of my customers from the governmental agencies whose purchases are governed by the public procurement act, leading to increase in sale and profit.

c) It has led to a decrease in my profit due to increase in cost associated with the compliance.

d) Cost of sales went up/down.

e) Other (specify) ……………………………………………………………
……………………………………………………………………………

20. Has VFRS strengthened your competitive ability with your competitors – standard VAT operators? Yes [ ] No [ ]

21. Has VFRS strengthened your competitive ability with your competitors – fellow retailers who have not registered with the scheme?

Yes [ ] No [ ]

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

a) Government agencies that are required by law to buy from only VAT registered traders began buying from me.

b) My customers went down due to a slight increase in the prices of my goods

c) VAT enhanced the image of my business because it saved me from prosecution from law enforcement agencies for non-compliance.

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

Please indicate how often you do the following:

Item	Only When demanded	After every transaction	Once every month
23. Issue VAT Invoice			
24. Prepare VAT account			
25. Prepare VAT returns			
26. Send VAT returns			
27. Pay Net VAT payable to DTRD of GRA			
28. Collect VAT invoice from suppliers			

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

a) I prepare the invoices myself due to training I received from the DTRD

b) I have employed an additional worker (account officer) to help me do that.

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

a) It has increased the labour cost of my business.

b) It has being slowing down my operations.

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

a) It has increased my administration cost because I have employed an additional person to help me deal with VAT issues.

b) It has decreased my administration cost.

c) It has had no effect on my administration cost.

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

Statements	**1**	**2**	**3**	**4**	**5**
VAT-fraud is widespread in my line of business.					
When I send off my cheque to the tax authorities I think of the money as coming from my business funds.					
My business receives VAT officers, who occasionally visit to examine and verify records during the year 2013					
My business prepares VAT account and maintains up to date relevant business and other accounting records for VAT Flat Rate Scheme purposes					
My business keeps copies of all VAT invoices received					
My business is able to comply with the period for filing tax returns to the VAT Service					

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

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

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

a) I don't get adequate VAT invoices (booklet) from the service.

b) Irregular visit to my business premises by VAT officials is a worry to me because element of surprise visit put unnecessary pressure on me.

c) Monthly payment of VAT collected to the service is a burden on me.

d) It has slowed down my work e.g. issue of VAT invoice delays my work.

e) Other(s) specify ……………………………………….....

....

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

a) It has saved me from prosecution from law enforcement agencies for non-compliance.

b) It has enhanced my ability to obtain loans from financial institutions.

c) It has increased my competitive abilities due to goodwill.

d) Other (specify) ………………………………………………………

....

36. How many hours do you spend when you are making payment/submitting VAT returns at the office of the DTRD?

a) 1 hour [ ] b) 2 hours [ ] c) 3 hours [ ]

d) Other (please specify) ….....................................……

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

38. How does it affect your business when you spend more hours at the office of the DTRD?

a) It slows down my business.

b) It does not help in the smooth running of my business.

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

a) VAT invoices [ ] b) VAT returns [ ] c) VAT account [ ]

Others (please specify) ....…………………….. .

40. How is keeping these records affecting your business? ....
……………………………………………………………………………..…
……………………………………………………………………………..
……………………………………………………………………………..

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

a) VAT officials have been worrying me very often.

b) Not getting adequate VAT invoices from the VAT service (Now under the DTRD)

c) VAT laws are difficult to understand and apply.

d) I don't pay the VAT collected on behalf of the DTRD to the service because I regard it as mine.

e) Failure to apply the VAT laws has led to my prosecution at the law court.

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

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

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

……………………………………………………………………………..

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

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

…………………………………………………………………………………

APPENDIX B

Interview Guide for VAT Officials

Please your responses to these questions would be treated as confidential as possible. The questions are only meant to solicit your views on problems facing the service in its administration and implementation of VAT Flat Scheme for Retailers in the Cape Coast Metropolis. I am a student of University of Cape Coast offering Master of Commerce - Accounting option at the school of Business.

1. Please how many years have you being working as a VAT official in Cape Coast Metropolis?
2. What is your schedule at this office?
3. What are some of the problems that the Service is encountering with retailers in the Metropolis? You may mention three or more.
4. What accounts for each of the problems you just mentioned?
5. What are some of the problems that the Service is encountering as results of bureaucratic issues of the Service? You may mention two or more.
6. What accounts for each of the problems you just mentioned?