

UNIVERSITY OF CAPE COAST

AN INVESTIGATION INTO TAX COMPLIANCE BEHAVIOUR OF
SMALL AND MEDIUM-SIZED ENTERPRISES IN THE KUMASI
METROPOLIS

CYNTHIA TWENEBOAA ANDOH

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METROPOLIS

BY

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DECLARATION

Candidate's Declaration

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

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

Candidate's Name: Cynthia Tweneboaa Andoh.

Supervisor's Declaration

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

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

Supervisor's Name: Mr. Stephen Asante

ABSTRACT

The purpose of the study was to examine the tax compliance behavior of owner-managers of Small and Medium-sized Enterprises (SMEs). The study employed the survey design underpinned by the quantitative approach to research. The sample comprised 150 owner-managers of SMEs in the Kumasi Metropolis selected from three major sectors – manufacturing, trading and services using the stratified sampling technique. Data was collected using a questionnaire and analyzed using mean scores and standard deviations. The results show that the major acts of tax non-compliance committed by SMEs included understatement of income, failure to file tax returns, and failure to pay taxes within the period required. It was found that majority of owner-managers of SMEs could not compute their tax liabilities and file their tax returns by themselves. Moreover, it was revealed that the factors that influence tax compliance behaviour of SMEs could be classified into four major categories – economic factors, social factors, institutional factors, and demographic factors. It was deduced from the findings that SMEs engage in various forms of tax non-compliance due to their limited knowledge in taxation and the seeming weaknesses in the tax administration system in terms of strict enforcement of tax laws and effective tax education. Hence, it was recommended that the Ghana Revenue Authority (GRA) should heighten its public tax education and awareness campaigns with the aim of encouraging positive tax morale among taxpayers.

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DEDICATION

To my parents, Mr. and Mrs. Andoh

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LIST OF ABBREVIATIONS

CEPS	Customs, Excise and Preventive Service
GIZ	Gesellschaft für International Zusammenarbeit
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
IMF	International Monetary Fund
IRS	Internal Revenue Service
ISSER	Institute of Statistical, Social, and Economic Research
NBSSI	National Board for Small Scale Industries
NRS	National Revenue Secretariat
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
SMEs	Small and Medium-sized Enterprises
SPSS	Statistical Package for Social Science
TIN	Taxpayers Identification Numbering
UNTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax

CHAPTER ONE

INTRODUCTION

Background of the Study

Taxation is a major source of government revenue and substantially contributes to economic growth and development. Consequently, an effective and efficient tax system provides a solid basis for enhanced economic growth and development (Appiah, 2013). Agalega (2017) argues that taxation is as old as Adam and dates as far back as the period of ancient civilization, given the historical background of taxation. Agalega reports that in ancient Israel, citizens were required to pay levies to build the Tower of Babel and the Temple of Jerusalem, giving a biblical account to support his claim. Throughout the time of the Roman Empire, subjects in the respective Roman provinces were required to pay taxes to the Emperor through the Governor. Early Roman forms of taxation included, consumption taxes, sales taxes, customs duties, among others (Agalega, 2017; Emmanuel, 2009). The "tributum," paid by residents and generally levied as a head tax, was the principal of these taxes. From ancient times to the present, the concept of taxation has been adopted by countries around the world as the most reliable and important source of government revenue (Fjeldstad & Semboja, 2001).

Taxation has become the main tool used by governments around the world in modern times to generate revenue to fund government projects and services (Antwi, Inusah, & Hamza, 2015). The main purpose of taxation is to increase government's revenue by levying the citizenry in order to raise revenue to finance

public spending. Thus, over time, taxation remains the key source of government revenue in almost all economies across the world (Agalega, 2017). Governments can provide public goods and services through taxation, such as law and order enforcement, property protection, building social amenities, building economic infrastructure and financing the operation of government machinery (Seidu, Abdul, & Sebil, 2015). It can be said that taxation often provides an important way for nations to be financially independent of external assistance, sometimes with unfavorable conditions (Organization for Economic Co-operation and Development [OECD], 2009).

Tax non-compliance can be said to be as old as the concept of taxation itself. By far, tax non-compliance remains the widely identified challenge that hinders the effectiveness of any tax system. Despite this challenge being a global phenomenon, studies have shown that developing countries and most especially sub-Saharan African countries are the worst affected (IMF, 2011). While developed countries record relatively higher tax compliance levels of about 35%, African countries report less than 23% tax compliance rate (Gesellschaft für Internationale Zusammenarbeit [GIZ], 2010).

The tax system in Ghana covers individuals and business organizations in the formal sector as well as the economy's informal sector. Although tax administration in the formal sector has seen tremendous improvement with a very high rate of tax enforcement, same cannot be said of the informal sector which consists mainly of SMEs. SMEs are considered to be the fastest growing economic sector in many developing countries around the world, and the case of

Ghana is no different. It should be emphasized that the informal sector and, in this respect, small and medium-sized enterprises contribute about 86 percent of Ghana's total employment and are projected to have the highest tax revenue potential in view of its increased growth (Asante & Baba, 2011). There is no doubt, therefore, that if the majority of Ghana's SMEs are roped into the tax net, the tax net will be significantly extended to increase tax revenue.

According to Terker (2013), Ghana's tax system appears to be skewed towards the formal sector which majority of individuals and businesses in the informal sector escaping from the tax net. He argues that despite the large size of the informal sector, only about 5% of individuals and businesses in this sector are taxed. Moreover, Fagariba (2016) reported that many SMEs in Ghana deliberately refuse to honour their tax obligations by failing to file their annual tax returns or underestimate their income with the aim of paying less tax than they are required to pay. With the height of pervasiveness of tax non-compliance among SMEs, Ghana is on the verge of losing a significant amount of its required tax revenue to non-compliance. One cannot overemphasize the negative impact of tax non-compliance in terms of revenue loss and its effect on the economy's health in general. It is therefore worthwhile to conduct an inquiry into the tax compliance actions of small and medium-sized businesses to determine the factors that influence taxpayer compliance.

The study area Kumasi is a city in the Ashanti region and is among the largest metropolitan areas in Ghana. It is near Lake Bosomtwe, in a rain forest region and is the commercial, industrial and cultural capital of the historical

Ashanti Empire. It is approximately 500 kilometres north of the Gulf of Guinea. Kumasi is alternatively known as “The Garden City” because of its many beautiful species of flowers and plants. It is the second largest city in Ghana after the capital Accra.

Statement of the Problem

Taxation has proven to be the most efficient and reliable mechanism for governments to raise revenue to fund essential public services and reduce government borrowing rates and overreliance on foreign aid and grants. While tax administration in Ghana has improved in recent times, SMEs are considered to have very low tax compliance rates (Adam, 2009; Fagariba, 2016; Seidu *et al.*, 2015). This confirms the assertion of the International Monetary Fund's claim (IMF, 2011) that taxation is compromise of widespread tax non-compliance such as tax avoidance and tax evasion in most developing countries. Although tax non-compliance may be a growing global trend associated with many countries' tax systems, the hardest hit are developing countries, particularly sub-Saharan Africa (Cobham 2005; Fuest & Riedel 2009).

In reviewing Ghana's tax administration system, Adam (2009) found that government is failing to meet its projected tax revenue due to the non-payment of taxes by the majority of informal sector individuals and businesses. He asserts that SMEs were the worst victims of tax non-compliance, with most of them not even being caught by the tax net and therefore paying no taxes at all. This confirms Erard and Ho (2003)'s earlier statement that tax non-compliance is prevalent among SMEs and companies that do not report to the government or

any third party their income or business activities. Antwi, Inusah, and Hamza (2015) reported that self-employed taxpayers were more likely to commit different forms of tax non-compliance with most of them understating their income in order to reduce their tax liability. Furthermore, Fagariba (2016) found that most SMEs in Ghana's informal sector are engaged in illegal accounting practices to either avoid tax payments or reduce their tax liability.

The issue of tax non-compliance among SMEs in Ghana is very worrying as a tax system plagued by widespread non-compliance puts an unfair burden on honest taxpayers and could serve as a breeding ground for tax evasion (Shahrodi, 2010). According to Antwi *et al.* (2015), it is important to identify the factors influencing tax non-compliance in order to ensure the efficacy of any tax system and to formulate strategies to remove all tax non-compliance loopholes. This implies that it is necessary to identify and understand the factors that influence the decision of an individual taxpayer to pay or evade taxes in order to curb the problem of tax non-compliance.

While couple of studies have sought to examine the tax compliance behavior of SMEs in other jurisdictions, this issue has not received much attention from researchers in Ghana hence the paucity of empirical studies on the topic from the Ghanaian context (Fagariba, 2016; Antwi *et al.* 2015; Asante & Baba, 2011; Asante & Seidu, 2011; and Asante & Seidu, 2012). Moreover, even the few studies that have examined the issue of tax non-compliance have failed to identify the various acts of tax non-compliance to help in shaping the discussion on unacceptable behaviour of taxpayers. Again, prior studies on the topic in an

attempt to investigate the factors that influence tax compliance behavior of tax payers focused on economic factors, socio-cultural factors, and institutional factors, leaving out demographic characteristics of the taxpayer. This research therefore aims to examine the factors influencing tax compliance behavior of owner-managers of SMEs in the Kumasi metropolis by broadening the factors to include demographic characteristics of the taxpayers and identifying the various acts constituting tax non-compliance.

Purpose of the Study

The study seeks to investigate the factors that influence the tax compliance behaviour of SMEs in the Kumasi Metropolis.

Objectives of the Study

The study sought to:

1. Examine acts that constitute tax non-compliance by SMEs
2. Examine the knowledge of owners of SMEs' with regards to the tax laws of Ghana
3. Identify the factors that influence tax compliance behaviour of SMEs
4. Identify the measures for enhancing tax compliance among SMEs

Research Questions

In order to achieve the specific objectives of the study, the following pertinent research questions are formulated to guide the study:

1. What acts constitute tax non-compliance by SMEs?
2. What is the level of knowledge of owners of SMEs in the relevant tax laws of Ghana?

3. What factors influence the tax compliance behaviour of SMEs?
4. What measures can be adopted to enhance tax compliance among SMEs?

Significance of the Study

The study is relevant as it will contribute to research, practice, and policy. Empirical studies on tax compliance behaviour of SMEs in Ghana and sub-Saharan Africa at large are limited. This study, therefore, contributes to the literature from the Ghanaian perspective by investigating the factors that influence tax compliance behaviour of SMEs. In terms of contribution to practice, the study will enhance the knowledge of owners-managers of SMEs on their tax obligations and the essence of honouring such obligations as well as the consequences thereof for non-compliance. This will help in easing the difficulty encountered by tax collection officials in convincing owners of SMEs on why they should pay their taxes regularly. In addition, it is believed that the tax education and recommendations made by this study will inculcate in taxpayers a positive attitude towards tax compliance thereby widening the tax net and increasing tax revenue. The study contributes to policy by exposing the illegal tax avoidance strategies used by SMEs to avoid or evade taxes. This will help the Ghana Revenue Authority (GRA) and its tax collection agents in formulating the necessary strategies to help in mitigating the challenge of tax non-compliance among SMEs thereby roping more SMEs onto the tax net. Also, the study will help GRA in devising ways of improving voluntary tax compliance among SMEs.

Delimitation of the Study

The focus of the study is on the tax compliance behaviour of SMEs in the Kumasi Metropolis. The target population comprises all SMEs in the Kumasi Metropolis with the sample comprising SMEs plying their business in seven major areas (Adum, Asafo, Bantama, Suame, Manhyia, Ashtown and Krofrom) within the central business district of Kumasi. The study area is deemed appropriate because it has an assemblage of diverse SMEs from which the researcher could obtain a representative sample across various industries. The key respondents of the study were limited to owner-managers of SMEs since they decide whether their business will comply with the relevant tax laws or not and therefore influence the taxpaying behaviour of their businesses.

Limitations of the Study

The sample for the study was limited to 150 owner-managers of SMEs from the Kumasi Metropolis despite the large number of SMEs in the Metropolis. This was due to time and monetary constraints which made it difficult for the researcher to capture a very large sample. The small sample size somewhat affected the generalization of the findings to the entire population of SMEs in the Kumasi Metropolis.

Organization of the Study

The study was organized into five chapters. Chapter one gives the introduction of the study by presenting a background of taxation in general and tax compliance behaviour of SMEs in Ghana. The chapter also introduces the problem statement that explains the study's importance and describes the study's

intent as well as the relevant research questions that the study seeks to address. This chapter also covers certain sections such as study importance, study delimitations and research organization.

Chapter Two provides a summary of relevant literature on taxation in general, tax administration reforms in Ghana. It also discusses, among other issues related to the topic, the tax compliance behavior of SMEs.

The rest of the chapters include Chapter Three which forms the methodology section of the study and outlines the methods and techniques used for data collection and analysis. The chapter presents the research design employed for the study and describes the study population, the sampling procedure used in selecting the respondents. Also, issues of validity and reliability of the data collection instruments, data collection procedures and ethical considerations are discussed in this chapter.

Chapter Four consists of the presentation of data and analysis of results. In addition, the chapter presents the discussion of findings with reference to related findings in prior literature. Finally, Chapter Five concludes the study by presenting a summary of the analysis and outlining the key findings. It also includes the conclusions and recommendations made for remedial measures. The chapter ends with suggestions for further study.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter provides a review of relevant literature on tax compliance behavior of businesses. It discusses the definition and contribution of SMEs to the development of Ghana's economy. Also, the issues of the tax system and contributing factors to tax non-compliance are discussed with an emphasis on the actions of SME's tax compliance. In this chapter, the theoretical framework underpinning the study is explored with special emphasis on empirical analysis of results in other tax jurisdictions around the world related to tax compliance issues.

Theoretical Review

Theory of economic deterrence

The study adopted the classical economic model of tax evasion otherwise referred to as the theory of economic deterrence propounded by Allingham and Sandmo, (1972) as the underlying theory that explains the tax compliance behavior of SMEs in the Kumasi Metropolis. The theory is based on the premise that taxpayers are rational economic beings who choose to comply with relevant tax laws and fail to comply with them, based on the cost-benefit analysis. Taxpayers will therefore usually assess tax incentives and disincentives and make their compliance decisions based on non-compliance and compliance benefits costs.

Although the theory of economic deterrence has been criticized for focusing solely on the coercive side of compliance, there is some evidence to support the relevance of deterrence strategies to address non-compliance (McKerchar & Evans, 2009) at the expense of the consensual (Sandmo, 2005). For example, the fear of being caught or the likelihood of detection was found to be an effective strategy to induce truthful behavior in some contexts. Tax administrators have also widely adopted the theoretical principles of economic deterrence in the development of enforcement strategies that rely primarily on sanctions and fines. This theory was therefore used as a theoretical basis in explaining the tax compliance behavior of SMEs in the Kumasi Metropolis.

The Concept of Taxation

Taxation is a mandatory levy imposed by a state or its appropriate body on qualified individuals, corporations and other institutions to generate the revenue needed to deliver public goods and enact macroeconomic and other fiscal policies (Agalega, 2017). Similarly, Fagariba (2016) defines taxation as a compulsory payment made by individuals, businesses and business organizations, irrespective of the particular benefits the taxpayer may receive, but rather to improve the common good of citizens and the nation as a whole. Taxation can thus be characterized as the mechanism by which a government requires contributions to sustain state machinery from its people or from the inhabitants of its territory.

Two key issues are revealed from a careful analysis of the above definitions of taxation: that taxes are compulsory extractions and involve personal obligations for common public purposes and that taxes are the main source of

government revenue from its citizens and businesses in any form. Although a source of government revenue, it should be noted that taxes vary from sources of income because they are mandatory and unrequited levies, i.e. they are usually not levied in return for certain specific things, such as a particular public service, the sale of public property, or the issuance of public debt. Therefore, though taxes are primarily paid for the purposes of taxpayers as a whole, the individual taxpayer's responsibility is independent of any specific benefit received.

Overview of Tax Administration in Ghana

Ghana's tax system has undergone significant tax reforms since 1850 to strengthen tax administration and expanding tax compliance. History of Ghana's tax system shows that the first form of tax imposed on citizens was a customs duty at the rate of 0.5% ad valorem introduced in 1850. The object of this levy was to raise revenue for the then British Colony - Gold Coast government.

The objective of this levy was to collect revenue for the government of the then British Colony–Gold Coast. Another tax was introduced in 1852 and levied as a fixed levy per head to each citizen to generate revenue for the provision of public services and other basic infrastructure. With local chiefs as collection agents, every man, woman and child living in Britain's protected areas was levied 1 shilling per head. Nevertheless, local people resisted paying the tax, making it rather difficult to enforce it and were consequently abolished in 1862.

In 1877, the effort to restore the poll tax failed. It was until 1931 that a new tax, the income tax, was introduced. Like its ancestor, the income tax was met with chaos and a huge public uproar that helped remove it. Nevertheless, the abolition

of the tax was somewhat replaced by an export duty on cocoa beans. (Agalega, 2017)

In September 1943, the introduction of the Income Tax Ordinance (No. 27) saw the Gold Coast's new face of taxation. The tax was imposed on incomes having their sources in Gold Coast such that foreign source was not liable to tax unless it was remitted in Gold Coast. When the Income Tax Ordinance No. 27 was implemented in 1943, a division was appointed to collect the various taxes under the ordinance and was named the Income Tax Division. Some taxes—the 1952 Mineral Duty, 1955 Betting Tax and 1959 Casino Sales Tax—were extended over time. With the introduction of other taxes and duties, the name of the Income Tax Department was changed to Central Revenue Department in 1961 and the following new taxes were introduced: Property Tax in 1961, Entertainment Duty in 1962, Airport Tax in 1963, Excess Profit Tax in 1963, Hotel Customers ' Tax in 1963 and Standard Assessment in 1963. (Agalega, 2017, Nakyea, 2010)

With the income tax system "Pay As You Earn" (PAYE) going into effect on July 1, 1961, the accounting year was adjusted from April-March to July-June 1961. The PNDC adopted the current tax year from January to December in 1983. In 1985, the PNDC set up the National Secretariat for Revenue (NRS) to oversee the revenue agencies. In addition, PNDCL 143 (Internal Revenue Service Law, 1986) changed the name to Internal Revenue Service (IRS) with effect from 1 July 1986 with the reorganization of the Central Revenue Department. The NRS was then repealed in 1991.

The Revenue Agencies (Governing) Board Act 558 was passed in 1998 and the Board was formed in 2001. The Taxpayers Identification Numbering System, Act 2002, Act 632, was adopted as a programme for giving specific identification numbers to taxpayers. Only persons or entities registered under Act 632 can transact business with the Registrar-General's Department, IRS, CEPS, Value Added Tax Service, Controller and Accountant General Department and District Assemblies. (Nakyea, 2010)

On December 31, 2009, the Parliament of Ghana passed the Ghana Revenue Authority Act, 2009 (Act 791) to establish the Ghana Revenue Authority (GRA). The establishment of the GRA saw the integration of the three revenue collection agencies – Internal Revenue Service, Value Added Tax (VAT) Service and Customs, Excise and Preventive Service (CEPS) with one administrative head referred to as the Commissioner-General. The GRA is composed of three major divisions – the Domestic Tax Revenue Division, Customs Division and the Support Services Division. It must be noted that the changes in Ghana's tax administration over the years have contributed to the tax system's effectiveness and efficiency. For example, the reforms have led to providing greater organizational, administrative and financial flexibility for income collection agencies, reorganizing tax institutions along functional lines (as opposed to a tax-based organization) and implementing more rigorous performance monitoring and supervision procedures.

The Concept of SMEs

In contemporary studies, the emergence of SMEs as a major component of every economy's informal sector has made the term very popular. The idea of SMEs did not lend itself to a term that was universally accepted. The definition of SMEs, therefore, depends on how the term is conceptualized by countries or international organizations such as the World Bank, OECD and others. The definition of SMEs in most cases is based on different calculation criteria such as asset value, capital employed, sales turnover or number of employees (Mukasa, 2011).

For instance, the United Nations Conference on Trade and Development (UNTAD, 2000) defines SMEs as businesses involving one to five persons with simple enough activities to be managed directly on a person-to-person basis. In other breath, the European Commission (2003) defines SMEs as enterprises which employ fewer than 250 persons and/or have an annual turnover not exceeding €50 million and annual statement of financial position total not exceeding €43 million. On the other hand, Aderemi (2003) defines SMEs as usually small, owner-managed or family-managed enterprises providing basic goods and services that tend to lack systems of organization and management with the urban ones being more hierarchical than the rural ones.

In line with the assertion of Aderemi (2003), Nkuah, Tanyeh, and Gaeten (2013) describe SMEs as private-owned business entities with a limited number of employees and relatively low sales volume. Many SMEs' forms of business are sole proprietorship or partnership, although some are registered as limited liability

companies but without any clear differentiation or split between the business entity and its owner(s) (Udechukwu, 2003).

Ghana's definition of SMEs is based on the Ghana Statistical Service (GSS) Ghana Revenue Authority (GRA) and the National Board for Small Scale Industries (NBSSI). The GSS (2012) describes SMEs by classifying them into two major classes: small enterprises containing companies employing less than 10 employees, and medium and large enterprises as firms employing more than 10 people. On the other hand, the NBSSI (1994) based its definition of SMEs on the valuation of non-current assets and the number of employees and defines small and medium-sized enterprises as enterprises with more than nine workers with plant and machinery (excluding land, building and vehicles) and not exceeding 10 million cedis. In addition, it must be emphasized that any tax system aiming to facilitate tax compliance for SMEs or provide special incentives for SME development needs to define the segment of the economy that is considered a small or medium-sized enterprise. Hence, the GRA (2012) defines SMEs as businesses with a total turnover between GHS10,000 and GHS5,000,000 (small business GHS10,000 to GHS90,000 and medium enterprises GHS90,000 to GHS5,000,000). The study seeks to employ the definition of SMEs by GRA as a working definition. This is to ensure that many enterprises, especially small businesses, are captured in the study.

SMEs in Ghana are characterized by owner-managers without formal management skills or education, inadequate database, lack of proper record keeping, lack of entrepreneurial skills and inaccessibility of credit facilities,

according to Seidu *et al.* (2015). They argue that, given the high tax non-compliance rate among SMEs; these characteristics make it very difficult to tax SMEs. Although it is said that the informal sector, consisting mainly of SMEs, provides about 80% of the country's jobs (Institute of Statistical, Social and Economic Research[ISSER], 2003), it is surprising to note that the sector contributes less than 27% of total domestic tax revenue (Adam, 2009). This is because SMEs are characterized by widespread tax non-compliance.

Empirical review

The Concept of Tax Compliance

Tax compliance is a complex term that must be defined as complying freely and fully with all tax obligations as laid down by law (Marti, 2010). Doran (2009) defined tax compliance as filing at the right time all required tax returns and accurately reporting tax liability in accordance with the applicable tax code, regulations and court decisions at the time the return is filed. In other words, tax compliance is characterized as an act of compliance with tax laws including true tax base reporting, correct tax liability calculation, timely tax return filing and timely payment of the amount due as tax (Antwi *et al.*, 2015). This means that any taxpayer act that contravenes the provisions of this description and other relevant tax laws entails non-compliance with taxation.

Voluntary tax enforcement is explained by dimensions such as timely filing of any necessary return, accurate reporting of income and tax liability and timely payment of all tax obligations, according to Plumley (1996). According to Terkper (2003), however, most small and medium taxpayers do not voluntarily

register, while those who register still fail to keep appropriate records, file tax returns, and promptly settle their tax liabilities. Fischer, Wartick, and Mark (1992) classified key tax compliance determinants into four group structures consisting of tax system structure, non-compliance opportunities, attitude and perception as direct determinants of tax compliance. The non-compliance incentive per the context of Fisher *et al.* (1992) is a variable that directly influences taxpayer compliance through income level, source of income and occupation, and indirectly through attitudes and expectations. Fisher *et al.* suggest, in terms of attitude and perception, that they are strongly influenced by the fairness of the tax system and peer influence. Eventually, the demographic characteristics of taxpayers such as race, educational level and age have been found to have a significant impact on tax compliance.

Murdvee (2014) describes tax compliance in his paper, the tax behavior psychology, as the ability of taxpayers to pay their taxes. He went further to present three major forms of tax compliance as follows:

- Committed compliance: This is where the taxpayers' willingness to pay their taxes without complaints.
- Capitulative compliance: This refers to reluctantly giving in and paying taxes.
- Creative compliance: This refers to an engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the brackets of the law.

Tax Non-Compliance

The main objective of any tax administration is to raise taxes and duties payable under land laws. Nonetheless, this goal is undermined if qualifying taxpayers fail to comply with the applicable tax laws, resulting in their inability to fulfill their tax obligations. When that happens, they say tax non-compliance is the case. According to James and Alley (1999), failure to comply is likely to reduce both an economic system's efficiency and equity and will have effects beyond the simple act of failure to comply. Thananga, Wanyoike & Wagoki (2013) noted that tax avoidance and evasion is one of the biggest threats to this method of government funding.

Tax evasion has been noted to be directly linked to large budget deficits and therefore lower public goods investment (Fagariba, 2016). Shahrodi (2010) research revealed that a tax system plagued by widespread non-compliance imposes an unfair burden on honest taxpayers, which could serve as a breeding ground for tax evasion.

Tax Non-Compliance among SMEs

Tax compliance of SMEs has become a major concern for developing countries' governments and tax authorities. The challenge in convincing small and medium-sized businesses to meet their tax obligations has diverted large amounts of unearned tax revenue from many developing countries. Moreover, Alley and James (2006) argue that non-compliance with tax affects not only the amount of tax collected but also the implementation of government policies. Because of the growing rate of tax non-compliance especially in developing

countries, the issue of tax compliance has received considerable attention from researchers and tax authorities over the past three decades.

Recognizing the increased tax non-compliance by self-employed and SMEs in Ghana, the GRA has introduced various unconventional means of taxation such as standard assessment, recognizable groupings and most recently, the tax stamp with the goal of expanding the tax net and roping more enterprises and individuals in the informal sector into the tax net (Asante & Seidu, 2012). Given the adoption of different mechanisms to deter tax non-compliance and add more taxpayers to the tax net, non-compliance of SMEs is considered to be on the rise. This means that although appropriate tax policies are designed, there has always been the challenge of tax administrators reaching out to small and medium-sized businesses, which makes them extremely inconsistent with tax regulations (Thuronyi, 2003).

Forms of Tax Non-Compliance

Tax non-compliance can be defined as a taxpayer's unintentional or deliberate failure to fully comply with the relevant tax laws and to honour his / her tax obligations at the appropriate time. Several studies have sought to examine the typology of tax non-compliance, but some studies have made common observations (Long, 2005; Alm & Torgler, 2006; Murdvee, 2014) that tax non-compliance can take several forms. They noted that, depending on the tax system and the characteristics of taxpayers, tax non-compliance could be done intentionally or unintentionally.

In his study on tax non-compliance typology, Long (2005) classifies tax non-compliance into eight major types- procedural non-compliance, unknown non-compliance, asocial non-compliance, symbolic non-compliance, cultural non-compliance, brokered non-compliance and chronic non-compliance.

- *Procedural non-compliance*: This results from non-compliance with guidelines on when to file and which forms to submit. Such violations do not necessarily result in tax liability understatements but are related to the procedures by which income and deductions are declared by the taxpayer.
- *Unknowing non-compliance*: This involves tax underpayment by ignoring complex changing and sometimes ambiguous rules. To the degree that it is possible to identify specific types of unknown avoidance, it may also be possible to develop strategies for educating people about them or structuring compliance.
- *Lazy non-compliance*: This is an extension of administrative non-compliance which includes tax liability rates. This happens if individuals find that they are unable to report valid expenditures for company and health costs and neglect to record additional income for which there is no withholding.
- *Asocial non-compliance*: This is the typical kind of deception believed by the so-called "tax cheater" in which the taxpayer feels less committed to upholding his duty.
- *Symbolic non-compliance*: A gesture or redress for perceived injustices or disparities in tax legislation. This form of non-compliance includes a

small and noticeable group of tax protesters who are actively refusing the payment of taxes because of their frustration with the uses to which they are placed.

- *Social non-compliance*: This develops in the context of a pattern of social or economic relationships in which tax avoidance is taken for granted or explicitly endorsed. Unlike asocial non-compliance, where the single tax evader deliberately establishes the economic circumstances for tax invisibility and evasion, social non-compliance includes an ongoing set of economic and social structures over which the evader has no power.
- *Brokered non-compliance*: The advice of an expert such as a tax accountant, attorney or bond dealer is given. Taxpayers could wander uncomfortably into avoidance in the face of expert advice that "everyone does it" and tacit pressure not to be dumb.
- *Habitual non-compliance*: This, like regular compliance, is evident over time as taxpayers set a pattern of income reporting and deductions. This sort of non-compliance happens when previous tax forms provide starting guidelines while completing the tax form for this year and also give a sense of what to "get away with." Initial instances of brokered or lazy non-compliance can, therefore, be patched and become practically automated.
- *Habitual non-compliance*: This like habitual compliance emerges over time as taxpayers establish a pattern of reporting income and deductions. This form of non-compliance occurs when past tax forms provide

beginning estimates in completing this year's tax form and give a sense as well, of what one can "get away with". Early instances of brokered or lazy non-compliance can, therefore, be corrected and become practically inevitable in subsequent years as normal non-compliance grows.

In his research on the perceptions of the causes of SMEs and Traders Tax Evasion in Ghana's Accra Metropolis, Fagariba (2016) claims that many Ghanaians, especially traders and SMEs, willingly or intentionally refuse to honor their tax obligations by distorting relevant figures related to an assessment after tax liability has been incurred in order to reduce liability. Some also connive to declare their tax obligation under some selfish tax collectors.

In investigating the factors affecting compliance on rental income tax policy by property owners in Nakuru Municipality in Kenya, Thananga *et al.* (2013) found that most common form of non-compliance was through overstatement of expenses and deductions that would, in turn, reduce taxable pay and the amount of tax, similarly understatement of incomes was also common. In describing the nature of tax non-compliance, Kasipillai and Abdul-Jabbar (2006) contend that tax non-compliance may take several forms, which include failure to submit a tax return within the stipulated period or non-submission; understatement of income; overstatement of deductions; or failure to pay assessed taxes by the due date.

Factors that influence Tax Compliance Behaviour

According to Olaoye *et al.* (2017), it is necessary to identify and recognize factors influencing the decision of the person to comply with the provision of tax

laws in order to resolve the problem of tax non-compliance. The factors contributing to tax compliance, however, are diverse and emanate from sources other than the taxpayer. Studies have shown that the factors influencing tax compliance and/or non-compliance vary from country to country and from taxpayer to taxpayer (Kirchler, 2007).

Murdvee (2014) argued in his study on the determinants of tax compliance that, tax compliance is influenced by many factors from different perspectives such as political perspective, socio-psychological perspective and perspective on decision-making. Policy factors included fiscal policy and tax system (tax complexity, tax rates, etc.). The socio-psychological factors of tax compliance included tax knowledge and mental concepts of the taxpayer; attitude, beliefs and evaluations of the taxpayer; personal and social norms; the perceived opportunity to evade tax; perceived fairness of tax system; motivation for voluntary compliance. The decision-making perspective draws on factors such as taxpayers' response based on the probability of tax audit, fines, tax rates and income level.

The factors affecting tax compliance in Ghana was investigated by Emmanuel (2009). The study found a predominance of cash transactions, poor record keeping, high illiteracy rates, low or no entry barriers, lack of established procedures, ignorance of tax laws and the peripatetic nature of the informal sector were the main causes of tax non-compliance in Ghana. Terkper (2007) also stated that taxpayers show different degrees of compliance due to factors such as incomprehension of tax laws; poor bookkeeping and policy apathy. Seidu *et al.*

(2015) found that nature of SMEs, insufficient tax training by tax authorities and multiple taxes are some of the key factors affecting SME tax compliance.

In Uganda, Tsubira and Nkote (2013) investigated the relationship between SMEs' income tax skills and compliance with income tax. Their study revealed that income tax skills are multi-dimensional and substantial income tax compliance predictors. Helhel and Varshalomidze (2015) examined the factors that affect attitudes and considerations of taxpayers on tax compliance in the tourism industry in Georgia. They found that ability to pay tax, accurate tax payment, raising tax morale and consciousness of citizens and reassessment of deterrence policies (such as exemption, audit, penalty and fine) have been perceived as contributing factors toward compliance behavior among taxpayers.

Ali, Fjeldstad, and Sjursen (2013) investigated factors that determine the tax compliance actions of people in Kenya, Tanzania, Uganda and South Africa and found that an increase in individuals' perception of tax evasion, the satisfaction of individuals with the provision of public service and tax literacy influenced tax compliance attitudes in the aforementioned countries.

Furthermore, Devos (2010) indicates that many economic, social, psychological and demographic factors affect taxpayers' compliance behaviors. In addition, Alabede *et al.* (2011) found that the main factors affecting non-compliance include high tax rates, identification probability, law sophistication and tax collection methods. Nonetheless, Chebusit, Namusonge, Biraori and Kipkoech (2014) argue that although several studies have linked the level of tax enforcement with tax rates, fines, social norms, tax administration and tax

equality, it is not clear if SMEs' tax competencies and compliance costs affect compliance levels.

In investigating the relationship between taxpayers' demographic characteristics and their tax compliance behaviour, Birch, Peters and Sawyer (2003) reveal that the ethnicity, qualification, employment status, occupation, income, work experience and tax return filing experience of taxpayers were closely linked to tax compliance behaviour. Saad (2014) identified the factors influencing tax compliance as penalties, detection probability, tax audits, age, gender, tax rate, education, income level, occupation, peer information, income source, attitude, ethics, tax knowledge and fairness perception.

The major determinants of tax compliance were investigated by other studies (Murphy, 2004; Feld, Frey & Targler, 2006; Thananga, Wanyoike & Wagoki, 2013). These studies showed that taxpayers' perceptions of the tax system, peer attitude or subjective standards; taxpayers' understanding of the tax system or tax laws, compliance costs, fines and penalties, detection probability, perceived behavioral control, taxpayer and tax collector morality; tax system equity and taxpayers' demographic characteristics.

Ways of Enhancing Tax Compliance

Tax non-compliance is undoubtedly a very serious problem that rips off a country's tax revenue. The aim of any tax system is to increase tax revenue, among other things, not only by raising tax rates or imposing new taxes but also by expanding the tax net to capture other taxable sectors of the economy. Thus, ensuring high tax compliance rate is one of the best and surest ways of increasing

tax revenue without increasing tax rates or imposing new taxes. For this purpose, tax systems across the globe in many jurisdictions have sought to take steps aimed at encouraging voluntary tax enforcement and enforcing strict measures to ensure compliance with tax requirements.

In evaluating the factors affecting SME tax compliance in North Central Nigeria, Atawodi & Ojeka(2012) found that initiatives such as lowering tax rates, granting tax holidays, granting tax exemptions and improving the relationship between tax officials and SMEs were very successful in ensuring high tax compliance. Akubo, Achimugu & Ayuba (2016) studied small business tax evasion practices in the Kogi State area of Bassa, Nigeria, their results indicated that the best way to improve voluntary tax enforcement is by using simple tax laws that are free of reader nuances, enforcing heavy fines and penalties on tax evaders and defaulters, informing the general public about their tax obligations towards the government, ensuring a fair and transparent tax system and the citizens ' confidence in the system.

In addition, in Georgia's tourism industry, Helhel & Varshalomidze (2015) examined the determinants of tax attitude and tax compliance between SMEs. The study revealed that voluntary tax compliance among small and medium-sized enterprises can be enhanced by considering the ability of taxpayers to pay tax when setting tax rates, ensuring accurate tax payment, raising citizens ' tax morale and awareness and periodically reassessing policy of deterrence (penalties, audits and exemptions, etc.). Olaoye *et al.* (2017) opine a strong tax administration as the solution to tax compliance through means of effective tax policy. Tax

authorities must inform taxpayers on tax laws, offer tax incentives and tax holidays to well-deserved taxpayers and companies, promote voluntary compliance, prevent tax payments by trade unions and alliances and prosecute tax officials engaged in tax fraud and kick-backs.

Regarding tax education and that taxpayer awareness, Mutlu and Taşçı (2013) argue that customer-oriented tax administration promotes voluntary citizens' tax compliance and indicates that tax compliance is higher if people are well informed about the outcome of the vote and taxes are spent in ways that are consistent with the preferences of the citizens. Tusubira and Nkote (2013) propose comprehensive tax training and promotion in Uganda as a means of improving voluntary tax compliance. Kayaga (2007) argues that government and tax authorities have implemented administrative steps such as fines, rates and tax audits to ensure tax regulation rather than compliance.

In Ghana, Adam (2009) suggests that SMEs be informed on the value of tax to the state and be encouraged to pay tax to the government for development projects and that government policy must make tax payments unavoidable for small and medium-sized enterprises. In examining the tax compliance behavior of SMEs in the Kumasi Metropolis using a sample of 70 SMEs, Amanamah (2016) found that tax compliance among SMEs in Ghana could be enhanced by reducing taxes, formalizing SMEs, withdrawing fines and penalties, reducing the cost of tax clearance and adopting simple and easy tax filing procedures. Other measures include initiating massive tax education, increasing the frequency of unannounced tax audits and ensuring tax officials' integrity.

Fagariba (2016) suggested in his study on the perceptions of the causes of SME tax evasion in Ghana that tax authorities should launch a massive campaign against tax evasion and avoidance to improve tax compliance. While increasing tax education on the need for people to pay their taxes on a regular basis and reduce the effect of non-compliance on government tax revenue. Therefore, he suggests that citizens see government as fighting corruption that erodes government revenue, investing in public goods and services, thereby reducing waste and profligacy. It was therefore recommended that tax laws and tax education be rigorously enforced and that tax criminals do not go unpunished to give others a lesson to consider tax non-compliance.

Conceptual Framework of Tax Compliance

From the empirical analysis of the factors influencing taxpayers' tax compliance behaviour, it can be deduced that the factors can be grouped into three main categories—economic factors, social factors, institutional factors and demographic factors as illustrated in the study conceptual framework below:

Conceptual Framework of Tax Compliance

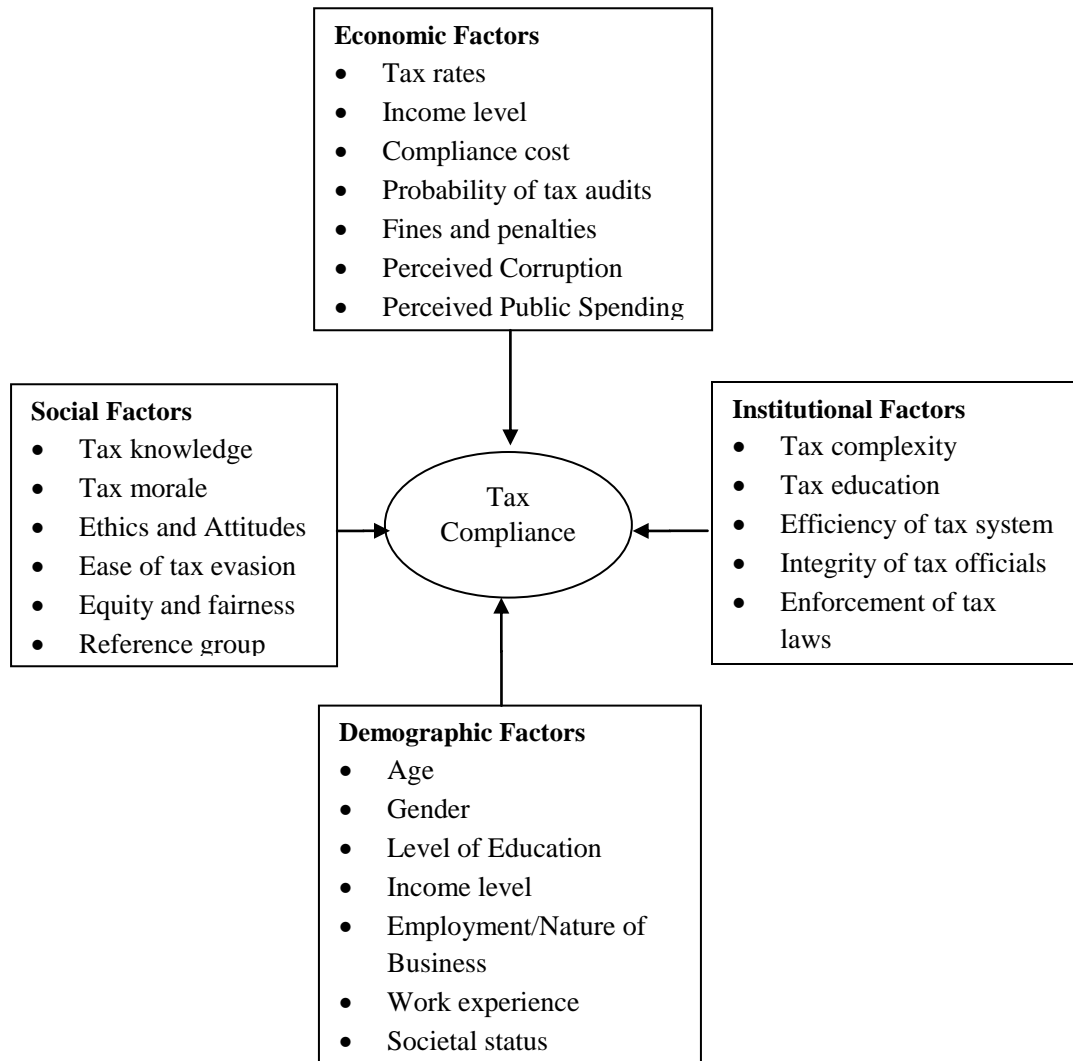


Figure 1: Author's Construct (Andoh, 2018)

Chapter Summary

Taxation has become the main tool used by governments around the world to generate revenue to fund infrastructure and programs. Taxes thus play a major role in each country's development as they are a major source of government revenue used to fund public spending. Taxes can generally be classified as direct or indirect, depending on the tax burden's final resting place. Direct taxes are

those taxes that cannot be passed on to other people from the payer. These include personal income taxes, corporate taxes, taxes on capital gains, taxes on gifts etc. Indirect taxes are taxes whose responsibilities can be passed to third parties from the payer.

The review revealed that the tax compliance behaviour of taxpayers is influenced by several factors, which can be grouped under four major categories – economic factors, social factors, institutional factors and demographic factors. It appears that among these four categories of factors, economic factors have a significant influence on tax compliance behaviour with demographic factors having the least influence on tax compliance behaviour of taxpayers. While several studies have investigated the causes of tax non-compliance in developing countries, it appears studies on the strategies for enhancing tax compliance in developing countries are lacking. Moreover, much of the studies of tax compliance behaviour focused on SMEs in the informal sector leaving out SMEs in the formal sector. At best, studies on SMEs in both sectors will provide broader insight into tax compliance behavior of SMEs so that the issue can be addressed holistically.

CHAPTER THREE

RESEARCH METHODS

Introduction

The methodology for the study is discussed in this chapter. This involves research design, study area, the population of study design, and the sampling procedure used. Furthermore, this chapter discusses the instrument for data collection and the techniques used in data collection. The chapter finally explains the methods used to analyze the study results.

Research Design

A descriptive survey design was deemed suitable for the study based on the purpose of the study and the specific objectives that the study sought to achieve. Kothari (2004) describes a survey as a research design in which a sample is analyzed to determine its characteristics or relationship in order to make a statistical inference to the population. Therefore, considering the large number of SMEs in the Kumasi Metropolis, which makes it difficult to capture all of them in a single research study, the survey design was adopted in order to generalize the findings of the study to cover the entire population of the study based on the selected sample.

Depending on the type of data and how the results of the study will be analyzed, Naoum (2007) postulates that research approaches can be classified into two types, 'quantitative research' and 'qualitative research'. However, based on the type of research questions set out to be answered, the study sought to draw on the quantitative strategy to research for the purpose of data collection and

analysis. The quantitative approach to the research approach was adopted based on the assertion of Kothari (2004) that the quantitative approach involves the generation of data in quantitative form, which can be subjected to rigorous quantitative analysis in a formal and rigid fashion.

Study Area

The city of Kumasi was founded in the 1680s by King Osei Tutu I to serve as the capital of the Asante State. Given its strategic location and political dominance, Kumasi as a matter, of course, developed into a major commercial centre with all major trade routes converging on it (Dickson, 1969). However, it came under the influence of British rule in 1890. With time the city began to expand and grow thereby making it second only to Accra in terms of land area, population size, social life, and economic activity. The Kumasi Metropolitan Assembly (KMA) is one of the 260 Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana, and forms part of the 43 of MMDAs in the Ashanti Region with Kumasi as its administrative capital.

The Kumasi Metropolitan is located in the transitional forest zone and is about 270km north of the national capital, Accra and is located between Latitude 6.35° N and 6.40° S and Longitude 1.30° W and 1.35° E and elevated 250 to 300 meters above sea level. It has a surface area of approximately 214.3 square kilometers which is about 0.9 percent of the region's land area. Its strategic location has also endowed it with the status of the principal transport terminal and has assured its pivotal role in the vast and profitable distribution of goods in the

country and beyond. The unique centrality of the city as a traversing point from all parts of the country makes it a special place for many to migrate to.

The city's beautiful layout and greenery have accorded it the accolade of being the "Garden City of West Africa". From the three communities of Adum, Krobo and Bompata, it has grown in a concentric form to cover an area of approximately ten (10) kilometers in radius. The direction of growth was originally along the arterial roads due to the accessibility they offered resulting in a radial pattern of development. The city is a rapidly growing one with an annual growth rate of 5.47 per cent (Regional Statistical Office, Kumasi). It encompasses about 90 suburbs, many of which were absorbed into it as a result of the process of growth and physical expansion. The Metropolis shares boundaries with Kwabre East Municipal and Afigya Kwabre District to the north, Atwima Kwanwoma District and Atwima Nwabiagya North District to the west, Asokore Mampong Municipal and Ejisu Municipality to the east and Bosomtwe District to the south. The population of the Metropolis according to the 2010 Population and Housing Census stands at 1,722,806 with 823,088 males and 899,718 females.

Population

The population for the study comprised over 2500 SMEs in the Kumasi Metropolis. However, the target population involved SMEs located the central business district of Kumasi covering areas such as Adum, Asafo, Bantama, Suame, Manhyia, Ashtown, and Krofrom. The target population was chosen based on the premise that the selected locations formed the business hub of the Kumasi Metropolis and had an assembly of SMEs who were engaged in various

forms of business activities. Hence, the choice of SMEs located in these areas believed to enrich the study by providing a holistic view of the phenomenon from the perspective of various SMEs engaged in different forms of businesses and with different owner-manager and business characteristics.

Sampling Procedure

The study relied on a sample of 150 owner-managers of SMEs in the Kumasi Metropolis. In the absence of reliable data on the number of SMEs in the Kumasi Metropolis, the researcher arrived at a sample size of 150 on the premise that, this figure was large enough to guarantee a fair representation of the various SMEs in the metropolis for the purpose of statistical generalization. The sample frame involved three major categories of enterprises – manufacturing, trading, and services. Therefore, 50 respondents each made up of owner-managers were selected from the aforementioned three categories of SMEs to make up the sample size of 150 respondents.

The stratified sampling and convenience sampling techniques were employed in selecting the sample for the study. The stratified sampling technique was adopted because it extends the idea of simple random sampling to ensure that a heterogeneous population has its defined strata levels taken account of the sample (Francis, 2004). Therefore, since the SMEs comprised various kinds of businesses that were heterogeneous in nature, a stratified sampling technique was used to achieve a representative sample size from the population. Firstly, the population of SMEs in the Kumasi Metropolis was categorized into three strata – manufacturing enterprises, trading enterprises and services enterprises. The

researcher then selected 50 firms from each stratum using the convenience sampling technique.

With regard to the convenience sampling technique, the researcher selected 50 firms from each of the three strata (manufacturing, trading, and services) based on those she could reach out within the Metropolis and whose owner-managers were willing to participate in the study. It is worth noting that the population for each stratum was too large to the extent that the researcher could not cover every firm hence the choice of 50 firms, which was deemed adequate representative of each strata considering time, effort and monetary constraints.

Data Collection Instruments

Based on the study research design (i.e. survey design), a questionnaire is considered the most suitable tool for data collection. Therefore, the questionnaire was the main tool for collecting data. A questionnaire is a data collection method consisting of a series of questions that are either closed-ended, open-ended or both that require the respondent to provide brief answers regarding a description of current population behaviour, circumstances or attributes at a particular point (Burns, 2000). The questionnaire was used as the main tool for data collection as it is ideal for collecting data from large groups and common respondents as well as obtaining accurate and relevant data from a high proportion of a population within a reasonable period of time and at a minimum cost (Dane, 1990).

One set of questionnaire was designed and self-administered to the respondents at their various workplaces. The questionnaire was designed based on the research questions in such a way that the response items were appropriate in

answering the pertinent research questions. The response items in the questionnaire were developed with reference to issues pertaining to each research question as found in prior literature. The questions were structured as forced-choice response items involving dichotomous or multiple choice and Likert scale types of closed-ended questions. This closed-ended structure of questions was adopted because questions of that nature are easy to ask and quick to answer, require no lengthy writing by the respondent and the results are straightforward to analyze (Naoum, 2007).

The questionnaire comprised five sections: A, B, C, D, and E. Section A consists of dichotomous response questions relating to the demographic characteristics of the respondents while the remaining sections consist of closed-ended questions based on the three research questions. Section B comprises six response items on “acts that constitute tax non-compliance by SMEs”. Section C comprises six response items relating to “the level of knowledge of owner-managers of SMEs in the relevant tax laws”. Section D comprises 25 response items on “factors that influence tax compliance behaviour of SMEs”. Lastly, Section E comprises 14 response items relating to “measure for enhancing tax compliance among SMEs”. Apart from response items in Section A which were answered using dichotomous response options, all other sections of the questionnaire were answered using different categories of five-point Likert scale.

Furthermore, since the study sought to investigate SMEs' tax compliance behaviour, it was assumed that if direct questions were asked about their tax compliance behaviour, they may not be candid in their responses and may be

tempted to give false information. Therefore, in order to avoid the situation where respondents will be insincere with their answers, questions seeking to specifically examine tax compliance behaviors have been framed indirectly so that respondents will feel free to answer the questionnaire. In addition, the questionnaire was designed in a simple and reader-friendly way as most respondents have low or no formal education. Where a respondent was unable to read or write in English, the questionnaire in the local dialect (Twi) was read out to that person. Using this approach, the researcher ticked the answer option selected by the respondents after the reply items were read out to them in Twi and the response options.

Pilot Test of Questionnaire

In order to ensure that the questionnaire was appropriate in terms of measuring what it purports to measure (validity) as well as capable of reproducing data in a consistent manner on repeated trials with just a small margin of error (reliability), it was necessary to pre-test the instrument. The questionnaire was pre-tested in April with 20 owner-managers of SMEs selected from Adum and Asafo. The results from the pre-tested questionnaire were used to examine the reliability of the questionnaire.

Validity and Reliability of Instrument

Concerning issues of content validity, the questionnaire was designed based on the pertinent research questions with reference to constructs from prior literature. In addition, a draft of the questionnaire was submitted to the researcher's supervisor for perusal and his expert advice for necessary corrections

and modifications to be made. The comments and suggestions from the supervisor guided the researcher in improving upon the face and content validity of the instrument. In terms of reliability of the instrument, the results from the pilot test were analyzed using Cronbach's alpha reliability coefficient test with the help of the Statistical Package for Social Science (SPSS version 22). Cronbach's alpha reliability coefficient test has been widely used to measure internal consistency of Likert scale type of questionnaire by computing an alpha coefficient expected to lie between 0.7 and 0.95 for the instrument to be deemed reliable (Tavakol & Dennick, 2011).

Data Collection Procedure

Ethical Considerations

The fact that humans are the objects of study in social science, research raises questions about ethical issues that would not be applicable to natural science research in clinical laboratory settings. Guided by the University of Cape Coast's ethical procedures and research guidelines, the researcher took into account issues related to informed consent, respondent anonymity and information confidentiality.

The concept of informed consent emphasizes the importance of the researcher accurately informing respondents of the nature of their research, and the process including the topic, time commitment, type of activity and all potential physical and emotional risks (O'Leary 2004). Informed consent implies that the respondents are competent; are involved voluntarily; are aware of their right to discontinue; are not coerced and not induced to participate in the study. In terms of anonymity of respondents, it must be noted that privacy is an individual's

right and researchers must bear in mind the importance of safeguarding the privacy and identity of respondents and act with the necessary sensitivity where the privacy of respondents is relevant. Protection of confidentiality may among other things include ensuring respondents do not identify themselves by their real names in the study and ensuring that the publication of the research findings is done in a manner that does not allow for ready identification of respondents. In maintaining the confidentiality of information provided voluntarily by respondents, it is required that information obtained from respondents and used for academic purposes only and treated with the utmost confidentiality and not under any circumstance be disclosed to any other party. Guided by these ethical principles, the informed consent of respondents, anonymity and confidentiality of information were carried out accordingly.

Different ethical issues related to research were addressed before the start of the data collection process. Firstly, the researcher obtained an introductory letter from the Head of Accounting Department of the University of Cape Coast School of Business to be used as an official document to introduce herself to the participants in the study. The author made copies of the letter and circulated it to all of the 150 respondents proposed to formally inform them of their intention to use them in their sample as respondents. In addition, the author took the opportunity to explain the intention and goals of the study to prospective respondents during the process of distributing the introductory letters. Furthermore, the respondents had booked a date and time so that the questionnaire could be administered to them without any inconvenience.

The respondents were asked to remain anonymous throughout the process of answering the questionnaire and were not to identify themselves by their real names anywhere in the questionnaire. In terms of confidentiality, the respondents were informed beforehand in the questionnaire and by word-of-mouth that the questionnaire was intended purely for academic research purposes only. It was reiterated that any information, answers, opinions or views expressed in the questionnaire will be treated with the utmost confidentiality and will not under any circumstance be disclosed to any their party.

Data Processing and Analysis

Data analysis involves a series of processes whereby raw data from the questionnaire or other sources is converted into meaningful results. Questionnaire responses were collected, coded, and entered into version 21 of the SPSS and manipulated to produce quantitative results. The findings were analyzed and displayed in tables using frequencies, percentages and mean scores.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The section offers an overview of the study results. The findings of the questionnaire were interpreted and evaluated with respect to the specific goals set for achieving them. Also, the chapter includes the analysis of results related to previous research to decide whether the findings present supports or contradicts findings from different previous studies.

l place for many to migrate to.

Demographic Characteristics of Respondents

At the end of data collection, the researcher was able to retrieve 145 out of the 150 questionnaires administered to the respondents. This represented a response rate of 96.7%. It is worth noting that the study was able to achieve this very high response rate because the respondents were required to answer the questionnaire on the spot after which they were collected. Notwithstanding, five respondents failed to return their questionnaires after asking the researcher to go and come back the next day for collection. Therefore, the results in Table 1 show the demographic characteristics of the 145 respondents who returned their questionnaires.

Table 1: Demographic Characteristics of Respondents

Variable	Frequency	Percentage
Gender		
Male	85	58.62
Female	60	41.38
Age		
Below 30 years	20	13.79
30 - 39	48	33.10
40 - 49	55	37.93
50 – 59	15	10.34
60 years and above	7	4.82
Level of Education		
Basic education	23	15.86
Secondary education	64	44.13
Tertiary education	40	27.58
Non-formal education	13	8.96
No formal education	5	3.45
Number of Children/Dependents		
1 – 5	35	24.14
6 – 9	49	33.79
10 and above	61	42.07
Type of Business		
Manufacturing	50	34.48
Trading	50	34.48
Services	45	31.04

Source: Field Survey, Andoh (2018)

It can be observed from Table 1 that 85 of the respondents representing 58.62% were males with 60 representing 41.38% being females. This implies that majority of SMEs in the Kumasi Metropolis are owned or managed by males. It

was revealed that majority of the respondents were below the age of 50. For instance, 55 (37.93%) of them indicated that they were within the 40 – 49 age category with 48 (33.10%) indicating that they fall within the age group of 30 – 39. However, only less than 5% indicated that they were either 60 years or above. The age distribution of the respondents indicated that majority of them were adults who were exposed to the Ghanaian tax system and to whom taxation of business income may not be a new thing.

With regards to the level of education of the respondents, it was found that majority of them had acquired some level of education with 64 (44.13%) and 40 (27.58%) indicating that they have acquired secondary and tertiary education respectively. However, 5 (3.45%) of them stated that they had no form of formal education while the only form of education for 13 (8.96%) of them was non-formal education. With the high number of the respondents indicating that they have acquired some level of education, it is believed that they were in a better position to understand basic tax laws and their tax responsibilities as citizens.

It is not for nothing that the tax laws of Ghana provide relief for dependents/children when computing an individual's tax liability. This may be explained from the point that the number of one's dependents/children affects the level of one's disposal income; therefore it is only appropriate that tax relief is granted to cater for the dependents of taxpayers. In this regard, the study sought to find out if the number of children/dependents of owners of SMEs has an effect on the behaviour towards the payment of tax. The results showed that 61 (42.07%) of the respondents have on average 10 dependents they take care of. In addition,

over half of the respondents indicated that they cater for the needs of between 1 – 9 dependents. This includes children and aged dependent relatives. It is worth noting that the current children's education relief (maximum of three children) and aged dependent relative relief (maximum of two relatives above 60 years) is GH¢200 per child a year and GH¢100 per relative a year respectively. The results imply that in the absence of tax relief for dependents, owners of SMEs with many dependents will develop apathy towards tax compliance. Lastly, it can be observed from Table 1 that the respondents were somewhat evenly distributed across the three categories of businesses with manufacturing and trading having 34.48% respectively while services had 31.04%.

Characteristics of SMEs

Table 2 presents the characteristics of SMEs to help readers understand the background of SMEs and how their tax compliance behavior might be influenced by these characteristics.

Table 2: Characteristics of SMEs

Characteristics of SMEs	Frequency	Percentage
Type of Business		
Manufacturing	50	34.48
Trading	50	34.48
Services	45	31.04
Ownership Structure		
Sole proprietorship	105	72.41
Partnership	5	3.45
Joint venture	11	7.59
Limited liability company	3	2.07
Family business	21	14.48
Business Registration		
Registrar General	34	23.45
KMA	85	58.62
Trade Union	18	12.41
Not registered	8	5.52
Size of Business (By annual income)		
Income below GH¢10,000)	30	20.69
Income between GH¢10,000 and GH¢100,000)	77	53.10
Income above GH¢100,000)	38	26.21
Type of Taxes Paid		
Income tax	142	97.93
VAT	134	92.41
KMA Levy	127	87.59
Property tax	89	61.38
Import duties	59	40.69

Source: Field Survey, Andoh (2018)

The findings in Table 2 showed that the respondents are distributed equally between two industries, with 50 respondents each representing 34.48 percent in both manufacturing and trading records. However, the services sector had 45 respondents representing 31.04%. In terms of ownership structure of the SMEs, it emerged that about three-quarter (105) representing 72.41% of the SMEs were owned by individuals and registered as sole proprietorship businesses. Notwithstanding the fact that all businesses in Ghana are required to be registered with the Registrar General's Department (RGD), it emerged that of the 145 SMEs used in the study, only 34 of them representing 23.45% were registered with the RGD. Also, over half (85) representing 58.62% stated that they have registered with the Kumasi Metropolitan Assembly (KMA). Again, 8 (5.52%) were not registered at all. It is necessary that SMEs register with the RGD so that they can be captured for the purpose of taxation. However, per the results as shown in Table 2, it appears that majority of SMEs in the Kumasi Metropolis has not been registered with the RGD.

With regards to the size of SMEs in terms of annual income, it was found that 77 of the SMEs representing 53.10% could be classified as small businesses based on their annual income of between GH¢10,000 and GH¢100,000. In terms of the type of taxes paid by SMEs, 142 of them representing 97.93% reported that they pay income tax. In addition to income taxes, 134 of the SMEs representing 92.41% indicated that they pay VAT. Apart from these two forms of taxes, 127 of them representing 87.59% further indicated that they pay KMA levy in addition.

Moreover, it was found that the SMEs paid other forms of taxes such as property rates 89 (61.38%) and import duties 59 (40.69%).

Acts of Tax Non-Compliance by SMEs

This section presents the findings of the views of SMEs ' owner-managers on what they consider to be tax non-compliance actions.

Table 3: Acts of Tax Non-Compliance

Acts of Tax Non-Compliance	Mean	SD
Outright failure to pay taxes	4.76	0.96
Understatement of income	4.68	1.04
Non-submission of tax returns	4.24	0.87
Failure to submit a tax return on time	2.15	1.16
Overstatement of deductions	1.02	1.34

Source: Field Survey, Andoh (2018)

The results in Table 3 showed that failure to pay taxes on one's income was the most common and grievous act of tax non-compliance as shown by the highest mean of 4.76. The act of outright refusal to pay taxes was regarded by majority of the respondents as an act of tax evasion which was against the laws of the country and should not be entertained in any way since it was a criminal act that deprived the government of the needed tax revenue to function.

Considering the direct relationship between one's level of income and taxes paid on the income, it emerged that SMEs tend to understate their income when filing their tax returns in order to reduce their tax liability as indicated by a mean of 4.68. For lack of audited financial statements and proper books of

account, tax officials tend to rely on self-reported profits of SMEs in computing their tax liability. Knowing that tax officials have no order easy means of ascertaining the profits of SMEs who do not keep proper books of account, SMEs take advantage of the deficiency and under declare their income in order to pay less taxes.

Also, failure to submit the required tax returns by SMEs to the appropriate tax authorities was found to constitute an act of tax non-compliance as shown by a mean of 4.24. Every business is required to voluntarily file its tax returns for the year with the GRA and therefore failure on the part of SMEs to comply with this tax regulation was perceived to amount to an act of non-compliance with the tax laws. The results on whether late filing of tax returns constitutes an act of non-compliance were missed as indicated by a mean of 2.15.

However, majority of the respondents did not regard the overstatement of deductions as an act of tax non-compliance as shown by the low mean of 1.02. This implies that the perception and understanding of tax non-compliance by owners of SMEs have more to do with the failure to pay taxes but not the failure to comply with certain portions of the tax laws if, at the end, such breaches may not lead to non-payment of the taxes. This calls for more tax education to sensitize taxpayers on the various acts that constitute tax non-compliance other than tax evasion and the seriousness attached to violations of tax laws. It is necessary to broaden the mind of the public on what actually constitutes tax non-compliance because it appears that the general understanding of tax non-compliance is limited to tax evasion.

The study revealed that deliberate refusal to pay taxes, failure to file tax returns, late payment of taxes after issued deadlines and understatement of income with aim of paying fewer taxes were the major act of tax non-compliance committed by SMEs. These findings are consistent with that of Kasipillai and Abdul-Jabbar (2006) who contends that tax non-compliance takes various forms such as failure to submit a tax return, understatement of income, or failure to pay assessed taxes by the due date. In addition, the findings corroborate the assertion of Fagariba (2016); Thananga *et al.* (2013) that SMEs deliberately refuse to honour their tax obligations by understating their income and overstating allowable deductions with the intention of reducing their taxliability.

Moreover, the results showed that though SMEs may overstate their allowable deductions for reducing their level of income to be taxed, majority of the respondents did not see this act as wrong or a violation of the tax laws though, in reality, they amount to an act of tax non-compliance. This implies that managers of SMEs' understanding of tax non-compliance are somewhat limited to tax evasion and not acts that will reduce one's tax burden if it ends the person still paying some amount as tax. However, the results contradict that of Fagariba (2016); Thananga *et al.* (2013) who revealed that SMEs deliberately overstate their allowable deductions when filing tax returns in order to reduce their level of income so that they could pay less tax.

Frequency of Committing Act of Tax Non-Compliance

This section presents views of respondents on the probability that SME owner-managers will participate in various forms of tax non-compliance. Although the question seemed to be too broad and not addressed to the individual respondents, this approach was considered the best way to examine the tax compliance actions of the respondents as they were likely not to be candid in their answers as human beings if the question were addressed to them. This findings in the frequency at which SMEs are engage in different forms of tax non-compliance.

Table 4: Frequency of Committing Act of Tax Non-Compliance

Acts of Tax Non-compliance	Mean	SD
Understatement of income	4.84	1.32
Failure to submit a tax return on time	4.67	0.97
Non-submission of tax returns	3.52	1.26
Overstatement of deductions	1.09	1.15
Outright failure to pay taxes	1.04	1.15

Source: Field Survey, Andoh (2018)

From Table 4, it can be observed that SMEs mostly understate their income in order to reduce their tax liability as shown by the highest mean of 4.84. Since majority of SMEs in Ghana do not keep proper books of account, tax authorities find it difficult to ascertain their income for the purpose of taxation. In most cases tax officials rely on the income estimates provided by SMEs in the face of lack of proper financial records for purpose of computing their tax

liabilities. However, it appears SMEs find it convenient to understate their income in order to reduce their tax liability more so when the tax officials cannot estimate the level of their income with certainty due to improper bookkeeping and accounting practices of SMEs.

It was revealed that majority of SMEs do not submit their tax returns on time even when they have been given notices of the deadline of filing their tax returns. This was shown by a mean of 4.67, which implied that majority of SMEs fell victim to this act of violating the tax laws in relation to filing of tax returns. Notwithstanding the penalties thereof for late submission of tax returns, it appears that majority of owners of SMEs seem unperturbed about the cost of non-compliance relating to failure to file their tax returns on time. It may also imply that the penalties for this offence are either not enforced or even if they are enforced the amount of fees charged as penalties may be insignificant that they seem not serve as a deterrent to SMEs.

It emerged that majority of SMEs do not submit their tax returns at all in clear violation of the tax laws of Ghana as indicated by a mean of 3.52. While owners of SMEs may know answer in the affirmative as to whether they evaded taxes, in fact, their non-filing of tax returns largely is tantamount of tax evasion by SMEs. From the responses of majority of the respondents to this response item, it appears to suggest that majority of SMEs tend to evade taxes by failing to file their tax returns with the GRA. The results showed that SMEs rarely engaged in acts such as overstatement of deductions and blatant refusal to pay taxes computed on them as indicated by low mean scores of 1.09 and 1.04 respectively.

On the issue of overstatement of deductions, it is not surprising that SMEs do not often engage in this act of non-compliance because most SMEs do not engage in tax planning and may not even really know how to go about massaging the deductions due to them with the aim of reducing their tax liability. With regards to failure to pay the right amount of taxes computed on SMEs by tax officials, it appears to suggest that the recent tax education and awareness campaigns, as well as the granting of tax amnesty for SMEs which hitherto evade taxes since 2014 to date, has encouraged voluntary tax compliance among SMEs.

The results showed that SMEs often engage in acts of non-compliance such as understatement of income, failure to file tax returns, and non-submission of tax returns. This confirms the position of Terkper (2003), Antwi *et al.* (2015) who found that SMEs often fail to keep proper financial records and end up understating their income with the aim of paying less tax. Also, the findings are consistent with the assertion of Fagariba (2016) that majority of SMEs in the informal sector of Ghana engage in illegal accounting practices to either avoid paying taxes or reduce their tax liability. Concerning the failure to file tax returns, the findings support the claim of Terkper (2003) majority of SMEs in Ghana fail to register with the RGD so that they can avoid paying taxes by not filing tax returns.

Knowledge of Owner-Managers of SMEs' in the Tax Laws of Ghana

The findings in Table 5 refer to respondents' views on their level of tax awareness and Ghana's tax laws.

Table 5: Level of Tax Knowledge of Managers of SMEs

Level of Knowledge in Taxation	Mean	SD
Filing of tax returns	2.78	1.32
Understanding of tax laws	2.31	1.42
Tax planning	2.05	1.30
Claim procedures	1.75	1.23
Procedures for appeal	1.15	1.29

Source: Field Survey, Andoh (2018)

In assessing the knowledge of owner-managers of SMEs in taxation and the relevant tax laws applicable to them, it emerged as shown in Table 5 that generally the respondents' level of knowledge in taxation was poor as shown by the low means scores of less than 3. The areas where the respondents indicated that they have some considerable understanding of taxation involved the filing of tax returns as shown by a mean score of 2.78. In terms of understanding of the relevant tax laws, tax planning, procedures for filing claims, procedures for appeal, the mean scores of 2.31, 2.05, 1.75 and 1.15 respectively showed that majority of the respondents had very limited knowledge in these areas. Thus, using a score 5 which represents "very knowledgeable" as used in the response scale in the questionnaire, mean scores below 2.5 implies that majority of the respondents had limited knowledge in the various areas of taxations. This provides evidence to suggest that failure of SMEs' to submit tax returns on time as revealed in the preceding section could be attributed to their inability to file the

tax returns themselves and had relied on the help of other people such as tax experts or tax officials from the GRA.

The respondents' level of understanding of the relevant tax laws applicable to SMEs was found to be low with majority of them having difficulties in understanding the provisions in the tax laws that apply to them as indicated by a mean of 2.31. It will not be far-fetched to assume that majority of the challenges facing SMEs in terms of their inability to file tax returns and voluntarily comply with the relevant tax laws is due to their lack of understanding of the tax laws applicable to them.

Again, it is obvious that where a person lacks understanding of the concept of taxation and the relevant tax provisions applicable to him/her, such an individual cannot engage in any meaningful and fruitful tax planning activities as shown by a low mean of 2.05. It must be emphasized that tax planning is an activity that requires in-depth understanding of the provisions in tax law so that one can manage his/her affairs to take advantage of the provisions in reducing his/her tax liability. Therefore, it is not surprising that majority of the respondents indicated that they have poor knowledge in tax planning considering the fact that these same respondents have admitted earlier that they had difficulties in understanding the tax laws applicable to them.

Moreover, it emerged that majority of the respondents had poor knowledge in processing tax claims as shown by a mean of 1.75. Once again, if the basic knowledge in taxation is lacking as has already been established, then it stands to reason that majority of the respondents will have difficulty in processing

tax claims by themselves. Similarly, majority of the respondents indicated that they cannot initiate a tax appeal process by themselves as shown by a low mean score of 1.15.

Factors that influence Tax Compliance Behaviour of SMEs

This section addresses the factors influencing SME owner-managers' views and attitudes towards tax compliance. Table 6 presents the respondents' views on the degree to which the factors listed below affect their decision to comply with or fail to comply with the applicable tax laws.

Table 6: Determinants of Tax Compliance Behaviour of SMEs

Factors influencing Tax Compliance	Mean	SD
Economic Factors		
Tax rates	4.53	0.99
Perceived public sector corruption	4.41	1.08
Perceived government spending	4.37	0.94
Income level	4.10	1.25
Probability of tax audit	4.06	1.13
Fines and penalties	4.02	1.15
Compliance cost	3.65	1.44
Social Factors		
Ease of tax evasion	4.22	1.32
Tax knowledge	4.01	1.27
Tax morale	3.89	1.45
Attitudes and ethics	3.35	1.26

Influence of reference groups and peers	3.16	1.32
Equity and fairness of the tax system	1.03	1.53
Institutional factors		
Strict enforcement of tax laws	4.70	1.85
Tax education	4.18	1.01
The efficiency of tax system	1.51	1.32
Tax complexity	1.42	1.07
The integrity of tax officials	1.02	1.37
Demographic factors		
Level of Education	4.27	0.85
Nature of business	3.94	1.45
Societal status	3.15	1.36
Gender	1.32	1.05
Work experience	1.14	1.28
Age	1.03	1.43

Source: Field Survey, Andoh (2018)

As observed from Table 6, the factors that influence the tax compliance behaviour of SMEs can be grouped under four main categories – economic factors, social factors, institutional factors and demographic factors. With regard to the economic factors, it was revealed that all the factors under this category except compliance cost strongly influence the behaviour of owner-managers of SMEs toward tax compliance. Apart from compliance cost scoring a relatively low mean of 3.65, the rest of the factors had means above 4 with tax rates,

perceived public sector corruption, and perceived government spending obtaining high mean scores of 4.53, 4.41 and 4.37 respectively. The high mean scores of all but one of the factors in this category implies that majority of the respondents strongly agreed that these factors strongly influenced their tax compliance behaviour.

Ordinarily, people do not pay taxes merely for the beauty of doing so, but because they are somewhat compelled by law to do so mindful of the severe sanctions of non-compliance. Hence, it is no surprise that high tax rates will serve as a major disincentive for voluntary tax compliance because ordinarily, no one will wish to pay much of their income as tax. Moreover, considering the nature of Ghana's tax system where at a particular prevailing tax rate people with more income tend to pay a high proportion of their income as tax, an increase in tax rate will tend to discourage SMEs from willingly complying strictly with the tax laws in that no business enjoy paying more taxes. Hence, high tax rate may appear to the tendency of encouraging tax non-compliance among SMEs. On the contrary, it must be emphasized that reduction in tax rate may not necessarily lead to high tax compliance if there are avenues to evade taxes by SMEs.

There is no doubt that corruption in the public sector by public officials and in connivance with private individuals is the bane of Ghana's sorry state of affairs in terms of development and economic growth. Over the years, corruption has permeated almost every sector of the public service from the judiciary through parliament and to the executive arm of government. In fact, corruption in the public sector has transcended from being a perception of reality. Therefore, if the

public who pay taxes to finance government spending come to the realization that the money they contribute from their toils ends in the pocket of corrupt public officials who use for their personal gains, then chances are that they will be discouraged from paying taxes as revealed by the result of the study. It was found that the perception of owner-managers of SMEs about corruption in the public sector was one of the major factors that discourage them from voluntarily paying their taxes to the state.

Like corruption in the public sector, the results of the study showed that citizens will be encouraged to willingly honour their tax obligations only if they are convinced that their taxes are put to proper use by the government of the day in terms of providing the needed public goods and services. Though taxes are compulsory payments to which the taxpayer should not expect a direct economic benefit, people pay taxes with the hope that their monies will be put to proper use by the government for the benefit of all citizens. Therefore, if it turns out that such monies are not used judiciously by the government people will be discouraged from paying tax resulting in high tax non-compliance as revealed by majority of respondents in the study.

In addition, factors such as income level of SMEs, probability of tax audit and the strict enforcement of fines and penalties for violating tax laws to a greater extent had an effect on the attitude of owner-managers of SMEs towards the payment of taxes. Though SMEs with a high level of income may not necessarily be willing to pay more taxes, however, low income SMEs may tend to evade taxes or not comply with some provisions in the tax law in order to avoid paying

taxes. This is because taxes drain business income and for that matter SMEs with low income will tend to pay less tax or engage in act of tax non-compliance just to avoid paying the taxes they are required to pay. Some of the measures for discouraging tax evasion and non-compliance are frequent tax audits and the imposition of fines and penalties on tax defaulters. It is believed that when these measures are strictly enforced, SMEs will have no option but to comply with the tax laws or face the consequences thereof. On the contrary, when these measures are relaxed, it will create room for tax non-compliance as revealed by the study.

Though the cost of compliance with tax laws by SMEs appeared to have a low mean score when compared with the rest of the factors in the “economic factors” category, the value of the mean score was found to be significant. This implies that among other factors, SMEs consider the cost incurred in hiring a qualified accountant or tax expert for managing their tax issues. When such cost is deemed to be high, there is the likelihood that SMEs will not engage the services of a tax professional and will tend to rely on the advice of friends and colleagues when dealing with tax issues. This situation ends up leading to the violation of relevant provisions in the tax law by SMEs resulting in high rate of tax non-compliance.

It was revealed that the major social factor that influences the tax compliance behaviour of SMEs was the ease of evading tax without any sanctions due to laxity in the enforcement of tax laws as indicated by majority of the respondents with a mean of 4.22. Since there is no direct benefit to the taxpayer for paying their taxes, people sometimes feel reluctant to honour their tax

obligations in the absence of strict enforcement of tax laws. Thus, unless they are compelled to pay taxes by punishing acts of non-compliance, SMEs may find it safe to evade taxes at the least opportunity due to the nature of the informal sector in which they operate. Most especially in an informal sector where SMEs do not register their businesses with the RGD so that they could be captured by the tax net neither do they keep proper books of account to help tax officials to properly ascertain their level of income for tax purposes, tax non-compliance will continue to be on the ascendency.

Over time, studies have shown that tax education is an effective way of enhancing the awareness of citizens to honour their civic responsibility of paying taxes to the government. Through tax education, people acquire the basic knowledge of the essence of taxation and why it is incumbent on them to honour their tax obligations as citizens as revealed by the majority of the respondents as shown by a mean of 4.01. Lack of knowledge in taxation on the part of owner-managers of SMEs makes the concept of taxation very strange to them that make them tend to question the rationale behind the payment of taxes. However, when people acquire the basic knowledge and get well informed about the importance of taxation and why it is necessary for them as citizens to pay their taxes, voluntary tax compliance will be enhanced.

As revealed by the results, an individual's morale towards a tax system in terms of his/her confidence in the system and enthusiasm about the need to pay taxes for the collective good of society is a major factor that influences taxpayer's behaviour towards tax compliance as shown by a mean of 3.89. Thus, the inner

desire to pay taxes unconditionally based on one's personal conviction and not by any form of coercion or compulsion is a prerequisite towards voluntary tax compliance as indicated by majority of the respondents in the study. However, tax morale among taxpayers will be reduced if there is an indication that their taxes are not used for the collective benefit of the public but are dissipated by corrupt public officials.

The effect of the actions of friends and reference groups on an individual's behavior towards a particular phenomenon cannot be underestimated. As shown by a mean of 3.16, the majority of the respondents indicated that their decision to comply or not to comply with the relevant tax laws applicable to them might depend on the behaviour of their colleagues and friends towards the same situation. Thus, perceived frequency or acceptance of tax non-compliance among friends and reference groups was likely to influence the tax compliance behaviour of others in the same group as posited by Murdvee (2014).

It is believed that an individual's personal disposition to respond favourably or unfavourably to a particular situation or phenomenon has a strong influence on his/her behaviour towards the phenomenon. As with the behaviour of owner-managers of SMEs towards tax compliance, it was established that the attitudes and ethics that a person holds towards the concept of taxation influence their level of tax compliance as indicated by a mean of 3.35. It is obvious to suggest that where individuals adopt a negative attitude towards taxation they will engage in acts of tax non-compliance at the least opportunity. On the other hand,

where they develop a positive attitude towards taxation, they will voluntarily honour their tax obligations as required of them.

The issue of equity and fairness of a tax system did not appear to be a major factor that influences the behaviour of SMEs towards tax compliance as shown by a low mean of 1.03. This implies that ordinarily, owner-managers of SMEs do not base their decision to comply with tax laws on the fairness and equity of the tax system. Since Ghana's tax system is equitable and follows a proportional system of taxation, the issue of unfairness in the tax system may not arise and for that matter, the perception of unfair tax system by SMEs is nonexistent.

Other groups of factors that were found to influence the behaviour of SMEs towards tax compliance were related to the institutional and legal framework of taxation. For instance, majority of the respondents indicated that they are compelled to comply with the relevant tax laws when they sense strict enforcement of tax laws with accompanying sanctions as shown by a mean of 4.70. It is normal to assume that people will violate tax laws when they feel that such laws are not strictly enforced and that one can violate them and go unpunished. On the contrary, where the tax regime is very effective and tax laws are strictly enforced, tax non-compliance becomes difficult since taxpayers are mindful of the consequences of non-compliance.

Lack of understanding of the tax laws by owners of SMEs and other individuals in the informal sector may be attributed to a lack of tax education and awareness campaigns. As revealed by the study, effective tax education enhances

tax compliance by SMEs as indicated by a mean of 4.18. When taxpayers received useful information on their tax obligations and how they can file their tax returns by themselves, it will encourage them to adopt a positive attitude towards taxation and voluntarily comply with the relevant tax laws applicable to them.

The results showed that institutional factors such as the efficiency of tax system, tax complexity and integrity of tax officials were not factors that strongly influence the behaviour of owner-managers of SME towards tax compliance as shown by the low mean scores of 1.51, 1.42, and 1.02 respectively. These factors did not appear to influence tax compliance behaviour of SMEs because ordinarily owner-managers of SMEs were not in a position to determine the efficiency or otherwise of the existing tax system neither could they ascertain the integrity of tax officials by mere interaction with them. In addition, taxation is a special subject that even professionals like doctors, engineers, pharmacists among others find it difficult to understand with the help of tax professionals. Therefore, the mere fact that owner-managers of SMEs find it quite difficult to understand some concepts and tax laws applicable to them does not provide them the excuse not to comply with such provisions.

With regards to the influence of demographic characteristics of taxpayers on their behaviour towards tax compliance, it was revealed that one's level of education somewhat influences his/her understanding of the civic responsibility of honouring their tax obligation. Thus, owner-managers of SMEs who have acquired some level of higher education and could understand the essence of

taxation would develop a positive attitude towards tax compliance as shown by a mean of 4.27.

Again, it was revealed that the nature of business in which SMEs are engaged in to a larger extent determines its level of tax compliance as shown by a mean of 3.94. For instance, SMEs that are engaged in manufacturing or trading activities that required them to submit tax identification number (TIN) and VAT receipts when conducting some transactions are likely to adhere to the relevant tax laws and pay their taxes as expected of them. On the other hand, SMEs whose activities do not demand that they deal with government officials or formal institutions that require tax receipts when dealing with them may not necessarily take issues of taxation seriously.

In addition, one's social status was found to be a major factor that influences his/her attitude towards tax compliance. As shown by a mean of 3.15, majority of the owner managers of SMEs believed that people who are well respected in society and hold respectable positions at their work places, church, social and traditional organizations by the virtue to their social status tend to comply with the relevant tax laws. This is because people of high social status are held in high esteem in society and will be a disgrace or an indictment on their part when it comes out that they do not honour their tax obligations or they are engaged in acts of tax non-compliance. So, they tend to set good examples to others in society by complying with the relevant tax laws applicable to them.

However, other demographic characteristics of owner-managers of SMEs such as gender, work experience, and age were found not to have a strong influence on an individual's attitude towards tax compliance as shown by low mean scores of 1.32, 1.42 and 1.02 respectively. This implies that among other demographic characteristics of owner-managers of SMEs, gender, age and work experience appeared to be too remote from having any relationship with the tax compliance behaviour of taxpayers. This suggests that there will not necessarily be a difference between the level of tax compliance of males and females merely due to their gender differences. Also, the results showed that age does not really make any difference in terms of influencing the tax compliance behaviour of people neither does work experience matter in determining the level of tax compliance of individuals or owner-managers of SMEs.

The results showed that the tax compliance behaviour of SMEs is influenced by several factors comprising economic, social and institutional factors as well as demographic characteristics of the taxpayer. This is consistent with the assertion of Devos (2010) that many factors economic, social, psychological and demographic dimension so the taxpayers and the tax system have a strong influence on the compliance behaviour of taxpayers.

It emerged that the major factors that influence tax compliance behaviour of SMEs in tax rates, perceived corruption in the public sector, perceived government spending, income level, frequency of tax audit, severity of fines and penalties, strict enforcement of tax laws, ease of tax evasion, tax knowledge of the taxpayers, tax education, influence of reference group, and nature of business

among others. These findings are consistent with that of Saad (2014) who identified the factors that influence tax compliance to include sanctions in the form of fines and penalties, frequency of tax audits, probability of detecting tax evasion, tax rate, education, income level, occupation, peer information, source of income and tax knowledge.

Furthermore, the findings corroborate the position of Murdvee (2014) who outlines the factors that influence tax compliance to include tax rates, perceived opportunity of evading tax, probability of tax audit, fines, tax rates, tax morale and income level. The findings relating to difficulty in understanding tax laws due to lack of tax knowledge and tax education confirm the assertion of Seidu *et al.* (2015) that tax non-compliance is rife among SMEs in Ghana lack of lack of tax knowledge on the part of managers of SME and inadequate tax education by tax authorities.

The results relating to perceived corruption in the public sector and wasteful government spending, lack of tax knowledge and understanding of tax laws, are in support of earlier findings of Terkper (2007). For instance, Terkper reported that taxpayers demonstrate various degrees of compliance owing to factors such as lack of understanding of the tax laws; apathy towards government due to corruption and wasteful public spending. In addition, findings relating to such as income level of the taxpayer vis a vis tax rates, tax morale and severe fines and penalties appeared to influence tax compliance corroborate the position of Helhel and Varshalomidze (2015). Thus, Helhel and Varshalomidze found that ability to pay tax, raising tax morale and consciousness of citizens and deterrence

policies such as penalty and fine were factors that influence compliance behavior among taxpayers.

In addition, it emerged that people will tend to evade taxes when there are opportunities that easily do so without being detected. This corroborates the assertion of Murdvee (2014) that the opportunity not to comply is one of the most important determinants of tax evasion or avoidance. Again, the performance of the government of the day in terms of the provision of basic social amenities and infrastructure and the prudent management of the economy may well be a factor that influences the attitude of citizens towards taxation. This is consistent with that of Ali *et al.* (2013) who reported that the perception of individuals about the difficulty of evading taxes and individuals' satisfaction with public service provision tend to have a strong influence on the attitude towards tax compliance.

However, the findings relating to factors such as tax complexity, the efficiency of the tax system, equity and fairness of the tax system, gender of the taxpayer, age and work experience were found not to have a major influence on the tax compliance behaviour of owner-managers of SMEs. The results relating to perceived fairness of the tax system appear to contradict the assertion of Chebusit *et al.* (2014); Murdvee (2014); Saad (2014). These studies argued that perceived unfairness in the tax system and the feeling of other taxpayers are treated better than others relative to the benefits a taxpayer draws from public goods to a large extent influence the tax morale of taxpayers. Also, the findings on demographic characteristics such as age, gender and work experience appeared to be inconsistent with the findings of Saad (2014) on age and gender of taxpayers.

Again, on tax complexity, the findings appear to contradict that of Alabede *et al.* (2011); and Murdvee (2014) who contend that the difficulty of understanding tax laws and filing procedures influence the level of tax non-compliance.

Measures for Enhancing Tax Compliance among SMEs

The information in Table 7 presents respondents' views on the measures that the GRA can take to improve voluntary tax compliance among SMEs.

Table 7: Measures for Enhancing Tax Compliance among SMEs

Measures for Enhancing tax Compliance	Mean	SD
Reduction in tax rates	4.86	0.95
Massive tax education and awareness campaigns	4.63	1.04
Strict enforcement of tax laws	4.54	1.65
Granting of tax amnesty	4.52	1.53
Reduction in public sector corruption	4.34	1.03
Provision of tax reliefs and exemptions	4.31	1.37
Simplification of tax filing system	4.02	1.13
Encouraging proper bookkeeping and accounting	3.98	1.43
Providing assistance in filing tax returns	3.95	1.22
Embarking on unannounced tax audits	3.85	1.14
Ensuring equitable, fair and transparent tax system	1.34	1.31
Reduction in tax compliance cost	1.02	1.17

Source: Field Survey, Andoh (2018)

The study sought to seek the views of respondents on the measures they believe could encourage owner-managers of SMEs to adopt a positive attitude towards tax compliance. The results presented in Table 7 showed that the majority of the respondents proposed a reduction in the prevailing tax rates in order to encourage high compliance among SMEs as shown by a mean of 4.86. In recent times, businesses have raised concerns about some of the fiscal policies of government especially the introduction of various forms of taxes and increase in the VAT rates. Since there is a direct relationship between the level of income and amount of taxes paid, high tax rates mean more businesses' income will be paid as tax thereby reducing their profit after tax. Thereby, majority of the respondents are of the view that as a way of increasing tax morale and encouraging high tax compliance, tax rates applicable to SMEs should be reduced.

It was suggested that tax education and awareness campaigns to sensitize the public and particularly business owners on the essence of complying with the relevant tax laws, as well as the consequences thereof for non-compliance, should be embarked upon by the GRA as indicated by a mean of 4.63. It is believed that tax non-compliance among SMEs who are most in the informal sector is partly due to the lack of understanding of the tax laws and procedures for filing tax returns. It was revealed that owner-managers of SMEs lack knowledge in taxation and also do not hire qualified accountants or tax experts to handle their tax matters. Hence, it was suggested that an effective tax education could help SMEs in understanding the basics of taxation and how to file tax returns by them thereby

reducing tax non-compliance caused by lack of understanding or ignorance of the relevant tax laws.

The importance of every law lies in the extent to which the law can be enforced and tax laws are no exception. As indicated by a mean of 4.54, majority of the respondents admitted that they will have no option by to comply with the tax laws applicable to them is such laws are strictly enforced by the GRA with the necessary sanctions meted out to individuals who fail to comply with the laws. The essence of strictly enforcing the tax laws of Ghana cannot be overemphasized because it put fears in individuals who intend to engage in acts of tax non-compliance thereby reducing the level of non-compliance.

Another way of encouraging voluntary tax compliance among SMEs as reported by a majority of the respondents and indicated by a mean of 4.52 was the granting of tax amnesty to SMEs, which hitherto fail to pay the required taxes. It may not be out of place to assume that SMEs which deliberately refused to honour their tax obligations for over a period of time will continue to find ways of evading taxes for fear of being asked to pay all the taxes they have evaded with penalties if they ever make the attempt to start paying taxes. Therefore, it is believed that when SMEs, which have not paid taxes over a period, are granted tax amnesty to start on a fresh page, they will now be encouraged to adopt a positive attitude towards tax compliance.

It was found that tax compliance among SMEs could be enhanced when steps are taken to reduce corruption in the public sector and win back the trust and confidence of citizens as indicated by a mean of 4.34. The perception of public

sector corruption does not only make individuals lose confidence in the government and public sector institutions but demoralizes citizens from paying taxes. This is because when citizens cannot be assured that their hard-earned income part of which is paid as taxes will be put to proper use but will only end up in the pockets of corrupt public officials they are better off evading taxes. Therefore, it was suggested that owner-managers of SMEs would be encouraged to honour their tax obligations when they see that the government of the day is making efforts in fighting corruption in the public sector.

Another measure deemed effective in encouraging voluntary tax compliance among SMEs is the granting of tax reliefs and exemptions as indicated by a mean of 4.31. In order to cushion the effect of tax on the taxpayer, tax reliefs and exemptions are granted to reduce the amount of tax to be paid at a particular time or waive a tax for the period based on some considerations. When the necessary tax reliefs are granted to SMEs it reduces their tax liability and the financial burden imposed on them by the tax. This serves as an incentive to pay taxes on time and as required since the original tax burden has somewhat been reduced by the reliefs granted. Also, based on the nature of business and/or location of the business, tax exemptions may be granted for a period of time as a way of encouraging investment and business growth. It is expected that after the exemption period has elapsed businesses will take steps to start paying the required amount of taxes which were hitherto they were exempted from paying.

While owner-managers of SMEs appear to have difficulty in understanding the tax filing procedures, it is believed that when the processes of filing tax returns and making tax appeals are made very simple it will encourage tax compliance as indicated by a mean of 4.02. There is no doubt the technical terms and legal jargon used in tax laws make it difficult for non-tax professionals to understand the laws as comply with them accordingly. Therefore, businesses and individuals with poor knowledge in taxation have to resort to the advice of professional accountants or tax professionals when dealing with tax matters. This comes at a cost and in order to avoid the additional cost of hiring a tax expert to handle the tax related matters of SMEs, they tend to comply with the laws based on their limited understanding of the law. This sometimes leads to violations of the tax laws resulting in non-compliance. Therefore, it is believed that when the tax laws are made simple to understand by the average literate person, it will help avoid some of the acts of non-compliance caused by a lack of understanding of the tax laws and procedures.

Furthermore, majority of the respondents found measures such as ensuring that SMEs keep proper books of account, the GRA recruiting tax agents to provide assistance to SMEs in handling tax related issues and the tax officials embarking on regular unannounced tax audit of SMEs to be very helpful improving the level of tax compliance among SMEs as indicated by mean scores of 3.98, 3.95 and 3.85 respectively. However, measures such as fair and transparent tax system as well reduction in compliance cost appears not having

strong influence on tax compliance behavior of SMEs as indicated by low mean scores of 1.34 and 1.02 respectively.

The study found that in order to increase the tax morale of owner-managers of SMEs and enhance tax compliance among SMEs, it is necessary to reduce the prevailing tax rates, which are decried by majority of taxpayers, are killing their businesses. In addition, it was suggested that SMEs should be granted tax reliefs and exemptions to cushion their tax burden, which they found to be overly burdensome. The granting of tax amnesty for SMEs who hitherto failed to honour their tax obligations over a period was seen to be a motivation for SMEs to start paying taxes instead of continuing to evade tax because of their inability to pay the penalties for tax evasion over a period. Other measures include embarking on massive tax education, increasing the frequency of unannounced tax audits, ensuring integrity of tax officials and reduction in public sector corruption.

These findings are consistent with that of Atawodi and Ojeka (2012), who found that measures such as reducing tax rates, granting tax holidays, and granting tax exemptions and were very effective in ensuring high tax compliance. Concerning tax education, reduction in rates, simplification of tax filing system and tax laws and imposition of heavy fines and penalties on tax evaders, the results support the views of Akubo *et al.* (2016). Akubo *et al.* (2016) suggested that, for government to reduce the rate of tax non-compliance the tax system must ensure the use of simple tax laws devoid of reader complexities, imposed heavy fines and penalties on tax evaders and defaulters and educate the general public on their tax obligations.

On raising tax morale through tax education and awareness campaigns and using deterrent measures such as fines and penalties to curb tax non-compliance, the results supported the position of Adam (2009); Fagariba (2016); Nkote (2013); Helhel and Varshalomidze (2015); Mutlu and Taşcı (2013); Olaoye *et al.* (2017) who posited that in order to ensure high tax compliance, the tax administration agency and the government should raise tax morale and consciousness of citizens through effective tax education and awareness campaigns as well as the strict enforcement of sanctions in the form of fines and penalties for tax non-compliance.

Nevertheless, the finding of strict enforcement of tax laws by imposing fines and penalties on tax defaulters and evaders was found to contradict Amanamah's (2016) position that tax compliance between Ghana's small and medium-sized enterprises can increase the removal of fines and penalties and the reduction in the cost of tax clearance. Furthermore, the suggestion that fines and penalties and routine unannounced tax audits enhance tax compliance appears to be inconsistent with Kayaga's (2007) view that governments and tax authorities have, over time, adopted tax administrative measures such as fines and penalties and tax audits to ensure tax enforcement rather than voluntary tax compliance.

Chapter Summary

The chapter presented the profile of the study area and the response rate for the study, demographic characteristics of the respondents and the characteristics of SMEs. In addition, the chapters presented the results of the study under suitable themes as follows: acts of tax non-compliance by SMEs,

frequency of committing act of tax non-compliance, knowledge of owner-managers of SMEs' in the tax laws of Ghana, factors that influence the tax compliance behaviour of SMEs and measures for enhancing tax compliance among SMEs

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

This chapter ends the study with a summary of the key results and conclusions of the research. It also suggests recommendations to improve the current level of tax compliance among SMEs. The chapter ends with suggestions for further studies.

Summary

The purpose of the study was to assess SMEs tax compliance behavior and to examine factors that influence SMEs owner-managers behavior towards tax compliance. Specifically, the study examined the acts of tax non-compliance committed by owner-managers of SMEs; assess the tax knowledge of owner managers of SMEs; investigate the factors influencing SMEs' tax compliance behaviour and identify measures that could be taken to promote SMEs tax compliance.

The major findings of the study were presented under suitable headings based on the specific objectives as follows:

Acts of Tax Non-Compliance

The study revealed that major acts of tax non-compliance committed by SMEs were failure to pay the required taxes through tax evasion, failure to file tax returns and failure to pay taxes within the period required. It was found that all these acts violated the tax laws and therefore could be classified as act of non-compliance. Though ordinarily acts such as failure to file one's tax returns on

time, understatement of income and overstatement of deductions were major violations outlined in the tax law, majority of the SMEs did not agree that these acts constitute tax non-compliance. The respondents' stance on these issues may be influenced by their limited knowledge of tax laws. It must be noted, however, that ignorance of the law is no defense and for that matter, SMEs engaged in these act must be properly punished in order to deter others.

With regard to the possibility of tax non-compliance by SMEs, it emerged that most SMEs do not keep proper account books; they tend to underestimate their profits as they file their tax returns in order to pay less taxes. This may be so because the information provided by SMEs with respect to their annual income in their tax return form cannot be easily verified due to the lack of appropriate financial records. It has also been found that most of them often fail to file their tax returns on time unless they are pressured by GRA officials to do so while others do not file their tax returns at all.

Taxation and Relevant Tax Laws

In terms of SME owner-managers' tax awareness, it was found that most SMEs could hardly measure their tax liabilities without the help of tax officials. Most of them, therefore, found it difficult to file their tax returns and relied on the support of GRA officials. With regard to their understanding of the relevant tax laws that apply to them and the tax liability management procedures, it was discovered that majority of SMEs had little or no information in these tax areas. It was also obvious that SMEs were hardly engaged in tax planning because they

did not even understand the tax laws in the first place to think about how to take advantage of the laws that allow tax planning.

Tax Compliance behaviour of SMEs

The study found that tax compliance variables for SMEs can be categorized into four major categories - economic factors, social factors, organizational factors and demographic factors. High tax rates, perceived bribery in the public sector, perceived government prudence and judicious use of government funds and SMEs' income level were the economic factors that were found to have a strong influence on the actions of SMEs towards tax compliance. The rate of unannounced tax audits, as well as the extent of fines and penalties for non-compliance, was included in some factors.

Concerning the social factors influencing tax compliance behaviour, it emerged that factors such as ease of tax evasion, degree of tax literacy, individual tax morale and influence of reference groups and peers primarily affect individuals' attitudes towards taxation. Some factors such as attitudes and ethics of taxpayers and equality and fairness of the tax system did not appear to be key factors that could influence the tax compliance conduct of SMEs.

Strict enforcement of tax laws, effective tax education and awareness programmes included in the institutional factors found to have a strong influence on the behavior of tax compliance. Factors such as the performance of the tax system, the complexity of tax laws and procedures and issues related to the integrity of tax officials have not been found to have a strong influence on the tax compliance behavior of SMEs.

Moreover, it was revealed that in terms of the effect of the demographic characteristics of taxpayers on their level of compliance, background attributes such as an individual's level of education and understanding of taxation, the nature of the business and one's social status somewhat influence their behavior towards tax compliance. Nonetheless, it has not been shown that factors such as gender, work experience, and age have a major impact on the tax compliance conduct of a person.

Compliance among SMEs

In terms of steps to improve tax compliance among small and medium-sized enterprises, it was proposed that the prevailing tax rate applicable to small and medium-sized enterprises should be reduced in order to reduce the tax burden on SMEs, thereby promoting high tax compliance. It was also suggested that the GRA should embark on massive tax education and awareness campaign to raise the general awareness of the essence of tax payment and the consequences of tax failure.

For those with less or no tax experience, the tax filing process seemed to be something confusing. Therefore, it was proposed to simplify the method of filing tax returns to improve compliance. One major factor that demoralizes people from paying taxes is the impression of massive corruption in the public sector. In this regard, it seems to suggest that if the fight against bribery is escalated and the public is convinced that the law punishes people who dissipate money from taxpayers, the tax morale of small and medium-sized businesses owners-managers is expected to increase and tend to be more tax-compliant.

However, most respondents proposed that in order to encourage voluntary tax enforcement, there should be tax amnesty for SMEs that have previously failed to comply with tax laws so that they can start on a fresh page and start paying their taxes as needed. Once it was found that a major step towards encouraging tax compliance was to provide tax relief and exemptions to SMEs.

Some of the measures suggested by the respondents to encourage voluntary tax compliance by SMEs include enforcing proper bookkeeping and accounting practices by SMEs, helping small and medium-sized enterprises to complete tax returns and tackle other tax-related issues by appointing tax officers to guide them in this direction.

Conclusions

The study revealed that SMEs were engaged in various forms of tax non-compliance due to their limited knowledge of taxation and obvious weaknesses in the process of tax administration in strict enforcement of tax laws and effective tax education. While the major factors affecting tax compliance were found to be of economic and social nature from the perspective of the taxpayer, it was revealed that institutional factors also contributed significantly to the issue of SMEs tax compliance. This evidence on institutional factors reinforces the call for an effective tax management system that aims not only to widen the tax net but also to ensure that the necessary measures are put in place to ensure sustainable tax compliance.

Recommendations

The author makes the following recommendations for further action to be taken to enhance tax compliance between SMEs based on the findings and conclusions of the study:

1. From the study findings, it can be deduced that tax non-compliance on the part of SMEs was due partly to weaknesses in Ghana's institutional and legal tax framework. It is therefore recommended that the GRA must increase its public tax education and awareness campaigns in order to achieve high tax compliance, with the goal of promoting positive tax morale among taxpayers that have been found to influence the behaviour of SME owners towards tax compliance.
2. Tax evasion and non-compliance tend to thrive in a situation where people can evade taxes and break tax laws and go unpunished. To minimize non-compliance and prevent tax evasion, it is recommended that people be disciplined for breaching tax laws with large fines and penalties to serve as a deterrent to others from performing non-compliance actions.
3. The essence of Ghana's SMEs is such that they normally feel unwilling to do so unless they are compelled to pay taxes. Therefore, if owners of small and medium-sized businesses think they can evade taxes and are not punished, they seek opportunities in tax evasion and thus fail to comply with the applicable tax laws. To avoid this, it is recommended that tax officials should embark on regular unannounced tax audits of SMEs to deter them from evading taxes.

4. It seems that perceived public-sector corruption and perceived wasteful government spending are factors that continue to demoralize people from paying taxes. It is common knowledge that a portion of government revenue comes from taxes paid to support government operations by citizens and businesses. Nevertheless, if the public perception of corruption in the public sector continues to grow over time and across successive governments without any major steps being taken by the government to minimize the canker, the people will not be motivated to pay taxes and will tend to be engaged in tax non-compliance. It is therefore recommended that the government and its anti-corruption agencies step up the fight against corruption to support public trust and confidence by ensuring that their taxes are properly used and that corrupt public officials do not dissipate them.

Suggestions for Further Research

The following suggestions for further research are made based on the findings and limitations of the study:

1. An assessment of tax amnesty as a persuasive tool for improving tax compliance in the informal sector of Ghana.
2. Examining the effective of deterrent mechanisms in curbing tax non-compliance in the informal sector.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

I am a student at the University of Cape Coast, Department of Accounting and Finance conducting research on “**Tax Compliance Behaviour of Small and Medium-Size Enterprises in The Kumasi Metropolis**”. I would be grateful if you will spend some time to answer this questionnaire. You should be informed that the information being sought in this questionnaire is intended purely for academic research purposes **ONLY**. Any information, answers, opinions or views expressed in the questionnaire will, therefore, be treated with the utmost confidentiality and will **NOT** under any circumstance be disclosed to any third party.

Section A: Demographic Characteristics and Knowledge of Respondents

1. Please indicate your gender

Male Female

2. Please indicate your age group

Below 30 years 30 – 39 40– 49
50– 59 60 and above

3. Please indicate your level of educational

Basic Education Secondary Education
Tertiary Education Non Formal Education
No Formal Education

4. Please indicate number of children and dependents
- 1 – 5 6 – 9 10 and above
- No children /dependents
5. Please indicate the type of business
- Manufacturing Trading Services
6. What is the ownership structure of your enterprise?
- Sole Proprietorship Partnership Family business
- Limited Liability company Joint venture business
7. Please indicate the size of your SME
- Micro (Annual income below GH¢10,000)
- Small (Annual income between GH¢10,000 and GH¢100,000)
- Medium (Annual income between GH¢100,000 and GH¢1,000,000)
8. Level of tax Knowledge
- None Low Average High
9. Is your business registered? If yes, registered with
- Registrar general KMA Trade Union
10. Do you pay tax?
- Yes No
11. Period of Tax Payment
- Monthly Quarterly Bi-annually Annually
12. How do you pay your taxes?
- By myself Through GRA Collection agents
- Through KMA taskforce

13. Types of Taxes

Paid Income tax [] VAT [] KMA Levy [] Property tax []

Import and Export duties [] Other taxes []

Section B: Acts that constitute Tax non-Compliance by SMEs

To what extent do you agree or disagree with the following as acts that constitute taxpayers' non-compliance? Please rank your responses on a scale of 1 – strongly disagree, 2 – disagree, 3 – not sure, 4 – agree, 5 – strongly agree.

Acts of Tax Non-compliance	1	2	3	4	5
Failure to submit a tax return on time					
Non submission of tax returns					
Understatement of income					
Overstatement of deductions					
Failure to pay assessed taxes by the due date					
Outright failure to pay taxes					

How often do you think other SMEs engage in these acts of tax non-compliance?

Please rank your responses on a scale of 1 - Never, 2 – Rarely, 3 – Moderately, 4

– Often, 5 – Always.

Acts of Tax Non-compliance	1	2	3	4	5
Failure to submit a tax return on time					
Non submission of tax returns at all					
Understatement of income					
Overstatement of deductions					
Failure to pay assessed taxes by the due date					
Outright failure to pay taxes					

Section C: Level of knowledge of owner-managers of SMEs in the Relevant Tax Laws

What is your level of knowledge in the relevant tax laws of Ghana in terms of the following tax issues? Please rank your responses on a scale of 1 – Very Poor, 2 – Poor, 3 – Fair, 4 – Good, 5 – Very good

Level of Knowledge in Taxation	1	2	3	4	5
Filing of tax returns					
Understanding of tax laws					
Claim procedures					
Tax planning					
Procedures for appeal					

Section D: Factors that influence Tax Compliance behaviour of SMEs

To what extent do you agree with the following as factors that influence the tax compliance behaviour of SMEs? Please rank your responses on a using the scale:

1 – strongly disagree, 2 – disagree, 3 – not sure, 4 – agree, 5 – strongly agree.

Factors influencing Tax Compliance	1	2	3	4	5
Economic Factors					
Tax rates					
Income level					
Compliance cost					
Probability of tax audit					
Fines and penalties					
Perceived public sector corruption					
Perceived government spending					
Social Factors					
Tax knowledge					
Tax morale					
Attitudes and ethics					
Ease of tax evasion					
Equity and fairness of the tax system					
Influence of reference groups and peers					
Institutional factors					
Tax complexity					
Tax education					

The efficiency of tax system					
The integrity of tax officials					
Enforcement of tax laws					
Demographic factors					
Age					
Gender					
Level of Education					
Level of Income					
Nature of business					
Work experience					
Societal status					

Section E: Measures for Enhancing Tax Compliance among SMEs

To what extent do you agree with the following as measures for enhancing tax compliance among SMEs? Please rank your responses on a scale of 1 – strongly disagree, 2 – disagree, 3 – not sure, 4 – agree, 5 – strongly agree.

Measures for Enhancing tax Compliance	1	2	3	4	5
Massive tax education and awareness campaigns					
Reduction in tax rates					
Ensuring equitable, fair and transparent tax system					
Simplification of tax filing system					
Strict enforcement of tax laws					
Imposition and enforcement of fines and penalties					
Reduction in public sector corruption					
Raising tax morale and consciousness of citizens					
Provision of tax reliefs and exemptions					
Granting of tax amnesty					
Providing assistance in filing tax returns					
Encouraging proper bookkeeping and accounting					
Reduction in tax compliance cost					
Embarking on frequent tax audits					

THANK YOU

APPENDIX 2: INTRODUCTORY LETTER

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING

Telephone (03321) 32440/32444 Ext. 219/220

Direct (03321)36435

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UNIVERSITY POST OFFICE

CAPE COAST, GHANA



Date: 16 January, 2019

Our ref: SB/DACT/IL/VOL.1/65

Your ref:

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

LETTER OF INTRODUCTION: MISS CYNTHIA TWENEBOAA ANDOH

The bearer of this letter, Miss Cynthia Tweneboaa Andoh is a student of the University of Cape Coast, School of Business, and is writing a Dissertation on “**An Investigation into Tax Compliance Behaviour of Small and Medium-Sized Enterprises in the Kumasi Metropolis**”.

We would be grateful if you could offer her the needed assistance.

Thank you in anticipation of your cooperation.

Yours faithfully

Mr. Stephen Asante

Supervisor