

UNIVERSITY OF CAPE COAST

DETERMINANTS OF TAX NON-COMPLIANCE AMONG SMALL AND  
MEDIUM ENTERPRISES IN SEKONDI-TAKORADI METROPOLIS

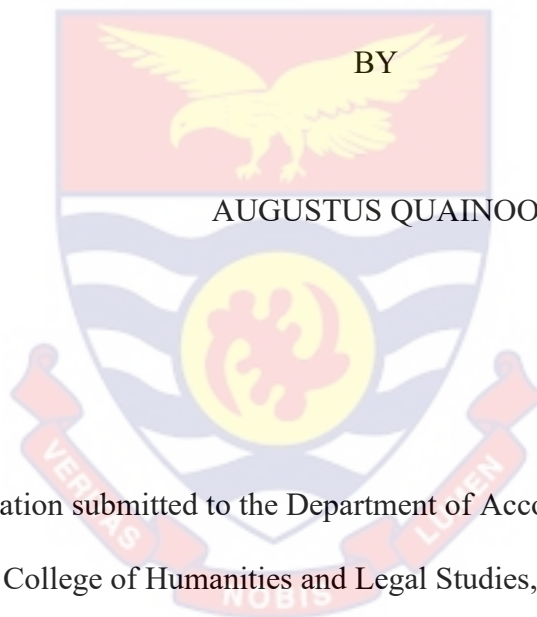


AUGUSTUS QUAINOO

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UNIVERSITY OF CAPE COAST

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Dissertation submitted to the Department of Accounting of the School of  
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in partial fulfilment of the requirements for award of Master of Business  
Administration degree in Accounting

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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 proffered for any other academic credential in this university or elsewhere.

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

Name: Augustus Quainoo

### Supervisor's Signature

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

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

Dr. Vincent Adela

## ABSTRACT

The study investigated the determinants of tax non-compliance among SMEs in the Sekondi-Takoradi Metropolis, focusing on three objectives: assessing the general degree of tax evasion, examining demographic factors influencing tax evasion, and evaluating the role of equity perception in mitigating or enhancing tax evasion. The target population comprised 895 registered SMEs, with 265 participants sampled through structured questionnaires. The study adopted a quantitative approach, analyzing data using descriptive and regression analyses. Results revealed low tax compliance among SME owners, attributed to limited tax knowledge, high tax rates, and low incomes. Regression analysis identified tax compliance costs and the ability to evade taxes as significant predictors of non-compliance. However, tax awareness, education levels, and penalties were found to reduce non-compliance, highlighting the importance of education and enforcement. Demographic variables like gender, age, education, and business experience moderated compliance behavior. Male taxpayers were more inclined toward non-compliance than females, while older and more educated individuals exhibited higher compliance. Perceived fairness, aligned with equity theory, was a key determinant of compliance. SMEs were more likely to comply when they perceived fairness in the tax system, including equitable treatment compared to other organizations and alignment between taxes paid and services received. The study concluded that tax knowledge, demographic factors, and equity perception significantly influenced SME compliance decisions. The study recommended enhanced education, enforcement, and a fair tax system are essential to improving compliance.

## KEY WORDS

Small and medium Enterprises

Tax

Tax non-compliance

Tax Systems

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## DEDICATION

To my late father, Samuel Kofi Quainoo and my mother Elizabeth Eshun of  
Kojokrom (Sekondi/Takoradi) and also to my children and loved ones.

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## CHAPTER ONE

### INTRODUCTION

The study investigated the determinants of tax compliance in SMEs in the Sekondi-Takoradi Metropolis, Ghana, focusing on the impact on economic stability. The study aims to identify determinants of noncompliance with taxes among SMEs, evaluating demographic characteristics and equity perceptions of noncompliance. The findings will provide policy-relevant information for policymakers and tax officials to design interventions to improve compliance and efficiency in the tax system in this crucial sector.

#### **Background to the Study**

Taxes have always been a significant source of government revenue, with large governments relying on them to pay public spending. In fact, taxes are typically one of the most important predictors of a country's economic performance. Several works of literature prove that taxes are the prices that citizens pay for the government to provide public services and welfare (Aghion, Akcigit, Cage, & Ker, 2016). Milanez (2017) says that a tax is, therefore, understood as the obligatory financial relation between individuals or enterprises and the state-government, mainly to obtain material resources to finance state developments, like new roads and infrastructure repairs, and that utilities such as electricity and water should be provided.

However, this issue of ensuring that residents pay their taxes has troubled governments from all over the world for decades now (Saad, 2012). Perhaps this is why there has been so much investigation into this topic. Regardless of the precise focus whether tax avoidance or compliance the basic goal remains the same: to provide insights that guide the policies of

governments and tax authorities as they attempt to collect income necessary for government operations and the overall prosperity of the nation (Azrina et al., 2014). Most African countries' domestic revenue bases have deteriorated significantly as a result of tax fraud and avoidance (Brun, Chambas & Laporte, 2011).

The problem of noncompliance by taxpayers is an issue that has been assuming global dimensions. However, it seems the degree of the problem is worse in developing countries, especially in Sub-Saharan Africa (Cobham, 2005; Fuest & Riedel, 2009). The tax compliance degree, according to Pratomo and Wibowo (2024), means the level in which the taxpayers are abiding by or violating their country's laws and regulations concerning tax, which entails declaring incomes, filing tax returns, and making timely payment of the due tax amount. Tax noncompliance can occur when individuals fail to pay the correct amount of tax, whether through non-filing, underreporting, or delayed or non-payment of taxes due (Alshira'h & Abdul-Jabbar, 2019).

In Ghana, Act 791 of 2009 bestowed on the Ghana Revenue Authority the sole mandate to realize optimum tax compliance to create a stable and sustainable means of revenue for the government to underwrite public expenditures. In achieving this objective, one meets the civic duty and satisfies some legal requirements, like submitting returns, which are binding on most countries in the world, Ghana not excluded. Nevertheless, observing all the regulations guiding the taxes has posed a significant headache to the various governments across the world. (Rackowski & Mróz, 2018)

Most people in Ghana are into one form of income-generating activities or another, particularly in the informal sector of the economy. The Ghanaian economy, according to the 2022 Revenue report, has a total taxpayer population of 19,408,646, out of which 2,666,730 are regarded as the active taxpayer population and includes 2,450,635 PAYE employees and 68,365 self-employed, among others. PAYE employees exhibit the highest compliance rate, with GH¢ 366,728.00 realized out of the expected GH¢ 471,704.00 in PAYE returns, reflecting a compliance rate of 77.75%. Conversely, the self-employed demonstrate the lowest compliance rate; of the expected GH¢ 57,317.00, only GH¢ 22,158.00 was actually returned, representing a 38.68% compliance rate (Ghana Revenue Authority, 2022).

The Ghana Revenue Authority's Commissioner General, Emmanuel Kofi Nti, states that 2.5 million Ghanaians are registered for tax purposes, with 70% of the country's economic activities being driven by the informal sector. However, less than 10% of the informal sector's contribution to total tax revenue is used. This highlights the need for research into the factors influencing tax compliance behaviour among SMEs, particularly in the Sekondi-Takoradi Metropolis. This study aims to address gaps in current literature and provide fresh insights for developing effective strategies to improve tax compliance among SMEs, promoting a more robust and equitable tax system.

### **Statement of the Problem**

Similar to many other developing countries, Ghana has had its source of mobilizing adequate revenue to fund and sustain an economy as a serious challenge. This has many a time led to the country having more expenditure



than its revenue (Donkor et al., 2022; Alagidede et al., 2013). This has caused what was previously recognized as the challenge of revenue mobilization to be the more straining given the debt reprofiling occasioned by Ghana's 17th IMF program. Because of the continued implementation of the extended credit facility program with the IMF, Ghana is barred from accessing the international bond market, and the IMF has urged the country to step up domestic resource mobilization to put the government's finances back on a sustainable trajectory (Transcript of IMF Press Briefing on Ghana, 2023). This issue of revenue mobilization establishes that more effort needs to be devoted to tax compliance in the SMEs because for this sector, which has not been given much attention though it has the potential of generating good revenues (Swanzy, 2018; Fjeldstad, 2016).

SMEs in Ghana are often involved in tax evasion due to their size and inability to pay taxes (Donkor et al., 2022). Research shows most are not taxed, suggesting a lack of adequate taxation mechanisms. The Ghana Revenue Authority (2023) reports that formal SMEs only fill 37% of expected tax compliance and make only 2.7% of domestic tax revenue, indicating gaps in revenue mobilization efforts in a struggling economy (Raczkowski & Mróz, 2018). Tax authorities face challenges in tracing income for taxation due to private tax collection by registered agents. Lack of knowledge on tax laws and procedures can lead to non-compliance, particularly in developing countries like Sub-Saharan Africa (Donkor et al., 2022). The informal sector, which represents the majority of economy operators, is the least contributor to total domestic tax revenue. Strengthening tax laws and expanding tax collection efforts could increase tax revenue from small-scale enterprises.

### **Purpose of the Study**

The main of the study is to investigated the determinants of tax non-compliance among small and medium enterprises in the Sekondi-Takoradi Metropolitan Area.

### **Research Objectives**

Specifically, the study seeks to:

1. assess the level of tax non-compliance among small and medium enterprises in the Sekondi-Takoradi Metropolis.
2. examine the moderating role of demographic factors on the relationship between the determinant of tax and tax non-compliance behaviour of small and medium enterprises in the Sekondi-Takoradi Metropolis.
3. analyse the moderating role of equity perception on the relationship between the determinant of tax and tax non-compliance behaviour of small and medium enterprises in the Sekondi-Takoradi Metropolis.

### **Research Questions**

Based on the research objectives, the study seeks to answer the following questions:

1. what is the level of tax non-compliance behaviour among small and medium enterprises in the Sekondi-Takoradi Metropolis?
2. how do demographic variables moderate the relationship between the determinant of tax and tax noncompliance behaviour among small and medium enterprises in the Sekondi-Takoradi Metropolis?

3. how does equity perception moderate the relationship between the determinant of tax and tax noncompliance behaviour among small and medium enterprises in the Sekondi-Takoradi Metropolis?

### **Significance of the Study**

This study is significant to SMEs as it addresses critical issues related to tax compliance. First the study identifies knowledge gaps and misconceptions about tax obligations, it helps SME owners better understand their responsibilities and the consequences of non-compliance. The findings highlight key determinants of non-compliance, such as high tax rates and compliance costs, enabling SMEs to make informed decisions and engage effectively with tax authorities to advocate for fairer policies. Moreover, the emphasis on tax awareness and education underscores the importance of targeted training programs to enhance tax literacy among SMEs. The study's focus on equity perception encourages tax authorities to implement fairer tax policies, ensuring that SMEs feel equitably treated compared to peers and larger organizations. Ultimately, addressing non-compliance issues can help SMEs reduce financial risks, avoid penalties, and safeguard their financial stability and reputation.

The study also makes valuable contributions to literature by enriching the understanding of SME tax behaviour, particularly in the context of developing economies. The study highlights the role of perceived fairness in shaping compliance behaviour, offering a novel perspective to tax compliance research. The study further explores the moderating effects of demographic factors such as gender, age, education, and business experience, providing insights into how personal characteristics influence compliance decisions. Its

findings on specific predictors of non-compliance, including compliance costs and perceived equity, provide actionable recommendations for policymakers. The research fills a gap in literature addressing tax compliance in sub-Saharan Africa, serving as a basis for comparative studies. The quantitative validation of relationships between variables through regression analysis adds empirical rigor to the discourse, advancing academic and policy discussions on SME tax compliance.

### **Delimitations**

This study focuses on identifying the determinants of tax non-compliance among Small and Medium Enterprises (SMEs) within the Sekondi-Takoradi Metropolis. The scope is confined to registered SMEs, with a total population of 895, out of which a sample of 265 was selected. Data collection was carried out using structured questionnaires, limiting the research to self-reported behaviors and perceptions of SME owners or managers. The study adopts a quantitative research approach, excluding qualitative methodologies that might provide deeper insights into the underlying motives of tax compliance or non-compliance.

The study examines specific variables such as tax knowledge, compliance costs, demographic factors (gender, age, education, and years in business), and equity perception as determinants of tax compliance behavior. Broader macroeconomic factors, such as national tax policies and external market conditions, are beyond the scope of this study. Geographically, the study is restricted to SMEs operating within the Sekondi-Takoradi Metropolis, and the findings may not be generalizable to other regions or countries. Additionally, the research does not focus on unregistered businesses, which

may also exhibit different patterns of tax compliance behavior. This delimitation ensures a focused analysis but also limits the applicability of the findings beyond the study's defined context.

### **Limitation**

This study has several limitations that must be considered when interpreting the findings. First, the reliance on structured questionnaires introduces the possibility of self-reporting bias, as respondents may overstate their compliance or underreport non-compliance due to social desirability or fear of repercussions. Additionally, the research is geographically limited to SMEs within the Sekondi-Takoradi Metropolis, which restricts the generalizability of the findings to other regions or countries with different economic, cultural, or regulatory contexts. Furthermore, unregistered SMEs, which might exhibit unique tax compliance behaviors, are excluded from the study, leaving a gap in understanding the full spectrum of tax compliance among businesses.

The study also adopts a quantitative approach, focusing on measurable variables such as tax knowledge, compliance costs, demographic factors, and equity perception. While this provides valuable insights, it lacks the depth and richness that qualitative methods like interviews or focus groups could offer in exploring the nuanced motivations and experiences of SME owners. Moreover, the scope of variables examined is limited, excluding broader influences such as macroeconomic conditions, industry-specific challenges, or the efficiency of tax administration systems, which may also significantly impact tax compliance behavior.

Lastly, the study's cross-sectional design captures data at a single point in time, making it difficult to assess changes in tax compliance behavior over time or the long-term effects of interventions. Although the sample size of 265 SMEs is statistically significant, it may not fully represent the diversity of SMEs in the metropolis, particularly those in niche or emerging industries. Additionally, the complexity of tax compliance behavior, influenced by a combination of psychological, social, and economic factors, may not be fully captured by focusing on specific determinants. Despite these limitations, the study provides a strong foundation for further research and offers valuable insights for policymakers and stakeholders in addressing tax non-compliance among SMEs.

### **Definition of Terms**

1. **Tax** is a mandatory financial charge or levy imposed by a government on individuals, businesses, or other entities to generate revenue for public expenditures. It is a fundamental component of a country's economic system, enabling governments to fund essential services such as education, healthcare, infrastructure, defence, and public safety.
2. **Tax non-compliance** refers to the failure of individuals, businesses, or organizations to fulfil their tax obligations as required by law. It encompasses actions that result in underreporting, underpayment, or complete evasion of taxes owed to the government. Tax non-compliance can be either intentional or unintentional, depending on the motives and circumstances of the taxpayer.

3. **Small and Medium Enterprises (SMEs)** are businesses that maintain revenues, assets, or a number of employees below a certain threshold.

The specific criteria for categorizing SMEs vary by country and industry, often based on parameters like annual turnover, balance sheet size, or employee count.

### **Organisation of the Study**

The study was arranged into five chapters. The first chapter introduces the study by providing the study background, the research problem and its setting. The aim, objectives and research questions are provided and the rationale and study hypotheses are also presented while introducing the study in this chapter. The second chapter reviews the literature on existing related studies. Theories that are of practical significance to this study are discussed. The third chapter discusses the procedures and techniques adopted to identify participants, collect data from participants and analyse data collected. The chapter further provides a discussion justifying the selected procedures and techniques. The fourth chapter analyses present and interprets data collected as described in the procedures outlined in the previous chapter. In contrast, the final chapter presents the summary, conclusions and recommendations based on the findings. The findings and conclusions are linked to the study objectives and research questions. Conclusions based on the findings and recommendations to the municipality and for future studies are outlined in this chapter

### **Chapter Summary**

The chapter dealt with the background of the study, where the researcher showed the relevance of the study by elaborating on the theoretical

underpinnings of the study as well as empirical revelation and claims put forth by prior researchers. The chapter continued with the statement of the problem, where the problem was logically presented, and a gap analysis was carried out by identifying the gaps in the existing literature. Subsequently, the purpose of the study was declared, and objectives were set to give the study direction. Based on the stated research objectives, research questions were articulated. The significance of the study was later presented, followed by delimitations of the study, and the organisation of the subsequent chapters of the study was also detailed.



## CHAPTER TWO

### LITERATURE REVIEW

#### Introduction

The section of the study is divided into four main sections namely; theoretical framework, conceptual issues, empirical review, and conceptual framework. The review starts with a broad overview of the theoretical framing and conceptual issues that underpin the study. At the same time, the next section presents a review of the empirical works relevant to the subject matter of the present study to understand the current indicators considered for the research and to enable the researcher to identify relevant gaps and appropriate methodological approaches to adopt. The conceptual framework offered a structured approach to organising and unpacking the complex issues regarding the theories and the concepts that guide the study.

#### Theoretical Review

Several theories have been advanced to explain the determinants of tax non-compliance among small and medium enterprises are the equity theory, deterrent theory, theory of planned behaviour among others. The study employed the equity Theory stands out as particularly relevant for understanding tax non-compliance in Sekondi-Takoradi Metropolis, as it highlights the importance of fairness perceptions in shaping SMEs' compliance decisions

#### Equity Theory

The Equity Theory has been advanced by scholars such as Richardson and Sawyer (2001) and Kirchler, Hoelzl, and Wahl (2008). These researchers expanded on the foundational ideas of John Stacey Adams (1963) by

integrating the concept of fairness into the domain of taxation. They emphasized how perceptions of fairness specifically horizontal equity, vertical equity, and exchange equity influence taxpayers' decisions to comply with tax obligations. The Equity Theory provides a robust framework for understanding tax non-compliance among SMEs, particularly in the Sekondi-Takoradi Metropolis, by emphasizing how perceptions of fairness influence behavior. Equity Theory posits that individuals or organizations evaluate the fairness of their contributions (e.g., taxes paid) in relation to the outcomes received (e.g., public services). This theory becomes especially relevant in explaining the tax compliance behavior of SMEs, as these entities often operate in environments where fairness perceptions significantly impact decision-making.

Horizontal equity, a critical aspect of Equity Theory, emphasizes fairness among taxpayers who share similar economic circumstances, such as businesses within the same industry, size category, or revenue bracket. For SMEs, this sense of fairness is particularly significant because they operate in environments where competition and resource constraints are prevalent. These businesses frequently observe and compare their tax burdens with those of their peers, making perceived fairness a key determinant of compliance behavior. If SMEs perceive that their competitors are evading taxes or receiving preferential treatment from tax authorities, they may feel disadvantaged and unfairly targeted. This sense of inequity can erode trust in the tax system and foster resentment, potentially leading to non-compliance as a form of protest against perceived injustices (Saad, 2014; Richardson, 2006).

For example, SMEs that diligently comply with their tax obligations may feel demoralized if they notice that non-compliant competitors enjoy a competitive edge by evading taxes and reducing their operational costs. This perception can lead compliant SMEs to question the fairness of their contributions and, in some cases, consider non-compliance themselves to "level the playing field." Additionally, when tax authorities appear to focus enforcement efforts on smaller businesses while overlooking similar non-compliance by others, it reinforces the perception of unfair treatment.

Addressing issues of horizontal equity requires tax authorities to ensure that all businesses within a similar category are treated equally. Transparent and consistent enforcement of tax laws, combined with measures to detect and penalize tax evasion, can enhance perceptions of fairness. This, in turn, encourages voluntary compliance and fosters a healthier relationship between SMEs and tax administrations, ultimately contributing to a more equitable and effective tax system.

Similarly, vertical equity pertains to fairness across different income or profitability levels. SMEs might feel discouraged from complying if they perceive that larger corporations, despite having higher earnings, do not contribute proportionately to the tax system. Such perceptions can erode trust in tax authorities and reduce compliance rates (Ali, Fjeldstad, & Sjørnsen, 2014). Furthermore, exchange equity, another dimension of the theory, focuses on the balance between taxes paid and public benefits received. SMEs may question their compliance if they believe their tax contributions do not translate into tangible benefits, such as better infrastructure, business support services, or access to credit facilities. When the perceived exchange between

tax contributions and public services is imbalanced, it diminishes the motivation to comply (Kirchler, Hoelzl, & Wahl, 2008).

By highlighting the critical role of fairness perceptions, Equity Theory underscores the importance of transparent and equitable tax policies. Tax authorities must address these concerns by fostering a sense of fairness and ensuring that SMEs perceive the tax system as just and beneficial. Incorporating the principles of equity in tax administration can improve compliance and reduce resistance among SMEs, as fairness is a key determinant of voluntary compliance.

### **Conceptual Review**

This study section provides a deep and nuanced understanding of the conceptual foundations, and perspectives relating to the topic. Some of the broad concepts reviewed in this section include the concept of tax, tax compliance. A detailed review of these concepts is captured in the ensuing paragraphs.

### **The Concept of Taxation**

Taxation is a financial charge or levy imposed by a government on individuals, businesses, or goods to fund public expenditures and implement economic policies. It serves as a critical tool for redistributing income, addressing market failures, and providing public goods and services essential for societal development. According to Musgrave and Musgrave (1989), taxation is pivotal in ensuring governments have the resources to invest in infrastructure, education, healthcare, and other critical areas. Adam Smith (1776) outlined four foundational principles for an effective tax system: equity, certainty, convenience, and efficiency. These principles remain

relevant today, guiding the design and administration of modern tax systems to ensure fairness, predictability, and ease of compliance for taxpayers while minimizing economic distortions.

Taxes are categorized into various forms based on their application and structure. Direct taxes are levied on income, wealth, or property, such as personal income tax or corporate tax, and are paid directly by taxpayers to the government. In contrast, indirect taxes are imposed on goods and services, such as Value Added Tax (VAT) or excise duties, where the tax burden is indirectly borne by consumers. Taxes can also be classified by their impact on income distribution: progressive taxes increase in rate as income or wealth rises, aiming to reduce income inequality, whereas regressive taxes impose a higher burden on lower-income earners, often criticized for exacerbating inequality. Lastly, proportional taxes apply a constant tax rate across all income levels, ensuring simplicity but potentially lacking in equity. These classifications highlight the diverse approaches governments use to design tax systems tailored to their fiscal objectives and socioeconomic contexts.

### **Tax Compliance in Ghana**

Taxation is a crucial tool for governments to fund expenditures and support developmental projects. However, global instances of evading tax responsibilities persist. In Ghana, tax authorities are concerned about taxpayer compliance, despite enacted laws. Tax compliance involves fulfilling taxpayer obligations by providing required information and submitting forms within prescribed periods. It involves adherence to national rules, accurate income declaration, and timely payment of taxes.

Taxation in Ghana has been the leading source of developmental revenue since its inception in 1943. As such, successive governments have initiated numerous tax reforms and administrative measures to enhance and solidify the compliance level of businesses (Yin, Wemah & Abugre, 2016). The Ghana Revenue Authority, established as a statutory public body, is responsible for collecting and managing tax revenue in the country, which includes overseeing Customs and Excise Duties, Communication Service Tax, Income Tax, and Value Added Tax. The primary objective of this authority is to ensure adherence to tax reforms (Acheampong, Debrah, & Yeboah, 2016).

Tax compliance is both a civic duty and a legal requirement for all citizens and businesses in Ghana. According to a study conducted by the Ghana Revenue Authority (2012) in collaboration with the Institute of Statistical, Social and Economic Research, tax compliance levels in Ghana are notably low, largely due to insufficient tax education. Despite an estimated 6 million potential employees, only 1.5 million are registered with the Ghana Revenue Authority and comply with their Pay As You Earn (PAYE) obligations (Amanamah, 2016). Ghana's low tax compliance rate, behind Kenya, Cape Verde, Swaziland, Cote d'Ivoire, and Senegal, may hinder its ability to generate sufficient development revenues and hinder the current administration's self-reliance goal.

### **Empirical Review**

This section of the study reviewed extant literature on work-life balance, self-efficacy and employee engagement. The review took into consideration the methodological approach, the analytical tools, the software employed as well as the findings that emerged and the conclusions drawn from

each study. The researcher carried out the empirical review to help identify relevant gaps in the literature, relate the study's findings with existing literature and inform the selection of an appropriate methodological approach that best suits the present study.

Chan et al. (2013) found that better education leads to increased tax compliance, as well-educated individuals have better understanding of the tax system. Training on tax regulations, especially for rental income, can improve compliance. Okpeyo, Musah, and Gakpetor (2019) analyzed factors affecting tax compliance behavior in Ghana, including morality, compliance fees, tax rates, and audit frequencies.

Nduruchi, Gregory, and Namusonge's study found that compliance costs significantly influence tax compliance among enterprises in Bungoma County. Keraro's study found no significant relationship between perceived tax evasion risk and actual behavior among SMEs in Nakuru's Central Business District. However, fines and penalties had a significant effect on compliance. The price of tax compliance and perceived opportunities for tax evasion did not significantly relate to compliance.

Gatheru's 2020 study on Kenyan SMEs found that tax compliance is influenced by a combination of economic and social factors, with tax knowledge, compliance costs, and regulatory environment being key factors.

Swanzy's 2018 study on rent income tax compliance in Tarkwa Nsueam and Sefwi Wiawso Municipalities found that compliance was negatively influenced by the cost of compliance. Knowledge and education about rent income tax and fines positively affected compliance. However, opportunities to evade negatively affected compliance. Richardson (2006) also

found that general education negatively influences tax evasion. Research suggests that low education levels can lead to low tax compliance. Educated taxpayers are more aware of their responsibilities and consequences, reducing errors and evasion. A 2013 study by Appulut et al. found that higher tax knowledge and expertise improve tax compliance. However, the study's limitations are due to its cross-sectional design, suggesting further longitudinal studies could be conducted across districts.

Paleka, Karanović, and Štambuk (2023) found that sociodemographic factors like age, gender, income, and education significantly affect taxpayer compliance in Croatia. Women are generally less likely to engage in risky behaviors, including tax evasion, due to their greater risk aversion. Studies have also found that female top managers positively influence corporate tax compliance. However, the effect of religiosity on tax evasion reduction was not significant, but gender moderated the relationship, with female students showing a higher likelihood of avoiding tax evasion compared to male students.

Jackson and Milliron (1986) and Chung and Trivedi (2003) presented mixed results on gender and tax compliance, suggesting that women might be more compliant under certain conditions or explanations. Wenzel (2002) reported no significant gender differences in reporting extra income but found women to be more compliant with reported income and deduction claims. Busch (1995) explores how gender differences in self-efficacy may affect tax compliance behaviours. The study highlights that self-perceptions differ between genders, which can lead to varying levels of compliance. Despite substantial research on gender differences in tax compliance, the OECD



(2019) calls for more detailed studies and actual data to better understand the relationship between gender and tax behaviours.

Kastlunger, Dressler, Kirchler, Mittone, and Voracek (2010) conducted experiments to examine gender differences in tax compliance. They investigated the influence of gender-role orientation and the 2D:4D ratio (a marker of prenatal testosterone exposure). The study found that both demographic sex and gender-role orientation significantly affected tax compliance, with women and those with less male-typical gender roles being more compliant. Men's tax compliance decreased with audits, while women's tax payments were less influenced by prior audits.

Oduro, Asiedu, and Tackie (2018) explored factors leading to tax nonpayment and the role of tax education in mitigating these factors. Their study, involving 1,052 taxpayers across various regions, used structural equation modeling and bootstrapping. Findings indicated that conventional and institutional factors have a minor positive effect on tax evasion. Tax education was found to reduce tax evasion by counteracting these factors, suggesting that higher tax literacy can diminish the influence of high tax rates, fines, and audit risks. The study also noted that gender, income level, education level, and age had minimal impact on tax evasion.

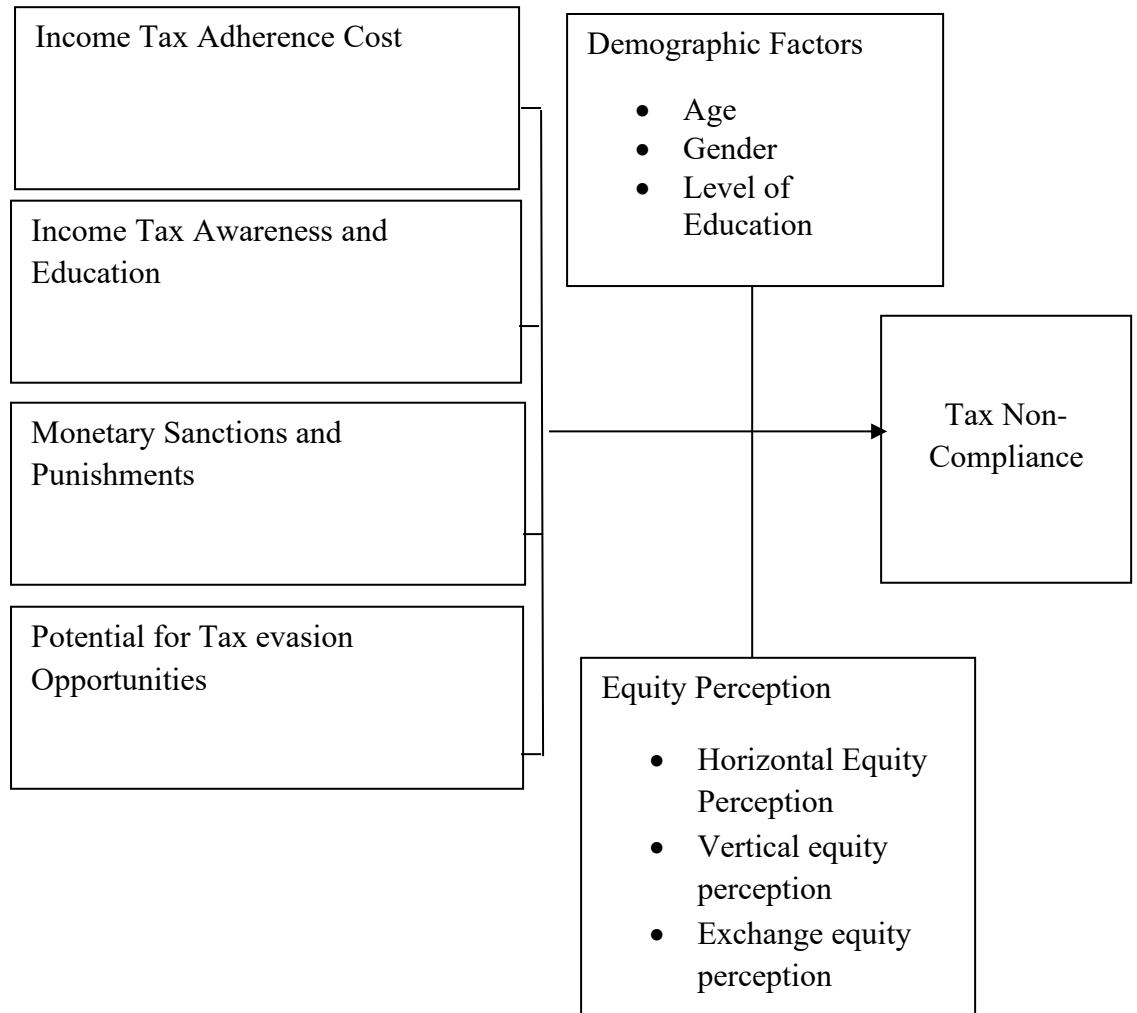
Aladejebi's study found higher tax compliance among female SME owners in Nigeria, emphasizing the need for tax education and tax amnesty. Morso and Owiredun's study found a significant relationship between tax authority effectiveness and fairness among Ghanaian SME owners, suggesting that improved perception could increase compliance and address tax evasion issues in informal sectors. Sudiartana and Mendra (2018) found that attitudes,

subjective norms, and perceived behavioral control influence tax compliance among SMEs in Bali. However, perceived behavioral control did not significantly impact actual compliance. Boateng Mantey (2015) found low tax compliance among small businesses in Ghana due to low tax education.

Helmhel and Varshalomidze (2015) found internal factors like financial capability and tax morale as more powerful predictors of compliance. They suggested increasing financial means, tax morale, and awareness, along with revising measures of deterrence, could improve compliance. This study examines the determinants of tax non-compliance in the Sekondi-Takoradi Metropolis, a topic previously unexplored. The findings may contribute to the existing literature on reasons businesses don't comply with tax laws.

### **Conceptual Framework**

The study investigates if demographic factors like age, gender, education level, and years in business influence SME owners' tax compliance. It hypothesizes that older individuals have better tax compliance rates, while men and women have different risk-taking behaviours. Education level is positively correlated with tax compliance, and years in business are crucial for understanding tax obligations. The study explores the moderating role of equity perception in compliance behaviour, focusing on horizontal, vertical, and exchange equity dimensions. It suggests that a lack of horizontal equity can lead to dissatisfaction and non-compliance, while perceived unfairness in vertical equity can encourage non-compliance, particularly among lower-income taxpayers.



*Figure 1: Conceptual Framework Depicting the Determinants of Tax Non-Compliance among Small and Medium Enterprises*

Source: Constructed based on a review of related literature (Helmhel and Varshalomidze, 2015; Oduro, Asiedu & Tackie, 2018)

### Chapter Summary

The study explores the theoretical basis of tax noncompliance, focusing on reasoned action and tax compliance. It analyzes previous research on Ghana's public perception of fairness in tax non-compliance. The aim is to contribute to the literature by investigating Ghana's general attitudes towards tax compliance.

## CHAPTER THREE

### RESEARCH METHODS

#### **Introduction**

The previous chapter reviewed existing studies on financial incentives and employee performance. This current chapter delivers a detailed description of the methodological approaches employed to address the study objective. The chapter presents information on how each scientific approach to conducting this empirical study was undertaken, giving cognisance to their respective preconditions. The Chapter discusses important aspects such as study design, population, research strategy, research area, sampling technique, data collecting instrument, data collection procedure, data processing and analysis, and ethical considerations.

#### **Research Approach**

The study employed a quantitative approach based on the nature objective the study sought to explore. Quantitative approaches are fit for the purposes of assessing measurable or numerical values and to outline trends (Crowther & Lancaster, 2012). This method helps come up with mathematical models, and it is useful in working out objective explanations of variable interrelations. The chosen approach is quantitatively dominant due to the obtained data that can be statistically analyzed and compared, resulting in definite and unambiguous conclusions (Pandey & Pandey, 2021).

#### **Research Design**

According to Koul (2004), a research design is a guide that outlines the data techniques or strategies that the researcher is going to use with a view to achieving the objectives of a study. As a result of the broad applicability in the

social sciences generally and the potential for generalization in research findings stemming from this type of research design, this study employs a strictly quantitative research design. That is why an explanatory research design is particularly relevant for this analysis, as its main purpose is to determine which variables predict others. Namely, for the purpose of the present study, this research design is helpful for determining the degree to which one or more IVs can effectively predict the DV within an artificial model.

### **Study Area**

The was conducted across SMEs in the Takoradi metropolis. The Sekondi-Takoradi metropolis is a newly created city comprising the two historical towns of Sekondi and Takoradi, which provided the context for this research. Being the capital of both the Sekondi-Takoradi Metropolitan Area and the whole of the Western Region of Ghana, it is the largest city in the region in population size, hosting a population of 445,205 people, and is the economic and cultural center of the region (Ghana Statistical Services, 2012).

They are timber, cocoa processing, plywood, shipbuilding and repairs on the harbor and railway, and the more recent oil exploration. Fisheries is also another perform well in Sekondi-Takoradi. The researcher chose Sekondi-Takoradi for this study since it is one of the most flourishing capitals of the western region and has numerous SMEs. The study of tax non-compliance in this major economic sector will enrich knowledge about such phenomena and contribute to the formation of further measures.

## **Population**

The study focuses on the community of registered small and medium enterprises (SMEs) in Sekondi-Takoradi, Ghana. The population includes eight categories of SMEs affiliated with various associations, divided into eight sectors based on operations. The target population for this study includes owners and managers of the sampled small and medium sized enterprises in the Takoradi metropolis in the western region of Ghana. The target population comprised 895 registered SMEs.

## **Sampling and Sampling Technique**

Sampling is a method used to draw a sample from a large population to make inferences about the population as a whole. In this study, researchers used stratified random sampling, splitting the population into nine strata and selecting respondents from each stratum. Out of 895 registered SMEs, 265 samples were obtained using the Krejcie and Morgan sample size determination table. The selection of a representative group of each segment of the identified population was facilitated by the methodology since the population was relatively big and homogenous in the characteristics studied.

The stratification of the respondents to the research guarantees that the population is correctly reflected by the criteria for stratification, while random sampling provides equal independence of selection for each member of the target population. Random sampling guarantees a high degree of sample dependability and representativeness and generalizes study results. A probability technique in which the population is broken down into strata and a sample is picked from each stratum. The investigation was concluded using

sub-samples. The researcher uses this technique because it best reflects all the target population groups.

A lottery technique was utilized in selecting the responders. The researcher created a sample frame using the lottery technique which included an alphabet list of the respondents' names in each unit. A plied paper replaced the names in the sample frame so that the list on the plywood paper corresponds. The folded sheets were mixed in a container and randomly removed without replacement one after the other. The number of folded papers picked was recorded to match the name of SMEs. The procedure was repeated until each sampled SME was picked for the requisite number of participants

### **Data Collection Instruments**

The study used standardized questionnaires adapted from Swanzys' 2018 research on rent income tax compliance in Sefwi Wiawso Municipalities. The questionnaire was divided into four sections: demographics, determinants of tax compliance, moderating role of equity perception, and non-compliance behaviour of SME owners. The responses were rated on a Likert scale from 1 to 5.

### **Data Collection Procedure**

The study collected data from small-scale businesses by visiting them during lunch breaks and administering questionnaires during their work hours, obtaining permission from owners and managers, and running from March 2023 to June 2023.

### **Validity of the Research Instrument**

The validity of a research instrument is the precision and relevance of study results. A pilot test was conducted with 30 SME owners from Sekondi-

Takoradi Metropolis to assess content validity, ensuring responses accurately reflect actual study conditions, ensuring the instrument's full-scale use.

**Table 1: Validity Test Results for the Determinants of Tax Non-Compliance**

<b>Income Tax Adherence Cost</b>	<b>rx<sub>y</sub></b>	<b>r<sub>table</sub></b>	<b>Results</b>
The cost associated with filing income tax returns is high	0.7	0.312	Valid
The cost of hiring a rent tax agent is high	0.7	0.312	Valid
Traveling expenditure to file income tax is high	0.6	0.312	Valid
<b>Income Tax Awareness and Education</b>			
Possesses the knowledge of declaring business income	0.75	0.312	Valid
Maintains a record of business income and expenses	0.69	0.312	Valid
<b>Monetary Sanctions and Punishments</b>			
The penalties for rent taxes are expensive	0.67	0.312	Valid
I get penalized often for not filing income tax returns	0.68	0.312	Valid
I get penalized often for late filing of income tax	0.71	0.312	Valid
I get penalized often for underreporting income tax	0.70	0.312	Valid
<b>Potential for Tax Evasion Opportunities</b>			
I can adjust the amount to be paid as income tax	0.68	0.312	Valid
Likelihood of being detected by GRA for understating rent income is minimal	0.70	0.312	Valid
Tax authorities check me regularly to be sure I have paid my tax.	0.72	0.312	Valid

Source: Field Survey (2024)



**Table 2: Validity Test Result for Equity Perception**

<b>Horizontal Equity</b>	<b>rx<sub>y</sub></b>	<b>r<sub>table</sub></b>	<b>Results</b>
I pay about the same amount of federal income taxes as others who make about the same income as I do	0.72	0.312	Valid
Most people who earn about the same income as I do pay more taxes than I do	0.69	0.312	Valid
I pay more taxes compared to most people who make about the same income as I do	0.62	0.312	Valid
<b>Vertical Equity</b>			
The income taxes rate in Ghana is very fair	0.74	0.312	Valid
Compared to those with higher income, I pay less tax	0.72	0.312	Valid
Taxpayers who earn high income should pay more tax rate than those who earn less	0.67	0.312	Valid
<b>Exchange Equity</b>			
I think what the government gives back to society based on the average amount of taxes paid is fair	0.73	0.312	Valid
I am satisfied with the number of benefits I receive from the government compared to the amount of taxes I pay	0.71	0.312	Valid
I pay more income taxes than I receive in services from the government	0.70	0.312	Valid

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Source: Field Survey (2024)

**Table 3: Validity Test Result for Tax Non-Compliance Behaviour**

Variables	rx <sub>y</sub>	r <sub>table</sub>	Results
I file my income tax returns, but not on time	0.71	0.312	Valid
I file my income tax returns on time	0.69	0.312	Valid
I do not know how to file my income tax returns so I don't file them	0.68	0.312	Valid

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Source: Field Survey (2024)

### **Data Processing and Analysis**

The data was analysed using descriptive statistics and inferential statistics, and a logistic regression model was employed to predict tax non-compliance based on factors like income tax adherence cost, awareness, education, monetary sanctions, and tax evasion opportunities.

### **Moderating Effect Model:**

The model examines the interaction between demographic factors and independent variables, highlighting how demographic factors moderate the relationship between the two. It includes a direct effect model and a moderating effect model, examining how the effect of these variables' changes.

**Table 4: Measurement of variables**

Variable	Measurement	Meaning	Source
<b>Dependent</b>			
<b>variable :</b>	Payment compliance	Tax evasion includes not	Primary data
Tax non -	Filing compliance	filing a tax return, failing to	(Questionnaire)
compliance	Reporting compliance	disclose all income, exaggerating tax-related claims like exemptions and deductions, and not paying all taxes owed when due.	
<b>Independent</b>			
<b>variable:</b>			
Demographic factors	Age	Evaluating the likely effect	Primary data
	Gender	of demographic factors on	(Questionnaire)
	Education level	tax non- compliance.	
	Marital status		
Equity factors	Horizontal equity perception	Fairness in tax payment, with regard to the amount paid and the benefit received back.	Primary data (Questionnaire)
	Vertical equity perception		
	Exchange equity perception		

Source: Author's construct (2024)

**Ethical Consideration**

The researcher ensured voluntary participation, informed participants of withdrawal rights, maintained participant confidentiality, and received ethical clearance from the institution's review board, demonstrating a commitment to ethical practices and participant rights protection throughout the research process.

**Chapter Summary**

This section details the study's procedures, data collection, analysis methods, and structure. Primary data from participants was analysed using SPSS, and the findings were presented using visual aids like charts and tables.

## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### Introduction

This chapter analyzes data on tax non-compliance among small and medium enterprises in Sekondi-Takoradi Metropolis, examines demographic factors' moderating role, and equity perception's role in compliance behavior. The study uses quantitative analysis and a 98% response rate, with 265 out of 271 questionnaires received.

**Table 5: Descriptive statistics (Demographic Information of Respondents)**

Variable	Frequency	Percentage (%)
<b>Gender:</b>		
Male	149	56.2%
Female	116	43.8%
<b>Total</b>	<b>265</b>	<b>100%</b>
<b>Age:</b>		
Below 25 years	20	7.5%
26-35 years	69	26%
36-45 years	83	33.3%
Above 45 years	92	34.7%
<b>Total</b>	<b>265</b>	<b>100%</b>
<b>Marital status:</b>		
Married	176	66.4%
Single	90	33.9%
<b>Total</b>	<b>265</b>	<b>100%</b>

Source: Field Survey (2024)

The study found that 56.2% of respondents were male, with females comprising 43.8. Male dominance is common in Ghanaian culture, while female taxpayers are generally more tax compliant. Most respondents were over 45, married, and single, possibly due to business projects or support.

### Educational background

**Table 6: Level of education of the respondents**

Category	Frequency	Percentage
Primary school	82	30.9%
Junior High School	53	20%
Senior High School	62	23.4%
Tertiary	36	13.6%
No formal education	32	12.07%
<b>Total</b>	<b>265</b>	<b>100%</b>

Source: Field Survey (2024)

Most respondents have basic education, with a significant proportion having formal education. Education level impacts income, tax administration fairness, sanction, and detection, potentially encouraging tax evasion.

### Number of years in business as an owner of an enterprise

**Table 7: Number of years in business**

Category	Frequency	Percentage
Less than 10 years	187	70.6%
10 – 19 years	37	13.9%
20 – 29 years	24	9.1%
30 – 39 years	13	4.9%
Above 40 years	5	1.9%
<b>Total</b>	<b>265</b>	<b>100%</b>

Source: Field Survey (2024)

From the data shown in Table 7, the majority of respondents have been in business for less than 10 years, with 187 respondents (70.6%) falling into this category. This indicates a high proportion of relatively new or young businesses among the surveyed SMEs. The sample comprises 13.9% of respondents aged 10-19, 9.1% aged 20-29, 4.9% aged 30-39, and 1.9% aged over 40 years. Most SMEs in Sekondi-Takoradi Metropolis are young, potentially affecting their tax compliance behaviors and stability. The lower

number of established businesses may indicate high turnover or a shift favoring newer enterprises. The predominance of younger businesses highlights the importance of targeted tax education and support to ensure compliance. Younger businesses may benefit from tailored programs that address their specific needs and challenges, helping to foster a more compliant and sustainable business environment.

Assessing the level of tax non-compliance behaviour among small and medium enterprises in the Sekondi-Takoradi Metropolis. The study assesses tax non-compliance behavior among SMEs in Sekondi-Takoradi Metropolis, presenting composite scores for non-compliance behavior and independent variables explaining it. It also presents a logistic regression model to model the likelihood of non-compliance behavior based on various determinants. The study used a 5-point Likert scale to assess SME owners' tax non-compliance behavior, calculating the mean value range of variables and other frequencies to measure average response, dispersion, and normality.

**Table 8: Income tax non-compliance behavior among SMEs**

	Mean	Std Deviation	Skewness	Kurtosis
I file my income tax returns, but not on time	3.2	2.2	0.45	1.31
I file my income tax returns on time	2.3	0.1	-1.26	2.1
I do not know how to file my Income tax returns so I don't file them	2.4	0.2	0.23	0.45
<b>Income Tax Compliance Level</b>	2.63	0.83		

Source: Field survey (2024)

Table 9 shows income tax non-compliance behavior among SMEs, with a moderate factor effect. A high standard deviation indicates variability in responses, suggesting diverse practices. Positive skewness suggests some respondents file late, while a relatively flat distribution suggests responses are not heavily concentrated around the mean. The data indicates that a small percentage of SME owners consistently file their tax returns on time, with responses clustered around the mean and negative skewness. The kurtosis value suggests a moderately peaked distribution, indicating some concentration around the mean but also a wider spread.

The mean value of 2.4 suggests a minority of respondents avoid filing taxes due to lack of knowledge. The standard deviation and skewness indicate a consistent perception, while the kurtosis value suggests a flat distribution. The study reveals low tax compliance among SME owners in Sekondi-Takoradi Metropolis, with a high number filing late and a small proportion consistently filing on time. Lack of knowledge about tax filing procedures is a contributing factor. Improving tax education and support could enhance compliance. The Ghana Revenue Authority should improve rent income tax compliance by maintaining accurate landlord and landlady accounts and developing comprehensive information management systems. This will help identify non-filers, incorrect filings, and delayed payments. Enforcing penalties and implementing a combination of strategies can optimize compliance levels.

### **Determinants of Tax Non-Compliance**

This section outlines the factors influencing SME owners' tax non-compliance in Sekondi-Takoradi Metropolis, including cost of income tax



adherence, awareness, monetary sanctions, and potential tax evasion opportunities.

**Table 9: Income Tax Adherence Cost**

	Mean	Std Deviation	Skewness	Kurtosis
The cost associated with filing income tax returns is high	4.7	0.141	0.132	-1.11
The cost of hiring a rent tax agent is high	3.91	1.25	0.12	-1.032
Travelling expenditure to file income tax is high	3.7	1.14	-0.132	-0.25
<b>Income Tax Adherence Cost</b>	<b>4.10</b>	<b>0.843</b>		

Source: Field Survey (2024)

Table 10 shows the factors related to income tax adherence cost, including mean, standard deviation, skewness, and kurtosis. The results indicate a high cost associated with filing income tax returns, hiring rent tax agents, and travel expenses. Respondents strongly agree on the high cost, with a low standard deviation and a slight positive skewness. Hiring a rent tax agent is also considered costly, with a moderate to high factor effect. The study shows moderate agreement among respondents that travel expenses for filing income tax are high. However, moderate variability in responses suggests a slightly spread of responses. The composite mean value of 4.10 indicates a high perceived cost of adhering to tax requirements. The study reveals that perceived costs of tax filing, hiring tax agents, and traveling are significant concerns for SMEs, indicating that these costs deter tax compliance. Addressing these financial barriers is crucial for enhancing tax compliance.

**Table 10: Income Tax Awareness and Education**

	Mean	Std Deviation	Skewness	Kurtosis
Possesses the knowledge of declaring business income received	2.7	1.037	0.115	-1.002
Maintains a record of business income and expenses	2.51	1.018	0.421	-0.92
<b>Income Tax Awareness and Education</b>	<b>2.61</b>	<b>1.028</b>		

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Source: Field Survey (2024)

Table 11 shows income tax awareness and education among SME owners. The mean knowledge is 2.7, with a standard deviation of 1.037. The mean indicates a low to moderate level of knowledge, with moderate variability. The skewness value is close to zero, suggesting a symmetric distribution. However, the negative kurtosis value indicates a flatter distribution, suggesting no strong consensus on declaring business income. The business income and expense records show moderate variability, indicating inconsistent record-keeping practices, with a skewness value of 0.421 and a kurtosis value of -0.92. The study reveals that SME owners in Sekondi-Takoradi Metropolis have low to moderate tax awareness, hindering compliance. To improve compliance and tax system effectiveness, targeted educational initiatives should be implemented.

**Table 11: Monetary Sanctions and Punishments**

	Mean	Std Deviation	Skewness	Kurtosis
The penalties for rent taxes are expensive	4.2	1.21	0.013	-1.134
I get penalized often for not filing income tax returns	3.6	1.15	-0.231	-0.853
I get penalized often for late filing of income tax	2.9	1.34	-0.076	-0.765
I get penalized often for under reporting of income tax	1.6	1.43	-0.005	-0.891
<b>Monetary Sanctions and Punishments</b>	<b>3.07</b>	<b>1.283</b>		

Source: Field Survey (2024)

The study reveals that SME owners in Sekondi-Takoradi Metropolis perceive penalties for rent tax, non-filing, and late filing of returns as costly and varied. The majority agree on the high cost of penalties. However, penalties for underreporting income tax appear less of a concern. The variability in responses suggests diverse experiences and perceptions of monetary sanctions and punishments among SME owners.

**Table 12: Potential for Tax Evasion Opportunities**

	Mean	Std Deviation	Skewness	Kurtosis
I can adjust the amount to be paid as income tax	4.8	0.634	-1.41	2.54
The likelihood of being detected by the GRA for understating rent income is minimal.	3.1	1.45	0.017	-1.34
Tax authorities check me regularly to be sure I have paid my tax	3.1	1.40	0.32	-1.7
<b>Perceived opportunity for evasion</b>	<b>3.67</b>	<b>1.16</b>		

Source: Field Survey (2024)

Table 13 shows statistical data on tax evasion opportunities among SME owners. The mean value for adjusting income tax amounts is 4.8, indicating a high factor effect. The negative skewness value indicates a left-skewed distribution, while the positive kurtosis value indicates a leptokurtic distribution. The data suggests a strong consensus among respondents about their ability to adjust tax payments. The study reveals that SME owners in the Sekondi-Takoradi Metropolis perceive a high potential for tax evasion, particularly in the ability to adjust income tax amounts. The likelihood of detection by the GRA and the frequency of checks by tax authorities are moderate factors, with no strong consensus. The perceived opportunity for evasion is also moderate to high, with a mean value of 3.67, indicating a significant opportunity for tax evasion. The variability in responses suggests differing levels of perceived risk and opportunity among respondents. To enhance tax compliance, it is essential to strengthen detection mechanisms, increase tax checks, and improve communication and education about tax evasion risks and consequences.

The regression model examines tax non-compliance among SMEs in Sekondi-Takoradi Metropolis, predicting factors such as Income Tax Adherence Cost, Tax Awareness and Education, Monetary Sanctions and Punishments, and Opportunities for Tax Evasion. The model has a strong positive correlation with tax non-compliance, explaining 81.3% of variance. The adjusted R-Square value is 0.787, indicating high explanatory power. The Durbin Watson statistic of 1.931 indicates no significant autocorrelation in residuals, suggesting that addressing these factors can enhance tax compliance. The ANOVA analysis reveals income tax adherence cost, tax

awareness, monetary sanctions, and tax evasion opportunities as significant predictors of tax non-compliance among SMEs in Sekondi-Takoradi Metropolis.

### Coefficients Model

**Table 13: Coefficients Model**

	Unstandardized		Standardised			Collinearity	
	Coefficients		Coefficients			Statistics	
	B	Std.Error	Beta	T	Sig.	Tolerance	VIF
Constant	0.39	0.12		1.31	0.014		
Income Tax Adherence Cost	0.32	0.03	0.313	6.34	0.000	0.732	1.414
Tax Awareness and Education	-0.37	0.06	-0.314	-5.87	0.000	0.668	1.546
Monetary Sanctions and Punishments	-0.13	0.05	-0.121	-3.12	0.001	0.698	1.219
Opportunities for Tax Evasion	0.25	0.06	0.179	3.11	0.000	0.641	1.565

Source: Field Survey (2024)

Table 16 presents regression analysis results revealing the relationship between income tax adherence cost, tax awareness, monetary sanctions, and tax evasion opportunities and tax non-compliance among SMEs in Sekondi-Takoradi Metropolis.

### Income Tax Adherence Cost

The study reveals that increasing income tax adherence costs leads to increased tax non-compliance, indicating that high costs are a significant motivator for SMEs to become non-compliant. The results are significant and within acceptable ranges, indicating no significant multicollinearity issues.

### **Tax Awareness and Education**

The study found a significant negative correlation between tax awareness and education, suggesting that increased tax education can effectively reduce non-compliance among SMEs, with no severe multicollinearity issues. Monetary Sanctions and Punishments, the study reveals a significant negative coefficient for monetary sanctions and punishments, indicating that stricter measures decrease tax non-compliance, indicating the effectiveness of these measures in deterring non-compliance, with acceptable collinearity statistics.

### **Opportunities for Tax Evasion**

The study reveals that SMEs are more likely to engage in tax non-compliance when they perceive opportunities for tax evasion and high-income tax adherence costs. However, higher levels of tax awareness, education, and stringent monetary sanctions reduce tax non-compliance. The findings highlight the complexity of tax behavior among SMEs and suggest a multifaceted approach to effectively address tax non-compliance.

### **Discussion of Findings**

The study found low tax compliance among SME owners in the Sekondi-Takoradi Metropolis, with a mean of 2.63 falling within the "low factor effect" range. Factors such as lack of tax education, high tax rates, and low-income levels contribute to non-compliance. High income tax adherence costs and opportunities for tax evasion are positively associated with increased non-compliance. However, higher levels of tax awareness and education, along with stringent monetary sanctions and punishments, are associated with reduced non-compliance, supporting the positive impact of education on tax

compliance. The study highlights the importance of monetary sanctions and punishments in reducing tax non-compliance among SMEs, aligning with Okpeyo, Musah, and Gakpetor's (2019) work and the theory of reason action, emphasizing the need for enforcement measures. The study reveals that perceived tax evasion opportunities increase non-compliance among SMEs, emphasizing the need for a multifaceted approach involving tax education and enforcement measures.

### **Examining the moderating role of demographic factors on the relationship between the determinants of tax and non-compliance behaviour of small and medium enterprises in the Sekondi-Takoradi Metropolis**

This study investigates the moderating role of demographic factors in the relationship between tax non-compliance and income tax adherence cost, awareness, education, sanctions, and potential tax evasion opportunities.

#### **Moderating Effect Model:**

The model examines the interaction between demographic factors and independent variables, highlighting how demographic factors moderate the relationship between the two. It includes a direct effect model and a moderating effect model, examining how the effect of these variables' changes.

**Table 14: Moderating Effects of Demographic Factors on Tax Non-Compliance Behaviour**

Predictor Variable	Demographic Factor (Moderator)	Main Effect ( $\beta$ )	Interaction Effect ( $\beta$ )	Significance Level (p-value)
Income Tax Adherence Cost (ITAC)	Gender	$\beta_1 = 0.32$	$\beta_{ITAC \times Gender} = -0.15$	0.05
Income Tax Awareness and Education (ITAE)	Age	$\beta_2 = 0.36$	$\beta_{ITAE \times Age} = 0.20$	0.01
Monetary Sanctions and Punishment (MSP)	Education Level	$\beta_3 = 0.15$	$\beta_{MSP \times Education} = 0.10$	0.03
Potential for Tax Evasion Opportunities (PTO)	Years in Business	$\beta_4 = 0.25$	$\beta_{PTO \times Years} = 0.25$	0.02

Source: Field Survey (2024)

The study reveals complex interactions between demographic factors and tax compliance predictors in Sekondi-Takoradi Metropolis, with gender, age, education level, and years in business influencing the relationship between these variables.

### Gender as a Moderator

Gender significantly moderates the relationship between Income Tax Adherence Cost (ITAC) and tax non-compliance behaviour, with a negative interaction effect. Male taxpayers are more prone to tax non-compliance and less concerned about compliance than women, who are generally more compliant with tax obligations. This suggests that lower risk tolerance and higher sense of responsibility may reduce tax non-compliance.



### **Age as a Moderator**

Age significantly impacts Income Tax Awareness and Education (ITAE) and tax non-compliance behaviour, with older individuals showing higher compliance levels. This is due to increased life experience, risk aversion, and better understanding of non-compliance consequences as they age.

### **Education Level as a Moderator**

Higher education levels significantly moderate the relationship between Monetary Sanctions and Punishment (MSP) and tax non-compliance behaviour. Higher education may reduce the deterrent effect of sanctions, as educated individuals navigate the tax system and minimize penalties. However, higher education may also provide access to tax evasion opportunities.

### **Years in Business as a Moderator**

The study reveals that SMEs with more years in business are more likely to exploit tax evasion opportunities due to their familiarity with the tax system and identification of loopholes. Demographic factors like gender, age, education level, and business years also significantly influence tax compliance behaviour among SMEs.

### **Analyse the moderating role of equity perception on the relationship between the determinants of tax and tax non-compliance behaviour of small and medium enterprises in the Sekondi-Takoradi Metropolis**

The study explores the moderating role of equity perception in the relationship between tax non-compliance and other determinants, including

income tax adherence cost, awareness, education, sanctions, and potential tax evasion opportunities.

### Moderating Effect Model:

The moderating effect model explores how equity perception (moderator Z) influences the relationship between each determinant and tax non-compliance behaviour.

**Table 15: Moderating Effects of Equity Perception on Tax Non-Compliance Behaviour.**

Predictor Variable	Equity Perception (Moderator)	Main Effect ( $\beta$ )	Interaction Effect ( $\beta$ )	Significance Level (p-value)
Income Tax Adherence Cost (ITAC)	Horizontal Equity	$\beta_1 = 0.32$	$\beta_{ITAC \times Horizontal\ equity} = 0.26$	0.001
Income Tax Awareness and Education (ITAE)	Vertical Equity	$\beta_2 = 0.36$	$\beta_{ITAE \times Vertical\ equity} = -0.13$ $\beta_{ITAE \times Exchange\ equity} = 0.16$	0.02 0.02
Monetary Sanctions and Punishment (MSP)	Exchange Equity	$\beta_3 = 0.15$	$\beta_{MSP \times Exchange\ equity} = -0.21$ $\beta_{MSP \times Vertical\ equity} = -0.11$	0.02 0.01
Potential for Tax Evasion Opportunities (PTO)	Horizontal Equity	$\beta_4 = 0.25$	$\beta_{PTO \times Horizontal\ equity} = 0.16$	0.01

Source: Field Survey (2024)

## **Moderating Effects of Equity Perception on Tax Non-Compliance Behaviour**

The study explores how equity perception influences tax determinants and non-compliance behaviour, highlighting the role of equity theory in individuals' motivation to maintain balance.

### **Income Tax Adherence Cost (ITAC) and Horizontal Equity**

Horizontal equity moderates the relationship between income tax adherence costs and non-compliance behaviour. A positive interaction effect suggests that SMEs perceive fair taxation, reducing the adverse effect of high adherence costs on compliance, aligning with Wenzel's (2003) findings. Horizontal equity moderates the relationship between income tax adherence costs and non-compliance behaviour. A positive interaction effect suggests that SMEs perceive fair taxation, reducing the adverse effect of high adherence costs on compliance, aligning with Wenzel's (2003) findings.

### **Income Tax Awareness and Education (ITAE) with Vertical and Exchange Equity**

The study shows that tax awareness and education are more effective when taxpayers perceive the tax system as fair, enhancing compliance behaviour, while SMEs' perception of fairness weakens this effect.

### **Monetary Sanctions and Punishment (MSP) with Exchange and Vertical Equity**

The study reveals that taxpayers' perception of fair value in return for their taxes strengthens the deterrent effect of monetary sanctions on non-compliance.

### **Potential for Tax Evasion Opportunities (PTO) and Horizontal Equity**

The study found that SMEs are less likely to engage in tax non-compliance if they perceive their peers are taxed fairly, aligning with Kinsey, Grasmick, and Smith's argument that horizontal equity reduces tax evasion opportunities.

### **Chapter Summary**

The fourth chapter analysed and discussed the findings from the collected data, addressing the research questions and objectives. Both descriptive and inferential statistics were utilized for data interpretation, with SPSS version 28 employed for analysis.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### Introduction

This chapter provides a comprehensive overview of the research findings, drawing conclusions from the analyzed data and offering practical recommendations for future practice and research. The chapter begins with a summary of the key insights gained from the study, succinctly encapsulating the main points discussed in the previous chapters. The chapter further presents well-founded conclusions that address the research questions and objectives, emphasizing the implications of the findings for both theory and practice. Finally, the chapter offers actionable recommendations based on the study's results, aimed at enhancing the tax compliance among SMEs.

#### Summary of the Study

The study analysed tax evasion among SMEs in the Sekondi-Takoradi Metropolitan Area, involving 265 samples from 895 registered SMEs. Results showed low tax compliance due to ignorance, high taxes, and low earnings. Factors such as gender, age, education, and years in business moderated tax non-compliance. Perceived fairness moderated the relationship between tax determinants and non-compliance behavior, with horizontal equity mediating income tax adherence costs and vertical and exchange equity influencing tax awareness and penalties.

#### Conclusion

The study reveals that tax non-compliance among SMEs in Sekondi-Takoradi Metropolis is influenced by demographics, equity perception, and

structural challenges. It suggests targeted interventions and continuous monitoring for young businesses to enhance tax compliance in Ghana.

### **Recommendations**

Based on the study's findings, the following recommendations are made in line with each of the research objectives:

To improve tax compliance among SME owners, targeted educational programs, regular workshops, and online resources should be implemented. These should clarify tax obligations, highlight the importance of compliance, and provide practical guidance on tax filing processes. Additionally, reducing income tax adherence costs can further support compliance efforts.

Tax authorities should create outreach programs for male, younger, and lower-educated taxpayers to address tax non-compliance. The study highlights the role of equity perception in influencing tax compliance. Governments should enhance equity, exchange equity, and provide platforms for SMEs to provide feedback. Regular review, reporting, and engagement in policy-making can improve tax compliance and revenue collection.

### **Suggestions for Further Research**

Future research should explore tax non-compliance behaviours in SMEs in Sekondi-Takoradi Metropolis, focusing on industry-specific factors, long-term trends, and the impact of digital tools on compliance rates.

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**APPENDIX**  
**UNIVERSITY OF CAPE COAST**  
**SCHOOL OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING**  
**QUESTIONNAIRE**

I am completing a research project to fulfill the degree requirements on  
**“DETERMINANTS OF TAX NON-COMPLIANCE AMONG SMEs  
IN THE SEKONDI TAKORADI METROPOLIS”.**

The sender requests assistance in time and response to the attached  
questionnaire, highlighting the importance of accuracy and candidness in  
ensuring objective research.

**SECTION A**

**Background information**

1. Gender of respondent

a) Male ☐

b) Female ☐

2. What is your age?

a) Below 25yrs

b) 26-35yrs

c) 36-45yrs

d) Above 45years

3. Level of Education

a) Never been to school

b) Primary

c) J.H.S

- d) S.H.S
- e) Tertiary

4. Marital Status

- a) Single
- b) Married
- c) Separated
- d) Divorce

4. Number of years in business as an owner of this enterprise

- a) Less than 10yrs
- b) 10-19yrs
- c) 20-29yrs
- d) 30-39
- e) Above 40yrs

## SECTION B: DETERMINANTS OF INCOME TAX NON-COMPLIANCE

<b>INCOME TAX ADHERENCE COST</b>	SD	D	U	A	SA
The filing of income tax returns is a costly process.					
The travel expenditure required to file income tax is quite high.					

<b>INCOME TAX AWARENESS AND EDUCATION</b>	SD	D	U	A	SA
The individual is proficient in recognizing and reporting business income received.					
The individual maintains a meticulous record of their business income and expenses.					

<b>MONETARY SANCTIONS AND PUNISHMENTS</b>	SD	D	U	A	SA
The penalties for rent taxes are quite high.					
I get penalized often for not filing income tax returns					
I frequently face penalties for late filing of income tax.					
I get penalized often for under reporting of income tax					

<b>POTENTIAL FOR TAX EVASION OPPORTUNITIES</b>	SD	D	U	A	SA
The amount to be paid as income tax can be adjusted.					
The likelihood of being detected by the GRA for understating rent income is minimal.					
Tax authorities check me regularly to be sure I have paid my tax					

**SECTION C: THE MODERATING ROLE OF EQUITY PERCEPTION  
ON TAX NON-COMPLIANCE BEHAVIOUR**

<b>EQUITY PERCEPTION</b>	<b>SD</b>	<b>D</b>	<b>U</b>	<b>A</b>	<b>SA</b>
<b>Horizontal Equity</b>					
I pay the same amount of federal income taxes as individuals with similar incomes.					
Most individuals with similar incomes pay higher taxes than I do.					
I pay more taxes compared to most people who make about the same income as I do					
<b>Vertical Equity</b>					
Generally, I believe that manner in which the tax burden is distributed across taxpayers is fair					
I pay less tax compared to those with higher income.					
<b>Exchange Equity</b>					
The government's contribution to society, based on the average amount of taxes paid, is considered fair.					
The individual expresses satisfaction with the government's benefits compared to the taxes they pay.					
I pay more income taxes than I receive in services from the government.					
Taxpayers typically pay more taxes than the government provides to the nation.					

**SECTION D: TAX NON-COMPLIANCE BEHAVIOUR NON-COMPLAINE BEHAVIOUR**

<b>NON-COMPLAINE BEHAVIOUR</b>					
I am currently preparing to file my income tax returns.					
I file my income tax returns on time					

**Thanks for your time.**