

UNIVERSITY OF CAPE COAST

**ENFORCING INCOME TAX COMPLIANCE AMONG THE SELF-
EMPLOYED IN THE TEMA METROPOLIS OF GHANA**

BY

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DECLARATION

Candidate's declaration

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

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Supervisors' declaration

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

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ABSTRACT

The idea that the self-employed have high income tax non-compliance behaviour is longstanding in tax compliance literature. Inappropriate application of tax enforcement strategies has been identified as one of the principal reasons for the high incidence of income tax non-compliance among the self-employed. Determining which regulatory enforcement strategy will be most effective has been a difficult task for tax authorities. There has been a longstanding debate between those who believe that taxpayers will comply with tax laws when confronted with harsh sanctions and those who believe that persuasion and cooperation work in ensuring compliance.

The objective of this study is to determine which enforcement strategy will ensure compliance among the self-employed, taking into consideration the reasons for non-compliance. Three hundred and fifty (350) self-employed within the Tema metropolis were sampled from a population of 6,318 self-employed. A simple random sampling technique using the lottery method was employed in selecting the sample. In all, a total of 267 useable responses, giving a response rate of about 76% were received and used for the data analysis.

The results of the study favour a combination of the deterrent and accommodative enforcement strategies with the initial use of tax education in enforcing compliance. Sanctions must however be preserved and used as a last resort for the deviant and recalcitrant non-compliers. This is in support of the ATO compliance model promulgated in Australia.

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DEDICATION

I dedicate this thesis to my dear wife Rejoice Maade Adibura, and my brother Vincent Opare Larbi

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LIST OF ACRONYMS

Australian Tax Office (ATO)

Institute of Social Statistical and Economic Research (ISSER)

Internal Revenue Act (IRA)

Internal Revenue Service (IRS)

New Patriotic Party (NPP)

Registrar General Department (RGD)

Shama Ahanta Metropolis (SAM)

Social Security and National Insurance Trust (SSNIT)

Statistical Product for Service Solution (SPSS)

Tema Metropolitan Assembly (TMA)

CHAPTER ONE

INTRODUCTION

Background

The problem of tax compliance is as old as tax itself. Characterising and explaining the observed patterns of compliance and ultimately finding ways to improve it, are of obvious importance to the nations around the world in general and developing countries in particular. Governments all over the world need private resources in the form of taxes to undertake developmental projects such as the provision of potable water, good educational facilities and maintenance of law and order. According to Otieku (1992, P. 45), a country cannot experience any meaningful economic growth “without positive stimulus from intelligent governments”. The important role taxes play in economic development cannot therefore be over-emphasized. Government’s aim of achieving economic development would remain a mirage if efforts are not taken to improve tax compliance.

One of the important types of taxes for which governments over the world, one of the important types of taxes for which governments over the world, including governments of developing economies, have long struggled to improve

compliance is in respect of income taxation among the self-employed (Flynn, 2003). The self-employed contribute substantially to the national economy, both in terms of employment (Carmel, 2000) and Gross Domestic Products (Maurin, Sookram and Watson, 2006). However, Bird (1984) shows that more than half of the potential tax revenues in most developing countries tend to remain uncollected. Bird further attributed this to the large size of the informal sector, dominated by the self-employed. The idea that the self-employed have high income tax non-compliance behaviour is longstanding in tax compliance literature. For example, Andreoni, Erard, and Feinstein (1998) cite 1988 statistics from the Taxpayer Compliance Measurement Program in the United States that indicate that the average tax understatements for the self-employed is \$1,885, compared to an average overall understatement of \$289 across all persons. Flynn (2003) also noted that revenue loss from non-compliance by individual taxpayers, particularly the self-employed were estimated to range from \$93.20 billion to \$95.30 billion for the tax year 1992. The work of Terkper (2003) also confirms the high tax non-compliance among small businesses, dominated by the self-employed in Ghana.

To radically deal with the menace of tax non-compliance by the self-employed, some researchers such as Tyler (1990) and Hasseldine and Hite (2007), have advocated for the institution of tax enforcement using sanctions, fear and coercion to improve compliance in tax administration. As such, many tax laws have incorporated sanctions and other punitive measures to enforce compliance. An example of punitive tax legislation with punitive provisions is

Ghana's Internal Revenue Act (IRA), 2000 where in Sections 141 to 146, various sanctions are stipulated. Other scholars such as Braithwaite and Grabosky (1986) and Owens and Hamilton (2004) have advocated for the use of cooperation rather than sanctions or penalties in enforcing compliance. These two alternative approaches to tax enforcement have been termed the 'deterrence' and 'accommodative' model of regulation, respectively by Murphy (2008).

Proponents of the deterrence model of tax enforcement believe that using harsh sanctions and punishment will deter would-be non-compliers from breaking the law and thereby ensure compliance from taxpayers (Williams, 2001). Enforcing tax laws, using sanctions, force and coercion has however been criticized on the grounds that the use of sanctions and penalties deny something that is at the core of every regulatory non-compliance, that is, reasons underlying non-compliance.

Proponents of the accommodative model of tax enforcement highlight the importance of persuasion and cooperation as a regulatory tool for gaining compliance. Educating taxpayers to deal effectively with their tax obligations, respecting the rights of tax taxpayers, and improving the service delivery operations of tax authorities are hallmarks of the accommodative model of tax enforcement.

Statement of the problem

The development agenda and programme of a country like Ghana can only be brought to reality through the availability of funds. A reliable source of

government revenue is taxes. Studies on tax compliance have however showed that income tax compliance among the self-employed leaves much to be desired. For example, in a review of the literature on taxation and self-employment, Scheutze and Bruce (2006) conclude that non-compliance among the self-employed is a significant concern, citing research that finds that the self-employed sector of the economy makes a very significant contribution to the total level of tax evasion in the USA. One of the studies in their review (U.S. General Accounting Office, 1990) estimates that for 1987 self-employed individuals accounted for 63 percent of the \$48 billion in unreported income.

Relatedly, Kagan (1989) reports findings from an Internal Revenue Service (IRS) study of tax returns that estimate that only 50.3 percent of self-employed income in 1979 was voluntarily reported to the IRS compared to 93.9 percent of wage and salary income in the United States of America. Evidence from developing countries also supports this notion. For example, Alm, Bahl, and Murray (1993) use audited individual tax returns from Jamaica, and find that evasion is significantly larger for individuals in self-employment.

Ghana's IRS, recognizing the high level of income tax non-compliance among the self-employed, has devised various unconventional means of taxation (standard assessment, identifiable groupings and, most recently, the tax stamp) over the years to rope into the tax net as many self-employed persons as possible.

These measures notwithstanding have not succeeded in curbing the high tax non-compliance among the self-employed in Ghana. Information from the Ministry of

Finance as contained in the Institute of Social Statistics and Economic Research (ISSER)'s State of the Economy Report in 2006, shows that the percentage contribution to government revenue of income tax from the self-employed were as low as 5.71%, 5.35% and 5.24% for the tax years 2003, 2004 and 2005 respectively. This situation could be largely attributed to the presence of income tax non-compliance among the self-employed. Song and Yarbrough (1978) demonstrate that in Ghana non-compliance by the self-employed is a major factor accounting for tax authorities receiving less than what the law allows. An effective income tax enforcement strategy is therefore warranted.

In Ghana, much of the studies that have been undertaken in the field of tax compliance have mainly centred on the problems of tax administration (Otioku, 1988), public perception of tax evasion (Song and Yarbrough, 1978) and managing small size taxpayers (Terkper, 2003). The findings of these researchers call for the need to enforce tax laws to improve compliance especially among the self-employed. However, determining which regulatory enforcement strategy will be most effective is a daunting challenge for taxing authorities. A long-standing debate in the regulatory literature has been between those who believe that individuals will comply with rules and regulations only when confronted with harsh sanctions and penalties (Wenzel, 2004), and those who believe that gentle persuasion and cooperation works in securing compliance (Braithwaite, 2003). This study is embarked upon to address the question of which enforcement model is appropriate and in line with "best practices" in improving tax compliance among the self-employed.

Objectives of the study

The general objective of the study is to ascertain reasons for non-compliance and offer suggestions to improve compliance among the self-employed. Specifically, this thesis seeks to:

- 1 Determine the demographic characteristics of the self-employed, and how these characteristics affect compliance/or non-compliance.
- 2 Examine the determinants or causes of income tax compliance or non-compliance among the self-employed.
- 3 Examine the role and severity of sanctions or penalties in enforcing income tax compliance among the self-employed.
- 4 Examine the role of cooperation in enforcing income tax compliance among the self-employed.

Research questions

Two research questions were posed as follows to address objectives 1 and 2:

- 1 What are the demographic characteristics of the self-employed, and how do these demographic characteristics affect income tax compliance?
- 2 What are the factors that influence income tax non-compliance among the self-employed?

Research hypotheses

In order to strengthen the results of research objectives three (3) and four (4), two hypotheses were tested. To support the severity of sanction as a deterrent model, one hypothesis was formulated as:

Hypothesis 1

H₀. There is no significant relationship between the severity of sanctions and the level of intention to comply with income tax laws among the self-employed.

H₁. There is significant relationship between the severity of sanctions and the level of intention to comply with income tax laws among the self-employed.

Determining which regulatory enforcement strategy will be most effective in gaining long-term voluntary compliance from taxpayers is a challenge for all taxing authorities, particularly, governments of developing countries. There has been a recurring debate in the regulatory literature between the use of harsh sanctions and penalties (termed ‘deterrence’ model) on one side, and that of gentle persuasion and cooperation (termed ‘accommodative’ model) on the other one side to improve tax compliance.

The deterrence model has tended to dominate policy-making and enforcement approaches in taxation. Punitive measures have been incorporated in the tax laws of many countries in enforcing tax compliance. Hasseldine and Hite (2007) argue that the institution of sanctions in tax laws would ensure compliance among taxpayers and ultimately achieve fairness in tax administration. The

argument is that taxpayers will regard tough enforcement actions as more procedurally fair and knowing that there exists institutional mechanism to deal with non-compliance builds taxpayers' confidence of the legitimacy of the tax system and thereby ensure voluntary compliance.

This argument is in line with the age long generally acceptable pyramid of tax enforcement typically composed of the use of force and or sanctions to compel compliance from deviant taxpayers. It is against this background that this study wishes to confirm or disprove the first hypothesis that, 'The heavier or severer the sanction or penalty, the higher the intention to comply with income tax laws by the self-employed'.

To determine the effect of sanction and cooperation on compliance, the second hypothesis of this study was formulated as:

Hypothesis two (2)

H₀. Cooperation and sanction do not significantly improve income tax compliance among the self-employed.

H₁. Cooperation and sanction do significantly improve income tax compliance among the self-employed.

One of the many ways of improving tax compliance suggested by Professor John Braithwaite in his Australian Tax Office (ATO) compliance model is to initially persuade and cooperate with taxpayers through effective tax education programmes and improve accounting recording practices. Sanctions

must however be incorporated and preserved in tax laws as a deterrent to deviant non-compliers. Braithwaite (2003) proposes that cooperation coupled with the existence and knowledge of the capacity of tax authorities to get as tough as needed through sanctions would encourage and improve voluntary compliance. It is against this background that the second hypothesis for this study is tested.

Significance of the study

Even though there is extensive literature on tax compliance and or non-compliance elsewhere, there seems to be little of such literature in Ghana. It is hoped that this thesis will significantly add to the body of existing knowledge on the subject of tax compliance among the self-employed in Ghana. This would be of immense benefit to academia, particularly as a reference material to other students who would want to conduct further research into tax compliance in Ghana.

Tax enforcement authorities often have difficulty enforcing tax laws because of the inability to actually identify and incorporate the causes of non-compliance in tax enforcement strategies. This thesis however looks at an enforcement strategy that will appropriately incorporate the reasons for non-compliance and thereby help improve compliance among the self-employed. Again, tax practitioners and consultants will be afforded the opportunity to fashion out expert advice that is most suitable and appropriate for their clients to prevent them from breaking the income tax laws.

Taxpayers will benefit from the alternative tax enforcement strategy that would be recommended to improve upon the operations of their businesses, particularly in the areas of good record keeping and tax education. The greatest beneficiary would be the citizenry, since an improved compliance to tax laws would enhance government revenue for better economic development to improve the welfare of the citizenry.

Limitation and delimitation of the study

This thesis is restricted to Tema Metropolis. It may thus be inappropriate to generalize the findings of this study to other municipalities in the country. The involvement of IRS officials would have further enriched the work with their deep insights and wealth of information on tax administration and compliance in Ghana. However, the study focused on the self-employed because it was believed that the views of the IRS officials could not substantially change the views obtained by the self-employed themselves. As such, the study was restricted to the self-employed. Again, this study focuses on the self-employed engaged in trading as the urban informal sector has majority of its participant in the retail trade i.e. buying and selling (ISSER, 2003). The findings of this study may therefore not be a true representation of the tax compliance behaviour of all self-employed in the study area. Furthermore, the period of the study spans from the year 2001 to 2009. This period is selected bearing in mind the government's agenda of making the private sector the engine of growth coupled with the introduction of the Internal Revenue Act, 2000 (Act 592). The declaration of the Golden Age of Business in year 2001 by the then New Patriotic Party (NPP) government might have

whipped-up the interest of a number of entrepreneurs to set-up their own (self-employed) businesses. Again, with the introduction of the Internal Revenue Act 2000 (Act 592) in the same year, 2001, it is expected that all tax-related issues might have been dealt with to allow for total compliance. Making inferences to periods not covered by this study may therefore be misleading.

Conceptual overview

The significance and importance of the self-employed to the national economy cannot be overemphasized. The informal sector dominated by the self-employed hires about 80% of the entire labour force in Ghana (ISSER, 2006). According to Carmel (2000) the activities of the self-employed contribute significantly to the economies of Ireland and the United Kingdom. The self-employed employ 20% and 28% of the entire labour force of the economies of the United Kingdom and Ireland respectively in the year 1997. These findings suggest that the self-employed could contribute significantly to government revenue if appropriate tax compliance policies are devised to enforce compliance among the self-employed.

However, there is enough evidence to attest to the fact that self-employed persons are major defaulters. There have therefore been numerous calls for an appropriate enforcement strategy to wrestle the issue of income tax non-compliance among the self-employed (Weisbach and Plesko, 2007; Picciotto, 2007).

This thesis adopts the Australian Tax Office (ATO) model for improving tax compliance. The ATO is one of the well published examples of strategic focus on responsive regulation adopted in Australia to improve tax compliance, which has come to be known as the ATO Compliance Model. The ATO Compliance Model has led to a cultural shift in tax compliance in Australia, and arguably, can be viewed as “best practice”. Essentially the compliance model is a pyramid that conceptually represents taxpayers’ motivational postures ranging from commitment (at the base) through capitulation, resistance and disengagement (at the peak). Thus, appropriate strategies for tax agencies include non-discretionary command regulation (at the peak), discretionary command regulation, enforced self-regulation (at the base, which is the desired state). Thus, the model is consistent with the customary goal of voluntary compliance, and at the base, tax agencies can focus on enabling efforts such as education and service delivery. At the middle levels, strategies can include business examinations and record keeping reviews, then moving to the top levels where there are audits (with or without penalty) and finally prosecution (Hasseldine and Hite, 2007).

Organization of the study

Chapter two dealt with review of existing literature on enforcing income tax compliance and non-compliance behaviour of the self-employed. Primarily the two main alternative enforcement strategies (i.e. deterrence and accommodative models) were reviewed. The Internal Revenue Act, 2000 (Act 592) was also reviewed particularly touching on tax enforcement in Ghana. Chapter three dealt with the methodology adopted in the execution of this research work. Data was

collected using the survey strategy. A sample of 350 self-employed was chosen using simple random sampling technique from an accessible population of 6,318. Frequency distribution tables, cross-tabulation, chi-square, and regression analysis were employed in the presentation and analysis of the data. Discussion of the results or findings from the study was dealt with in chapter four. The final chapter of this study (i.e. chapter five) focused on conclusions, findings and recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

The review of related literature brings together the theoretical studies and concepts that provide the background for the study. It attempts to review literature on who the self-employed are, taking into consideration the demographic characteristics such as gender, age, educational level and marital status and how these demographic characteristics affect tax compliance and non-compliance. Again, literature on the causes of non-compliance as promulgated by Kidder and Craig (1989) is reviewed. Finally, existing literature on the two main tax enforcement strategies, comprising of sanctions and cooperation, as well as the ATO model for improved tax compliance are reviewed.

Definition of “Self-employed”

Fairlie (2005) explains the self-employed as those individuals who identify themselves as working for themselves in business, professional practice or farming. Camel (2000, P. 42) defines self-employed as “persons working for themselves who may or may not employ other workers or members of the family who help to run an enterprise without payment”.

Though these two definitions seem to point to one direction, the researcher would want to improve on Fairlie's (2005) definition. This is because, most people who are employed or hired by the self-employed are considered to be in employment and as such are paid for their services. Even, family members who sometimes help to run such enterprises cannot be said to be providing free services, since such costs as transport fares and feeding expenses of the family members are borne by the self-employed. The researcher is of the view therefore that the self-employed are "people who identify themselves as working in their own businesses who may or may not employ other workers who help to run the enterprise for payment".

Reasons for the increase in the activities of the self-employed

The Self-employment concept dates back to the existence of humankind. However, the subject assumed its present day recognition in Ghana in the early 1970s in an article 'Informal Income Opportunities and Urban Employment in Ghana' by Hart (1973), who highlighted the employment potential in the informal sector that could be explored by individual entrepreneurs with employable skills and the desire to work for themselves.

In the 1980s and early 1990s, there was an upturn in self-employment in the economies of Ireland, United Kingdom and other parts of the world, particularly developing countries. According to Fairlie (2005), two main policy issues influenced the resurgence of the self-employed in many economies of the world. The first of these was the growing awareness of the increasing employment

potential of the small business sector. The second was the growing problem of unemployment.

The manner in which these two concerns entered public policy domain however differed among countries. In the United Kingdom for example, government advocacy of self-employment emphasized, from the start, its potential to contribute to economic diversification and employment creation. Directly aligned to this is the desirability of the unemployed to being active agents in exploiting this potential.

Blanchflower and Oswald (1998) argue that the psychological factors associated with entrepreneurial drive play a key role in the propensity to become self-employed. Evans and Leighton (1989) focus on one such psychological factor - willingness to be in charge of one's own destiny and find that this is positively correlated with self-employment propensity. A related point concerns an individual's preference for hours of work. In general, fixed wage employment entails accepting the working week dictated by the employer (although in some cases an employee may be able to exercise some discretion, albeit within the parameters specified by the employer, for example "flexi-time" schemes). In contrast, the self-employed can determine the number of hours of work, presumably to satisfy their entrepreneurial drive, thereby exerting more control over his/her destiny.

Demographic characteristics or profile of the self-employed

Researches in the 1970s through to the 1990s have heralded a resurgence of interest amongst both academics and policy makers in the determinants of self-employment and its role as a potential solution to unemployment and poverty (especially in times of economic downturns). The basic economic argument is that individuals decide whether to enter self-employment based on the relative utilities on offer (Taylor, 2001). Relative returns, however, are but one part of the story. An interesting issue is what type of individual is attracted into self-employment? Research has focused on the attributes of the self-employed in order to address the question “who are the self-employed?” focusing on characteristics such as age, gender, marital status and level of education (Le, 1999; Kidd, 1993; Evans & Leighton 1989; Devos, 2005).

Age: An individual’s age may affect his or her propensity to become self-employed (Kidd, 1993). For instance, age may act as a proxy to capture the effects of individual’s awareness, knowledge and experience in the labour market thereby reflecting general human capital. Alternatively, as an individual becomes older, he/she may have accumulated the financial resources required for self-employment, hence age may capture effects related to financial as well as human capital.

In general, studies have reported a non-linear relationship between self-employment and age. Fuchs (1982) found that the probability of switching from wage or salaried employment to self-employment was not significantly

associated with age. Blau (1987) reported similar findings. However, Brown, Farrell and Harris (2003) have revealed that there is a positive relationship between age and self-employment.

Gender: Overall data indicates that the incidence of self-employment among men is higher than women Evans and Leighton, (1989): Brown, Farrell and Harris (2003). The higher average hours of employment typically reported by the self-employed may act as a deterrent to female participation. Connelly (1992) has however revealed that female participation in self-employment is greater than male participation. As advanced by Connelly (1992), self-employment affords more flexibility and may therefore prove attractive to women with responsibilities.

Marital status: Marital status has been incorporated into many empirical studies. As argued by Le (1999), marriages are assumed in the economics literature, to represent stability and, as such, may provide a suitable background for “risky” self-employment. Moreover, Blanchflower and Oswald (1990), Bernhardt (1994) and Brown, Farrell and Harris (2003) find that having a working spouse enhance the probability of self-employment - this may include financial stability. Similarly, Schiller and Crewson (1997) find evidence of intra-couple risk pooling with a husband’s primary employment increasing the probability that a wife will be observed in self-employment.

Level of education: The role of educational qualifications has been incorporated into many empirical studies, seen as a key determinant of success, or

otherwise, in the labour market. Educational attainment may act as a proxy for ability - individuals with higher ability may make better managers, which in turn may enhance their probability of becoming self-employed. Fairlie (2005) finds that those who have many and broad skills are more likely to be self-employed than those who have few but deep skills.

Studies reporting a positive relationship between educational attainment and the probability of self-employment include Rees and Shah (1986), Borjas and Bronars (1989), Brown, Farrell and Harris (2003) and Evans and Leighton (1989). Alternatively, higher levels of educational attainment may play a signalling role in the labour market with high educational qualifications serving to secure employment in the non self-employed sector. Evidence supporting an inverse relationship between higher levels of educational qualifications and the propensity to become self-employed include DeWit and Winden (1989) and Kidd (1993). In summary, the evidence regarding the relationship between education and the propensity to become self-employed remains inconclusive.

Taxing the self-employed

Governments all over the world, particularly developing countries, always have difficulties developing the appropriate tax system that will effectively rope into the tax net as many self-employed people as possible. Even if the appropriate tax policy is formulated, there has always been the difficulty on the part of tax administrators in reaching out to the self-employed who are classified as difficult to tax by the tax authorities. The difficulty in reaching the self-employed by tax

authorities make the self-employed highly non-compliant to tax regulations (Thuronyi, 2003). A number of factors have been identified as contributing to the difficulty in taxing the self-employed, some of which are reviewed here.

Low standard of record keeping: In most developing countries including Ghana, the self-employed are very indifferent to proper record keeping. This practice therefore makes it difficult if not impossible for any proper assessment of income to be determined by the tax authorities. What accounts for this situation varies. Most self-employed prefer to run their own business without making conscious efforts to employ qualified accountants whose responsibility it is to keep proper records. Some self-employed also intentionally engage in keeping different records based on the needs or uses it would serve.

Predominance of cash transaction: In Ghana, just like other third world countries, the mode of business transaction by the self-employed is mainly on cash basis. The prevalence of cash as the medium of business transactions leaves no evidence of income from such transactions for future confirmation. Braithwaite (2003) found out that the main medium of transacting business among the self-employed is by cash. Tax authorities therefore find it difficult to determine the income of the self-employed on which taxes are imposed.

Lack of voluntary compliance: Voluntary compliance is the hallmark required of taxpayers in every tax system the world over. However, as noted by Thuronyi (2003) there is low tax morale on the part of the self-employed to voluntarily succumb to tax legislation. This thereby calls for some level of

enforcement from the government to compel compliance. In most instances however, governments lack the necessary political will to enforce tax laws for fear of losing popularity. For Governments to meet their revenue targets for sustainable economic development there is the need for new compliance approaches to be considered to improve voluntary compliance.

Lack of permanent place of operation: Most of the self-employed do not register with the appropriate authorities before commencing their operations. For the few who do, many fail to provide proper address of their business locations. It is therefore difficult for the tax authorities to identify such people for tax purposes. According to Gill (2003) the lack of permanent place of operation presents one of the daunting issues facing tax administrators, particularly, with respect to the self-employed, as regards taxpayer identification and registration.

Reasons for taxing

A number of reasons have been advanced for imposing taxation. They are the same reasons that hold for taxing the self-employed. The reasons among others include the following;

Source of Government revenue for development. One of the chief reasons for taxing the self-employed is to generate revenue for the government to execute developmental projects to better the lot of the citizenry. Without revenue mobilization through taxes, no government can achieve anything concrete in terms of development such as schools, hospitals, roads, housing, water, electricity. Taxation is described as the lifeblood of a nation, without it the wheel of progress

stagnates. Governments must therefore make every possible attempt to tax every person who must be taxed through instituting appropriate measures to curb tax non-compliance. If the assertion of Schneider and Enste (2003) is something to go by then the nation loses a lot of revenue if appropriate steps are not taken to tax the self-employed.

Taxing the self-employed goes to increase the revenue base of the government and also preserve the durability of the tax collection system. Once the tax net is wide enough to cover all taxpayers in an economy, there is no motivation to hide behind self-employment to deprive the country of its much needed tax revenue.

Equity or fairness objective: Smith (1776) in his famous book entitled ‘An inquiry into the nature and causes of the wealth of nations’ stated that fairness is one of the cardinal principles underlying every good tax system. Equity in any tax system would boost taxpayers’ confidence and trust and encourage compliance. Equity is achieved if every taxpayer (including the self-employed) is identified and taxed proportionate to his/her income. The self-employed, just like other citizens benefit from the facilities made available by the state through taxes. It will therefore be highly unfair if they are left off the hook of the tax net.

Agyei (1984) reports that Ghana’s income tax base is very narrow. Only about 20% of the working force is employed for wage and salary and thereby easily identified and taxed by the state. The rest are self-employed, mostly in trading and farming. It is very difficult, if not impossible, in most cases to identify

such taxpayers, let alone to determine their income on which tax is based (Agyei, 1986).

The difficulty in identifying self-employed taxpayers is partly attributable to the lack of secondary income reporting among self-employed individuals. Employers are required to report their employees' income to the taxing authority. In contrast, the income of self-employed individuals is not subjected to any third party reporting requirement. There is therefore the likelihood of the taxing machinery cramping on the wage or salaried earner whilst leaving the self-employed who form the bulk of the working class untaxed.

Methods of taxing the self-employed

According to the Income Tax Act (Act 592), every income earner is supposed to voluntarily register with the IRS and submit details of his/her operations (financial records) for the purposes of determining his/ her tax liability. However, as observed by Terkper (2003), the self-employed fall within the category of taxpayers referred to as "hard-to-tax group" who often fail to voluntarily register (because they are able to hide their operations from the tax authorities) with the tax authorities for taxing purposes. If they even register with the taxing authorities, they generally tend to be non-compliant with tax regulations particularly with respect to keeping appropriate accounting and financial records and promptly filing returns. The use of the presumptive taxation method in taxing the self-employed have therefore been generally accepted internationally (Thuronyi, 2003).

According to Thuronyi (2003, P. 1), the presumptive method of taxing “involves the use of indirect means to ascertain tax liability, which differs from the general method based on taxpayers accounting records”. The assumption under the presumptive method is that the taxpayer’s income is a reflection of the amount arrived at by the indirect method. Thus, the amount of tax under the presumptive method reasonably reflects the taxpayer’s actual tax liability.

Tax compliance

The objective of enforcing tax laws is to achieve compliance with them. According to Thuronyi (2003), the definition of tax compliance is an action by a person filing his Income Tax Form (or usually referred as returns), declaring all taxable income accurately, and disbursing the payable tax within the stipulated time without getting the tax authority to keep reminding or taking action against those noncompliance taxpayers. Devos (2005, P. 223) defines tax compliance as “compliance with reporting requirements, meaning that taxpayers file all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the internal revenue regulations and court decisions applicable at the time the return is filed”.

These two definitions actually touch on the various modes of tax non-compliance revealed by the IRA (2000). According to the IRA (2000) the principal modes of tax non-compliance ranges from late or non submission of tax returns, under-statement of income to over bloating of expenses.

Non or late submission of returns: This involves failing to file tax returns or filing the returns late. A good number of the self-employed do not file since most of them cannot be identified. Section 148 of the IRA (2000) enjoins every individual to submit income tax returns, to the IRS not later than four months after the basis period of that person within the year of assessment. Where majority of taxpayers fail to file tax returns it becomes difficult to identify them, determine their income and tax liability and also leads to tax gap i.e. the amount of unpaid taxes due foregone. Timely tax payment is important to the tax authority. The amounts received are used for the government's expenditure otherwise the insufficient fund needs to be borrowed and incur additional cost.

Under-statement of income: This is also one of the modes of income tax non-compliance exhibited by taxpayers, particularly, the self-employed. The IRA (2000) identifies three main sources of income that are subject to tax, namely, (1) income from employment, (2) income from business and (3) income from investment. Though majority of taxpayers earn income from all these three sources, a taxpayer may disclose income from one or two sources, resulting in under-declaration of income.

Over-statement of expense: Section 114 of the IRA (2000) allows for the deductions of expenses incurred in the course operations from income. The self-employed tend to increase their deductions by including personal expenses and charging them against income, which ultimately reduces one's tax liability.

Determinants or causes of tax compliance

Tomasic and Pentony (1990) have suggested that the whole notion of tax compliance is a social construct. They believe that there are no objective standards or appropriate levels of compliance and that the level of compliance “is a product of the negotiation of law and legal institutions.” Tomasic and Pentony (1990) are of the view that the notion of compliance is a political one so that what is perceived as an acceptable level of compliance at one time may not be acceptable at another. The factors that give rise to tax compliance are varied and differ from period to period. Other researchers such as Milliron and Toy (1988) were of the opinion that the major causes or determinants of tax compliance fall within the scope of economics. There is therefore the need for one to determine the causes of tax compliance from both social and economic points of views.

This study looks at two main dimensions that contribute to tax compliance and or non-compliance. The first dimension is what Kidder and Craig (1989) termed as the topology or taxonomy of tax compliance. The second dimension will focus on demographic characteristics of taxpayers (and in this study the self-employed) as applied by Devos (2005).

Taxonomy of tax non-compliance

Kidder and Craig (1989) have identified some seven variables that account for tax compliance or non-compliance. They refer to these variables as taxonomy or topology of tax compliance, namely; procedural, brokered, unknowing, lazy accounting, protest or symbolic, asocial and habitual non-compliance.

Procedural non-compliance: This arises when taxpayers fail to follow the right procedure or use the appropriate forms spelt out by the tax laws in respect of filing returns. Taxpayers are required to submit to specific procedures that are sometimes beyond the comprehension of taxpayers arising from either ignorance on the part of taxpayers or failure on the part of the tax agency to educate taxpayers on the timing and procedures for filing returns. Procedural noncompliance may be due to complexity of filing procedures (Owens and Hamilton, 2004). Clotfelter (1983) found that the complexity of the return was associated with non-compliance.

Brokered non-compliance.: Some taxpayers do rely on tax professionals for advice when preparing their tax returns or wholly leave their tax matters to such professionals to handle. Brokered non-compliance occurs when taxpayers become non-compliant because of expert advice. This situation happens when a tax system is not robust enough to detect non-compliance.

Unknowing non-compliance: This arises when taxpayers fail to comply either in part or in whole with the tax laws mainly due to ignorance or complexity of some of the tax laws that do not lend themselves for easy comprehension (Picciotto, 2007). Ignorance has been found to represent a significant proportion of tax non-compliance (Yankelovich and White, 1984).

Lazy (Accounting) non-compliance: The need to keep proper accounting records plays a crucial role in tax compliance. Proper accounting records help in determining taxpayer's income and thereby their tax liabilities (Ayres and

Braithwaite, 1992). Lazy non-compliance arises when taxpayers fail or refuse to keep proper accounting records of their business to allow for ease of determining their appropriate tax liabilities. This situation happens when people are not knowledgeable in accounting or fail to employ accountants to handle the records keeping aspect of their business operations.

Protest or symbolic non-compliance: The individuals in this case do not see the need for them to pay taxes. These taxpayers cheat the state by running their activities such that it is difficult, if not impossible, for tax officials to identify, let alone tax them (Thuronyi, 2003). They fail to register their businesses with appropriate authorities such the Registrar General or IRS. One of the reasons that may account for such group of taxpayers could be due to their perception of corruption by the authorities in the uses of tax revenue. Again, some taxpayers feel there is unfair treatment either by the tax system or tax administrators and as such want to fight against the inequalities (Gilligan and Richardson, 2005). Failure to comply with tax laws is seen as a protest against the inequitable tax system (Kidder and Craig, 1989). Taxpayers' perception of the unfairness of the tax system likely influences their willingness to evade payment. However, previous research on the influence of perception of fairness on tax compliance has produced mixed results. McEwen and Maiman (1986) found evidence that perception of fairness was directly associated with compliance, while Porcano (1988) found no association between compliance and perception of fairness.

Asocial non-compliance: Taxpayers as social beings are in one way or the other influenced by the actions and inactions of their associates. Where a network

of individuals decides not to comply with tax laws, their associates are also influenced to follow suit in pursuit of the group's mission. Grasmick and Bursik (1990) found that family and friends do have significant influence on taxpayer compliance behaviour.

Habitual non-compliance: Taxpayers like any other persons do develop some habit as a result of familiarity over time. Once taxpayers become familiar with tax issues, they do identify certain lapses and therefore resort to the habit of non-compliance in order to take advantage of the loopholes in the tax system

Demographic variables

Taxpayer demographic characteristics have an effect on tax compliance or non-compliance. For the purposes of this study, the following taxpayer characteristics - gender, age, educational attainment and marital status are reviewed.

Gender: Torgler and Valev (2007) investigate whether gender matters in the conduct of illegal activities including tax non-compliance. They found that women are significantly less to agree that corruption and cheating on taxes can be justified. A common finding amongst studies reviewed by Richardson and Sawyer (2001) and previously by Jackson and Milliron (1986) was that female taxpayers were more compliant than their male counterparts. In particular, a comprehensive study conducted by Oxley (1993) in New Zealand reported that women were more often compliers in comparison with men and less often tax evaders or tax avoiders.

There are two major theories explaining gender differences in the compliance literature. These are the “realities theory” and the “opportunity theory”. According to the realities theory, gender differences can be attributed to different biological, psychological and experiential realities that lead to different approaches to issues and problems. In contrast, the opportunity argument lies closer to traditional economics, suggesting that men and women do not necessarily have different motivations. Instead gender differences can be explained by different external constraints and opportunities faced by men and women.

Richardson and Sawyer (2001) however noted that the compliance gap between males and females appears to be narrowing with the emergence of a more independent, non-traditional generation of women. In a survey of American taxpayers, Hite (1997) focused on the interaction between gender and education. Female respondents with college degrees tended to be more tolerant of non-compliance than females without college degrees.

Age: The majority of studies reviewed by Richardson and Sawyer (2001) that examined the age variable found that older taxpayers tended to be more compliant than younger taxpayers. However, there have been a significant number of studies that found no relationship (Porcano, 1988; Feinstein, 1991). Other researchers like Mason and Calvin (1978), Dubin and Wilde (1988) found a negative relationship between age and non-compliance. Richardson and Sawyer (2001) have proposed four possible explanations for the inconsistent findings. First, the significance of the age variable does not extend to all taxpayers. Second, inconsistent definitions of taxpayer non-compliance are employed throughout the

research. Third, when age is considered in association with a number of other variables, its effect on taxpayers' compliance is diluted. Finally, the interaction of age with other compliance variables could be problematic. The researcher is of the view that older taxpayers are more compliant than younger ones. This is because older taxpayers would have acquired sufficient assets or are wealthy therefore their tax non-compliance will be lower compared to younger taxpayers who are still active in acquiring wealth and plan strategies such as underreporting and exaggerate deductions

Educational qualification: The effect of education on taxpayer compliance is not clear. Both positive and negative relations have been found between education and non-compliance. Wallschutzky (1984) indicated that education is a variable most likely to improve compliance, whereas Beron, Tauchen and Witte (1992) indicated that inconsistent results are produced as education is highly correlated with income level. The reasons for these conflicting findings are varied. First, there can be difficulty in determining which aspect of education is being measured. Comprehensive literature reviews by Lewis (1982) and Richardson and Sawyer (2001) have identified four measures of education namely (i) the general degree of fiscal knowledge, (ii) knowledge involving evasion opportunities, (iii) general education attainment and (iv) specific tax knowledge. These different dimensions may assist in explaining the confusion surrounding the effect that the education variable has on taxpayer compliance.

Correlations between education and other compliance variables may also have contributed to the inconsistent results found. Other compliance variables that

have been suggested as having a relationship with education are gender, income level, taxpayers' perceptions of fairness and detections and sanctions (Jackson and Milliron, 1986).

Marital status: Individual taxpayers who have spouses are found to be more compliant than unmarried taxpayers. This situation could partly be explained by the fact that women turn to be more tax compliant than men (Richardson and Sawyer, 2001). Married women are therefore able to influence their male counterparts to be tax compliant as well.

Enforcing tax compliance

According to Braithwaite (2003), tax enforcement deals with the means by which tax authorities get the cooperation of taxpayers in meeting their tax obligations as stipulated by tax laws. This definition points to the fact that tax authorities have an important role to play in ensuring compliance with tax laws. However, there has been a difficulty in determining which regulatory enforcement strategy will be most effective in gaining long-term voluntary compliance from taxpayers. Whereas some researchers such as Williams (2001) favour the use of harsh sanctions and penalties, others like Job, Stout and Smith (2007) have advocated for the use of persuasion and cooperation in enforcing tax compliance.

The use of sanctions in enforcing compliance (Deterrence model)

One of the major approaches to enforcing compliance relies upon the element of coercion represented by the enforcement activities of police, taxation officials as well as the sanctioning behaviour of the courts and other agencies.

Aryes and Braithwaite (1992) argued that enforcement powers should be precise and logically formulated, consistent across the range of taxation legislation, should allow for the minimum of administrative discretion and should be subject to ultimate judicial control that in turn should be capable of being applied in a summary and expeditious way. Although Braithwaite (2003) recommended that civil sanctions and surcharges should be the primary means of enforcing compliance, it was argued in that work that effective criminal sanctions should only be available in cases of deliberate and serious non-compliance.

The traditional method adopted by tax authorities in enforcing tax compliance worldwide has been to focus on fear and thus incorporated punitive measures in tax laws. Braithwaite (1995) first argued that compliance is likely to be achieved when tax agents employ explicit enforcement pyramid. The deterrence model can be traced back to the classical studies of Beccaria (1797) and Bentham (1788). The basic premise of these researchers is that people are rational actors who will behave in a way that will maximize their expected utility. The view of Becker (1968) was that if individuals are rational decision-makers whose aim is to maximize expected utility, then regulatory authorities must fashion out sanctions that are severe enough to deter non-compliance.

Researchers developed interest in researching the effects of deterrence on compliance with laws in the 1960s and 1970s. In fact, Allingham and Sandmo (1972) extended Becker's work on the dynamics of crime to taxation. These researchers examined factors such as rate of penalty and the probability of

detection on tax evasion. They found out that a high penalty rate and high probability of detection deter people from non-compliance.

Tyler (1990), and Hasseldine and Hite (2007) argued in favour of the institution of punitive measures or sanctions as an institutional legitimacy and procedural fairness. Tyler (1990) argued that the institution of sanctions in tax laws would ensure compliance and thereby achieve fairness in tax administration. The argument is that taxpayers will regard severe sanctions as more procedurally fair, leading to improved compliance with tax laws. Knowing that there exist institutional mechanism to deal with non-compliant taxpayers builds community confidence and the legitimacy of the tax system.

This has led to the formulation of a generally accepted pyramid of enforcement, typically composed of the use of force and or sanctions to compel compliance from deviant taxpayers. Ayres and Braithwaite (1992) documented this age long pyramid of enforcement that has been and still being applied by most countries worldwide. This age long pyramid of enforcement is diagrammatically depicted in Figure 1.

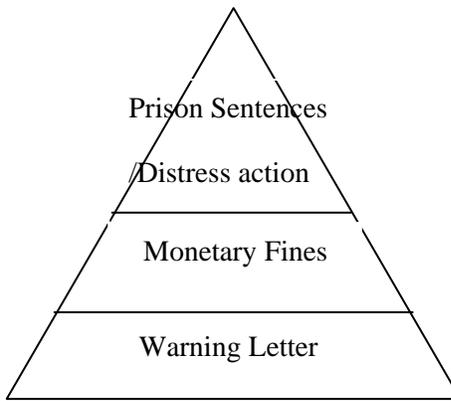


Figure 1 Pyramid of enforcement responses (Source: Aryes and Braithwaite, 1992).

Most regulatory action occurs at the base of the pyramid, where attempts are initially made to coax compliance through fears and warning letters. If this fails to secure compliance, imposition of civil monetary penalties are applied. Criminal prosecution then follows if the imposition of civil penalties fails. After this, a plan shutdown or temporary suspension of license to operate is embarked upon. Aryes and Braithwaite (1992) suggest that the incorporation of monetary fines, distress action and prison sentences serves as a deterrent from non-compliance, thereby improving compliance.

Sanctions or punitive measures however provide tax authorities with a set of tools that can be applied without regard to reasons for non-compliance. The use of sanctions denies something that is at the core of every regulatory non-compliant, that is, reasons underlying non-compliance. This is because, some researchers, including Tittle and Logan (1973) found out that a sanction in itself does not guarantee compliance. According to Roth and Scholz (1989) the traditional economic deterrence models draw upon deterrence theory and utility

theory to predict that a rational taxpayer will be non-compliant as long as the payoff from non-compliance is greater than the expected cost of being caught and punished.

Another criticism of the deterrence model is that it does not clearly explain the high levels of voluntary compliance observed in many situations particularly among many public organizations. Again, deterrence system tends to be costly to maintain. A growing body of research in taxation literature also suggests that deterrence-based enforcement strategies with offenders can sometimes be counterproductive in the long-term, and can undermine the relationship between legal authorities and those they regulate (Tyler, Sherman, Strang, Barnes and Woods, 2007).

Due to the limitations of sanctions alone to improve compliance, there was the need to deploy other compliance improvement models that apply strategies that are entirely different or compliments the traditional deterrent compliance model (Owens and Hamilton, 2003).

The use of cooperation in enforcing compliance

A growing number of researchers began to question the value of sanctions alone in enforcing tax compliance. In the 1980s, researchers shifted their attention to researching compliance rather than deterrence, and began to realize the importance of persuasion and cooperation, known as accommodative model, as a regulatory tool for gaining compliance. Regulatory authorities supporting the accommodative regulatory enforcement tend to view individuals not as rational

actors, but social actors who are inclined to comply with laws, partly because they believe in the rule of law, and partly as a matter of long-term self-interest.

Regulatory authorities adopting the accommodative model tend to be more oriented toward seeking results through cooperation rather than by coercion. They prefer to be seen as service providers rather than strict law enforcers. According to Grabosky and Braithwaite (1986), a striking feature of the accommodative approach is that it aims to establish a collaborative and friendly relationship between regulatory authorities and those they regulate.

Research in the area of procedural justice has been one area that has shown the value of using an accommodative approach to regulate behaviour. This research has shown that being treated politely, with dignity and respect, being given a say, and having genuine respect enhance the feelings of fairness among those being regulated. Tyler (1990) has shown that people value respectful treatment by authorities and view those authorities that treat them with respect as more entitled to be obeyed. A growing number of studies have also shown the positive effects of procedural justice on taxpayer behaviour (Example, Murphy, 2005). Tyler (2006) argues that if regulators are prepared to first engage in dialogue by educating and helping to improve the financial recording practices of taxpayer, then this will serve to encourage support for the law and improve compliance.

Developing a model of improved compliance behaviour

The work of Braithwaite (1995) on motivational postures, trust and norms, and strategies for regulation suggests that improved tax compliance in the underground economy championed by the self-employed is more likely to be achieved if the authorities understand taxpayer motivations and develop a holistic approach which has both a hierarchy of regulatory strategies of varying degrees of interventionism and a hierarchy of sanctions. Braithwaite (1995) indicate that the many competing factors influencing the taxpayer cause the taxpayer to adopt a particular posture or stance. Underlying each stance are beliefs, values and attitudes that influence the behaviour of a taxpayer. These stances indicate the degree of acceptance or rejection a taxpayer has towards the tax laws and are graphically depicted in Figure 2.

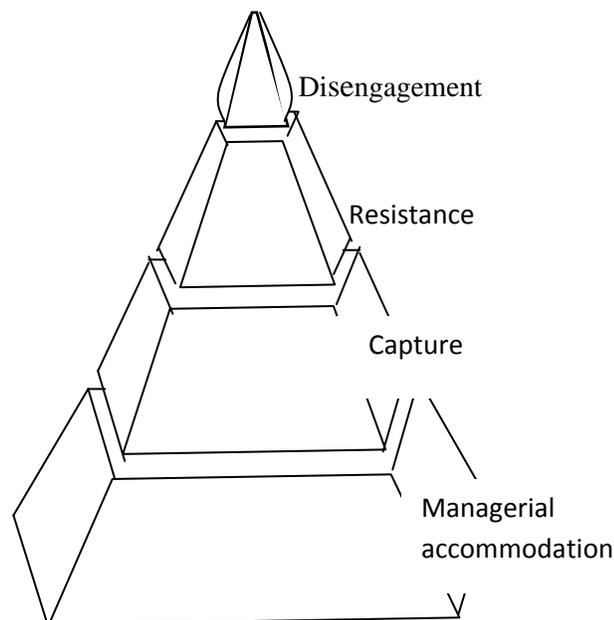


Figure 2 Postures or stances adopted by taxpayers (Source: Braithwaite, 1995).

1. managerial accommodation or initiation: the taxpayer includes the regulatory requirements in their management plans and actively complies, and may encourage others to do so;
2. capture or conformity: the taxpayer accepts the regulatory requirements, and has faith in the tax agency.
3. resistance: there is confrontation between the taxpayer and the tax agency;
4. disengagement: withdrawal of the taxpayer from the regulatory process.

Taxpayers in the first and second categories are generally compliant, while those in the third and fourth categories are non-compliant. The way an industry approaches its taxation obligations may be determined by the make-up of the participants in that industry. An industry comprising a significant number of disengagers will require a different approach to regulation than an industry made up of primarily initiators.

It is difficult, if not impossible, to determine why a taxpayer has behaved in a particular way at a certain time. The challenge for tax authorities is to increase its understanding of the various factors and how they influence taxpayer behaviour. An increased understanding will assist tax authorities to develop ways to encourage and motivate taxpayers to do the right thing and to constrain the motivation to be non-compliant.

Braithwaite (2003) argues that the degree to which a regulator and taxpayers agree on goals and how best to achieve them are important factors in the

acceptance or rejection of a tax law. Braithwaite's (2003) work implies that if tax agencies are regarded as trustworthy, procedurally fair and respectful of citizens, it can motivate taxpayers to comply with their obligations. One way of encouraging compliance has been suggested by Ayres and Braithwaite (1992) again using a pyramid of regulatory strategies. This is depicted below in figure 3.

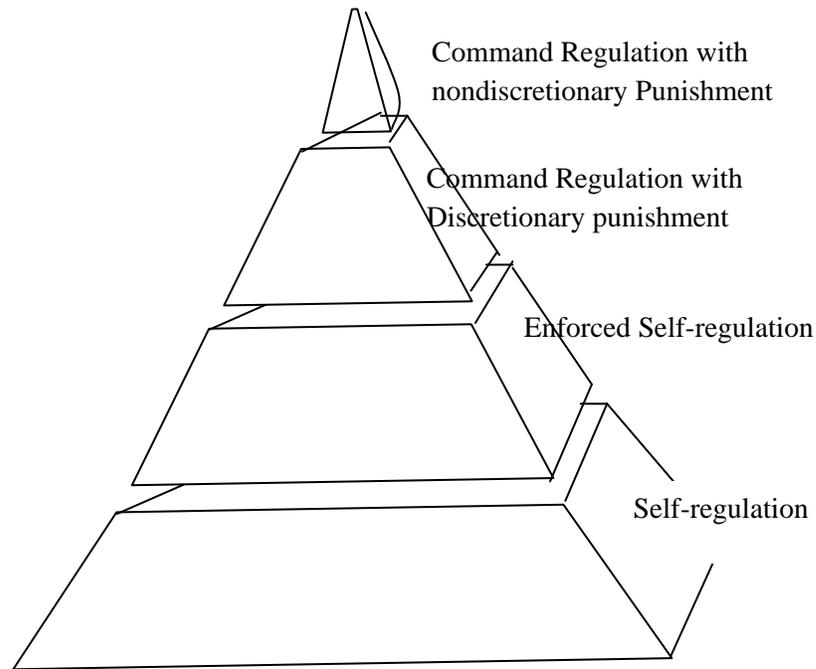


Figure 3 Pyramid of regulatory strategies (Source: Ayres and Braithwaite, 1992).

A regulator's preferred strategy is self-regulation as it imposes the least burden on everyone. Those taxpayers, or industries, who are unwilling to comply or are tempted to exploit the privilege of self regulation, must understand that the government is willing to increase its regulatory strategy. The tax authority's preferred approach should be to encourage self- regulation, only moving up in the regulatory pyramid if taxpayers abuse the system. The highest level or strategy in

the pyramid demonstrates a commitment by the tax authority of an intention never to give in. Ayres and Braithwaite (1992) propose that the existence and knowledge of the capacity of the government to get as tough as needed would encourage a voluntary regulatory climate.

The ‘Model for improved compliance’

The works of Ayres and Braithwaite (1992), on motivational postures and trust norms, and Braithwaite (1995), on strategies for regulation, have strongly influenced the design of an improved compliance model that could be applied by tax authorities to improve voluntary compliance. The model was formulated by the Australian Tax Office (ATO) (similar to Ghana’s IRS), and became known as the ATO Compliance Model. The model recognizes the need for tax agencies to achieve some measure of credibility that would increase community confidence in its operations (Feld and Frey, 2007).

The ATO model advocates a hierarchical approach to compliance improvement that suggests that, in the first instance, tax agencies’ strategies are aimed at encouraging voluntary compliance through approaches like education and convenient and efficient service delivery (Braithwaite, 2003). Tax agencies will however, have access to an escalating enforcement regime with a hierarchy of sanctions that will be accessed when there is evidence that measures to encourage voluntary compliance have been unsuccessful in changing compliance

behaviour (Hasseldine and Hite, 2007). The Compliance Model is depicted in Figure 4.

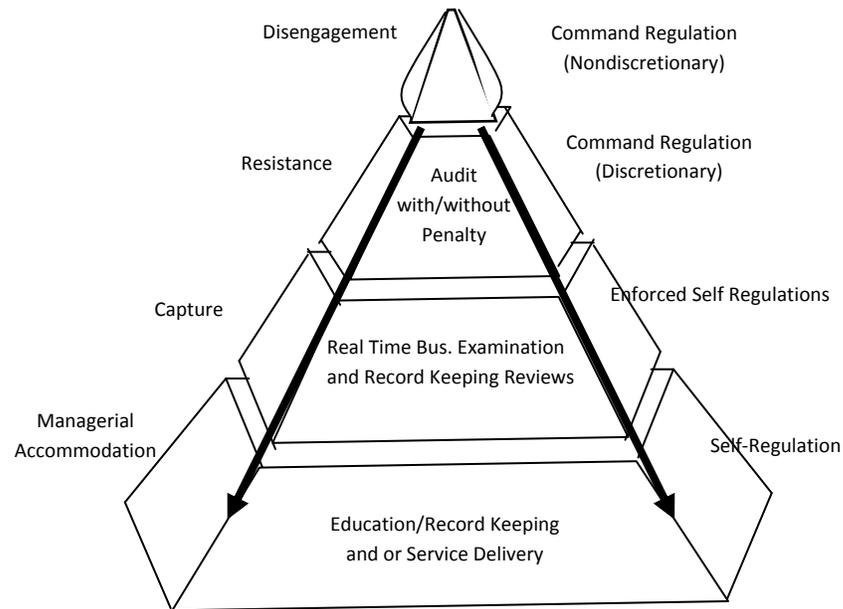


Figure 4 ATO Compliance Model (Source: Braithwaite, 2003).

The left hand side of the pyramid presents the stances that can be adopted by taxpayers as described in the work of Braithwaite (1995). The right hand side presents the pyramid of regulatory strategy that is described in the work of Ayres and Braithwaite (1992). The strategies on the centre face of the pyramid illustrate the strategies that could be applied to taxpayers, particularly the self-employed. The levels and methods of enforcement listed are a demonstration only of the way a hierarchical approach could work. Tax authorities must consider expanding the options at each level of regulation to ensure that taxpayers are given every opportunity to comply at the lower level before they are moved up to the next level (Braithwaite, 2003).

Tax authority's preferred approach should be to develop and apply strategies that encourage self-regulation, or voluntary compliance, emphasizing cooperation and the building of relationships between the tax authority, individual taxpayers, and third parties (Braithwaite, 2003). The arrows in the compliance model represent the desirability of tax agents to apply strategies that encourage a downward movement of taxpayers from resistance to the preferred self-regulation.

Tax agencies will, however, have access to and move to stronger enforcement methods when compliance resistance is met. The top of the pyramid depicts the ability and willingness of tax agents to escalate enforcement. The threat of such severe action is real but is kept in the background, but the existence and knowledge of the capacity of tax agencies to get as tough as needed will encourage more voluntary compliance (Hasseldine and Hite, 2007).

Tax authorities must communicate that it will be cooperative but if there is not cooperation in return; it has the power and is brave enough to use its heaviest punishment. The improved compliance model advocates a hierarchical approach to compliance improvement. Braithwaite (2003) suggests that instead of the current routine application of enforcement strategies and penalties, enforcement should begin primarily through service delivery, education and record keeping and progress to stronger methods (for example, audits) if and when compliance resistance is met.

Braithwaite (2003) believes that the most effective approach to maximize voluntary compliance in an economy characterized by cash transactions, and by

extension the self-employed is for tax agencies to adopt a hierarchical approach to enforcement. The main elements for such an approach are: understanding the factors that influence taxpayers compliance and non-compliance, building community partnerships, encourage and support compliance, and increase flexibility in enforce strategies.

Building community partnerships

Building community partnerships should be an intrinsic part of tax authority's operations. According to the study of Pashev (2005), tax agencies should focus on building networks to improve intelligence and community understanding. Tax authorities cannot address all the problems of tax non-compliance by themselves. Therefore, it needs to seek the involvement of the community in its decision-making and direction setting.

Given that tax agency's resources will always be limited as observed by the findings of Owens and Hamilton (2003), third party assistance is essential if tax agents are to maximize voluntary compliance. Assistance from third parties is essential for the detection and investigation of non-compliance behaviour. By involving interest groups in the regulatory process, tax agencies can enhance communication and minimize conflict. Interest groups can provide data, interpretation and perspectives, which might otherwise not be brought to the attention of tax authorities (Braithwaite, 2003). For example, tax authorities could be informed of particular compliance problems and regulatory inadequacies. This

type of information would enhance the range of policy options that are available to tax authorities.

By presenting information at consultative forums, interest groups can contribute to balanced and objective decision making. According to Braithwaite (2003), building strategic relationships to help in shaping tax agents' understanding of taxpayer motivations will enhance the ability of the tax agents to be responsive to the different needs of taxpayers and gain support for strategies that address particular industry issues and practices.

Taxpayer compliance is better achieved cooperatively than coercively, through dialogue and understanding rather than through force used to crush resistance and ignorance (Aryes and Braithwaite, 1992). According to Feld and Frey (2007) and supported by Picciotto (2007), dialogue or maintaining relationships with others provide feedback to tax agents on their performance and help maintain integrity and perceptions of fairness and trust (McKerchar, 2007). The majority of taxpayers (especially the self-employed) will comply with their taxation obligations by using the strength of the community (Braithwaite, 2003), such as well known businesses, industry organizations, taxation agents, agencies from other levels of government, and the support of the majority of people who are compliant taxpayers.

Identifying partners

Tax agencies cannot work alone to improve compliance and will require the support and cooperation of industry and the community. Messages from peers

are most effective and the public support of key opinion leaders and stakeholders will greatly assist tax agents. According to Hasseldine and Hite (2007), the challenge for tax authorities is how to identify the most appropriate partners to act as 'champions' and advocates. The partners chosen will depend on the market segment and could range from successful businesspersons to tax practitioners and even to taxpayers with a good compliance record. Tax agencies must find and work with credible third parties (industry associations, professional bodies, agencies at all levels of government, tax agents, and so on) that are willing to participate and cooperate in developing an effective regulatory regime. These groups then may be able to convince others with whom tax authorities have little legitimacy like the self-employed.

Braithwaite (2003), and Hasseldine and Hite (2007) have emphasized the potential benefits of regulatory agencies working through credible third parties, such as industry associations, professional bodies and trade unions, with which tax agents have ongoing relationships. Such third party organizations often have a substantial interest in preventing the types of non-compliance that put their compliant members at a commercial or financial disadvantage (Slemrod, 2008).

Encouraging and supporting compliance

Incentives may be linked with a specified target of regulation to induce compliance (for example, a taxpayer) or upon third parties for assistance in achieving compliance (for example, tax practitioners and industry associations). According to Braithwaite (2003), incentives can be material in nature or they can

entail a non-material consideration. Material incentives are by definition costly. As Braithwaite (2003) puts it, non-material incentives, on the other hand, have the advantage of encouraging a taxpayer to focus on the moral rather than material aspects of compliance. As with other regulatory mechanisms, incentives are unlikely to be universally applicable or desirable. Tax agencies therefore need to be mindful of the strengths and weaknesses of any incentives and identify situations where they may be employed to greatest advantage to achieve voluntary compliance among the self-employed.

Helping and education

Braithwaite (2003) suggests that tax authorities should have Business Advisers who are able to visit people in their own homes or business premises. The Advisers are able to provide assistance and advice on matters ranging from registration, record keeping and payment requirements to the expenses that can be claimed on tax returns. The Business Adviser is also able to provide ongoing support and advice, by either phone or personal visit, on the range of taxation matters affecting the new businessperson or the self-employed whose compliance to tax laws is mostly suspect.

Tax authorities helping and education role is an important positive strategy. It can improve both taxpayer perception and voluntary compliance (Torgler and Valev, 2007). When the tax agent's helping role is emphasized, taxpayers may see tax agencies as fair and approachable even if people do not accept that all of their obligations are reasonable.

Braithwaite (2003) suggests that taxpayers will respond positively to relatively unintrusive educational strategies that are designed to foster improved compliance. The challenge for tax authorities is to further develop and apply its knowledge about business so that it can better target and address the educational needs of particular types of taxpayers. Simply promoting the advantages of obtaining business and tax advice when visiting businesses would benefit the tax agency and taxpayers. The aim of this approach would be to demonstrate to business that effective financial advice can generally improve the performance of the business (Braithwaite, 2003). It would also help break down taxpayer attitudes that tax authorities are not genuinely interested in the health of businesses.

In addition, tax authorities should consider sponsoring small business tax advice services tailored to cater for particular market segments, which could be conducted by tax practitioners, industry associations or community groups. Again, Braithwaite (2003) suggests that tax authorities should also evaluate the merit of developing, or sponsoring the development of, booklets and computer software packages for industries; that outline the typical tax obligations that apply to businesses in particular industries. These would complement the range of material that is prepared by tax authorities to assist businesses meet their tax obligations.

Record keeping

Some form of record keeping is essential for all business operations and is one of the most important elements of running a successful business. For example, Braithwaite (1995) concluded that one of the reasons that small businesses fail is inadequate, inaccurate or nonexistent books and records. The extent, nature and detail of the records maintained will depend on the type of business and the information required. Records provide feedback on the effectiveness and profitability of operations on a regular basis. Good records enable a business to analyze growth and identify new opportunities. More importantly, good records provide evidence for the profitability and realistic value of a business.

With regard to taxation, Richardson and Sawyer (2001), suggest good records lead to more accurate reporting of income and expenses in business tax returns. Record keeping is an essential element of business meeting its tax obligations. Taxpayers are required to retain records which are relevant to the calculation of their taxable income, including records that verify claims for deductions. Where taxpayers do not comply with the recordkeeping requirements, they are liable for a fine or conviction under most tax laws.

From a practical perspective, where a business keeps good records it is quite likely that when these records are taken to the tax agency at the end of the year, the tax agency will have all the information needed to accurately complete the tax return. If good records are not kept, there are numerous adverse

consequences for the taxpayer including the accountant preparing an inaccurate tax return and the taxpayer having to spend a lot of time and energy trying to recreate the records (Torgler and Valev, 2007).

Braithwaite (2003) suggests that tax authorities undertake a record keeping program to improve the quality of reporting by taxpayers. The program should be primarily an education initiative that seeks to improve business practices and to increase taxpayer compliance by encouraging more complete and comprehensive record keeping practices by business operators. Coupled with this is to undertake real time reviews to ensure that proper record keeping practices are in place. Importantly, according to Braithwaite (2003) tax authorities should ensure that their record keeping programs and real time reviews take into account the practical operations of business to ensure the record keeping advice provided is relevant to different types of taxpayers.

Again, industry participants should be invited to work with tax authorities on tailoring record keeping advice for particular market sectors. Braithwaite (2003) considers that tax authorities should further promote the benefits to be obtained from good record keeping practices and consider introducing additional education programs (for example, public tax workshops on maintaining books and records). In particular, tax authorities should explore opportunities to enlist tax professionals and industry representatives to conduct these promotional and educational programs (Hasseldine and Hite 2007).

Increased flexibility in compliance strategies

Tax authorities the world over have in place and make use of various compliance strategies, such as penalties. Sanctions tend to be applied in a routine manner without taking into account taxpayers particular circumstances. There are few options for either the tax official or the taxpayer if taxpayers do not fulfil their obligations by the due date. Enforcement strategies tend to be applied in a routine manner without taking into account circumstances that may create difficulty for individual taxpayers or for particular industries to meet their taxation obligations.

The model for improved compliance, which advocates an escalating range of options and sanctions, requires tax authorities to assume that the majority of people are ‘good citizens’ and would be willing to comply if they understood the tax system and were treated fairly and with trust (Braithwaite, 2003; McKerchar, 2007). Positive reinforcement for compliance through education, motivation and encouragement will help to reinforce the benefits of cooperation (Braithwaite, 2003). It also require tax authorities to put in place, and to make it known, that if its (tax agency) trust is breached it will strengthen enforcement methods as necessary (Hasseldine and Hite, 2007).

Enforcing tax compliance in Ghana

In Ghana, the enforcement of income tax laws is mainly in the hands of the IRS. The enforcement of tax laws is part of the administrative duties of the IRS broadly referred to as the elements of tax administration by Otiaku (1988). These elements are;

- (i) Identification of taxpayers, their tax base and assessment of their income.

The first step in income tax administration is the identification of the taxpayer. However, since it is difficult on the part of the tax authorities to identify every taxpayer, the income tax code calls for voluntary compliance on the part of taxpayers. It is quite easy to identify taxpayers in the formal sector and large businesses that are more visible by virtue of the fact that such businesses register with the tax agency. The informal sector characterized by the self-employed on the other hand hardly register with the tax agencies (unless compelled), thereby making the self-employed operators very difficult to identify. This is what has contributed to the self-employed being described as difficult to tax by Agyei (1984).

- (ii) Determination of the tax base of the taxpayer. After identification of the taxpayer, the next stage is to determine the tax base of the taxpayer. The tax base of a taxpayer is arrived at by determining the various sources of the taxpayer's income, be it from business, employment or investment, gift and capital gains. It is again difficult to determine the tax base of operators in the informal sector since the main medium of transaction in the informal sector is on cash basis, coupled with poor record keeping.

Assessment on the other side involves determining the cedi amount of the various sources of taxable income to the taxpayer. Accounting plays a critical role in ensuring a fair and objective assessment of taxpayers' income. This is indeed highlighted in the IRA (2000) when it stated that in

section 25 that “subject to this Act, for the purposes of ascertaining a person’s income accruing or derived during a basis period, the timing of inclusions and deductions shall be made according to generally accepted accounting principles”.

- (iii) Levying, collection and paying the tax revenue into consolidated fund. The ultimate purpose of tax administration is the collection of taxes so levied and any penalties so imposed for noncompliance and payment thereof into state coffers. According to Otieku (1988), the principal goal of the whole exercise of tax administration is to mobilize public revenue from private resources for state development. Tax administration is of little or no value if tax revenue due to the state cannot be collected and paid into government chest. The need for honest and knowledgeable tax officials play pivotal role in achieving appropriate levying and collection of taxes.

When taxes due the state are levied and collected, they must properly be accounted for and paid into government chest, which is into the consolidated fund. The Commissioner of IRS has as one of his/her functions as enshrined in section 133 subsection 2, of the IRA (2000) to pay all monies collected into the consolidated fund. The Commissioner requires the support of able-bodied lieutenants to help him/her achieve this objective. This calls for attracting and recruiting the requisite personnel with the right mindset, who are highly motivated in the execution of their duties.

(iv) Tax review procedures. The Commissioner of IRS is given many discretionary powers in the assessment and levying of taxes. The exercise of such discretionary powers sometimes results in disagreement with taxpayers respecting assessment and levying. The tax laws therefore provide avenues for settling disputes that may arise as result of the arbitrarily or inadvertently applying the discretionary powers of the Commissioner. Section 128 subsection 1 of the Internal Revenue Act (2000), provides that “a person who is dissatisfied with an assessment made under this Act may lodge an objection to the assessment with the Commissioner within thirty days of the service of the notice of assessment or, in the case of provisional assessment within nine (9) months of the commencement of the basis period to which the provisional relates”. To Otieku (1992), tax review procedures refer to the systems of resolving tax disputes between tax administrators and taxpayer. There are two main issues involved in tax review procedures, namely:

- Administrative reviews. Administrative review procedures deal with the factual rather than legal issues of taxation, the latter being the subject of judicial review. Administrative review affords taxpayers the opportunity to object to assessment made by tax administrators. Such an objection must be in writing and state the basis for the objection. The Commissioner must also communicate his/her decision on the matter after considering the objection either in whole or in part as early as practicable. Taxpayers not satisfied with the Commissioner’s decision, may appeal against the

decision to the High Court, which constitutes a semi-judicial review procedure. The High Court may confirm, reduce, increase or annul the assessment on which the decision is based or make an appropriate order.

- Judicial Reviews. Disputes arising from issues of law in respect of assessment and levying of tax is resolved at the Court of Appeal or Supreme Court. The judicial reviews are dealt with in section 130 of the IRA. The decision of the Supreme Court is deemed final. Judicial review procedures are however not normally encouraged since they are expensive and difficult to pursue, not to mention the long period of time it takes to settle disputes.

- (v) Enforcement of Tax Penalties. Ghana's tax laws, just like any other tax laws, have provisions for punitive sanctions and penalties for non-compliance. Tax laws must be punitive enough to discourage taxpayers from non-compliance. That is, punitive measures must be adequate enough in order to make it disadvantageous for taxpayers to refuse compliance with the tax laws in any manner (Otiaku, 1988). Punitive measures as argued by Braithwaite (2003), suggest that such measures must be reserved as a last resort meant only for the recalcitrant non-compliers.

The IRA (2000) has two categories of penalty. The first category is less punitive and attracts charging interest on the amount of tax due in respect of offences contained in Section 141 to 146 such as failure to maintain records, failure to furnish returns, failure to pay tax on due date,

understating estimated tax payable by installment, making false or misleading statement, aiding and abetting. The second category of offence is contained in Section 148 to 153 of the IRA (2000), including, failure to comply with the ACT, failure to pay taxes, making false or misleading statements, impeding tax administration, aiding and abetting which attract heavy fines and or imprisonment terms ranging from three (3) months to five (5) years.

Problems of income tax administration in Ghana

The IRS in executing its administrative function is confronted with a number of problems. Notable among these are:

- (a) Tax Evasion. There is high tax evasion among Ghanaian businesses particularly among the self-employed (Manku, 2007). Tax evasion is a deliberate attempt by taxpayers to either avoid or reduce their tax liabilities. Tax evasion deprives the government of the much-needed revenue required by the government for development. Otieku (1988) identified three main dimensions that tax evasion takes. These are: (i) Non-declaration of incomes. This is where a prospective taxpayer refuses to file income returns with the IRS and thereby does not get to be taxed. (ii) Under-declaration of incomes. This arises when taxpayers declare some of their incomes in order to reduce their tax liabilities. (iii) Inflation of deductible expenses. This happens when taxpayers inflate their deductible

tax expenses. This practice results in a drastic reduction in taxpayers tax liabilities and thereby deprives the nation of revenue due the state.

- (b) Inadequate knowledge of the tax laws among taxpayers. Most taxpayers are either ignorant or not familiar with the tax laws; hence do not know their rights and responsibilities enshrined in the income tax laws. A good understanding of the tax laws plays a pivotal role in voluntary compliance and subsequently the efficiency of tax administration (Otieku, 1988). The issue of inadequate knowledge of tax laws persists because the self-employed particularly are not prepared to acquaint themselves with the tax laws or employ qualified accountants to handle their tax matters.
- (c) Complex tax laws. Tax laws are usually not written in simple language for easy assimilation by the ordinary citizenry. Legal professionals using technical legal language write these laws. The technical nature of tax laws make them complex and not easy to comprehend. One therefore needs some reasonable level of knowledge or education to be able to understand and comply with the requirements of the tax laws. The study of McKerchar (2003) revealed a high incidence of unintentional non-compliance when they investigated the impact of complexity on tax compliance. The clear message for tax authorities is that by addressing the effective simplicity of the tax system, compliance would be improved.
- (d) Administrative and organizational problems. The IRS as an institution faces a number of structural problems. The IRS is indeed failing to catch

up with contemporary pace with respect to development. The operations of the IRS are still not computerized and this is a serious setback to the administration of income tax. The IRS also lacks the requisite personnel who are well motivated to execute the mission of the Service. This situation according to Manku (2007) could be partly due to the pathetic service conditions of the IRS that make it difficult to attract and retain the requisite personnel

- (e) Low level of voluntary compliance. The success of every tax system depends largely on voluntary compliance by taxpayers. Otieku (1988) however observed that the level of tax compliance in Ghana is low, particularly among the self-employed. This situation is partly explained by taxpayers' perception of corruption among government officials. Some taxpayers particularly among the self-employed justify their non-compliance because taxes are misdirected to the benefit of few government officials as against benefiting the entire populace or citizenry.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter provides a description of the procedures and techniques used to collect, present and analyse data for the study. Specifically, it captures a description of the study area, research design, study population, sample size and procedure, instrument for data collection and methods of data analysis.

Description of the study area

Tema, the dream city of the late Osagyefo Dr. Kwame Nkrumah, the first president of Ghana according to the TMA (2009), was created out of a cluster of small fishing villages known as Torman (a town of gourds) which stood at where the defunct Meridian Hotel is located. The dream to build Tema as the first well-planned township in the country was borne out of the fact it has a unique coastline suitable for development of a modern harbour to replace the Accra harbour, which was rocky and made berthing for ships very difficult. With a favourable coastline and beautiful terrain, Tema was suitable for a harbour, an industrial town and a modern township.

In 1951, with a modern development plan in place, 63 square miles of stool land was acquired from the chiefs and people of Kpone, Tema and Nungua. The small fishing villages were dramatically transformed into a gigantic modern and well-planned township and an industrial city, which is now the Eastern Gateway to Ghana. Tema, has since its creation undergone various stages of development; initially from Local Council, it then became part of the Accra City to an autonomous District Council in 1974. In December 1990, the Tema District Assembly was elevated to the status of Municipality and subsequently, a Metropolis in 2008 (TMA, 2009).

The population of the Metropolis is estimated to be about 600,000 by the TMA as at year 2008. The Metropolis, being a port city carries extensive commercial activities in trading spearheaded by the self-employed. The Community One market serves as the most important daily market in the Metropolis, with few markets of relatively less significance dotted in other parts of the Metropolis, such as Community Two and Tema Manhean (TMA, 2009).

The self-employed in the Metropolis are estimated to be about 40,000 with those engaged in petty trading estimated around 30,000 (TMA, 2009). However, the TMA estimates that only about 6,000 of these petty traders are on the toll roll of the Metropolis. The reason for this situation is explained by the fact that most of the self-employed do not have their businesses registered with the Assembly. It therefore makes it difficult to identify all such self-employed persons in the Metropolis.

Though the number of self-employed engaged in petty trading on the toll roll of the TMA is about 6318, records from the district office of the IRS indicates that just a little above 1500 of such self-employed are on the tax roll of the Internal Revenue Service as at the end of year 2009. This according to Mr. David Kudowor, the Head of Client Service Unit of the IRS has led to the situation where the percentage contribution of the self-employed to tax revenue in the Metropolis has been less than the average national contributions of the self-employed. Records from the district office of the IRS in Tema, shows that the percentage tax contribution from the self-employed in the metropolis for the years 2003, 2004 and 2005 hovers around 3.5%, 3.3% and 3% respectively.

This is a clear indication that when income tax is improved among the self-employed in the Tema Metropolis it would have quite a significant impact on the national tax revenue which the country is in dire need of.

Research design

The research design employed in collecting, analyzing and interpreting the data is the survey strategy. The choice of survey strategy over other research designs such as experimental and casual-comparative was informed by the assertion of Saunders, Lewis, and Thornhill (2007) that survey is an appropriate and common strategy in business and management research. The choice of survey strategy allowed for the collection of large amount of data from the population in a highly economical way.

Population

The target population of the study consisted of all self-employed businesses within Tema Metropolis that is estimated to be about 40,000 by the TMA. It was however, difficult in identifying the self-employed who provide artisanal services such as masons, carpenters and electricians. This is because, such self-employed service providers mostly move from one place to the other without permanent place from which they operate. As a result of this challenge the population of the study was restricted to only the self-employed in trading business that form a chunk of the self-employed in Ghana (ISSER, 2003) and estimated to be about 30,000 in the Tema Metropolis.

The accessible population forming the sample frame was the self-employed in trading who are on the toll roll of the TMA. The size of the accessible population is estimated to be about 6,318 self-employed. The TMA list was chosen because it has comparatively a better and wider coverage of the self-employed within the metropolis than the IRS list.

Sample size and procedures

A sample of 350 self-employed was selected from the population. The sample size was fixed at 350 based on the assertion of Saunders, Lewis, and Thornhill (2007) that a sample size of about 350 is enough from a population of 10,000 at 95% level of certainty. Azah (2005) studying the informal sector's attitude to tax compliance in Ghana used a sample of about 300. Again, Otioku (1988) in studying the problems of income tax administration in Ghana also used

a sample of a little over 300. In the light of these related studies in relation to the sample size used, it was the researcher's view that a sample size of 350 was sufficient for this study.

Simple random sampling technique using the lottery method was used to select a sample of 350 self-employed in the Tema Metropolis. For ease of revenue collection, the metropolis is segregated into zonal areas by the TMA. The list of self-employed persons of each of the zones was received and numbered from 1 to 6318. Pieces of paper with numbers 1 to 6,318 were placed in a bowl and shaken to mix them up. Next, one of the pieces of papers was randomly selected. This process was repeated until the required sample size of 350 was obtained. The use of the simple random sampling technique was to give each and every self-employed in the study area equal opportunity to be selected as part of the sample. Again, the use of simple random sampling technique made it possible for the findings of the study to be generalised about the population understudied.

Data collection instrument

Data for the study was collected using questionnaire. Responses to the survey were confidential and participants gave no names. The questionnaire comprised of 31 questions, which respondents answered with the help of 10 research assistants. Agyei (1984) shows that Ghana has a high illiteracy level among the self-employed. It is against the background of this finding that the researcher decided to employ 10 research assistants to help in the questionnaire administration.

To ensure easy and timely administration of the questionnaire, all the questionnaire items were closed-ended. The choice of close-ended items was also to ensure easy and quick analysis of the data. A five-point likert scale was used for 6 of the survey questions, whilst a three point likert scale was employed for 3 of the survey questions.

Response rate

Three hundred and fifty questionnaires were administered, but only 267 were responded to, giving a response rate of about 76%. Some of the self-employed included in the sample were just not interested in participating in the study notwithstanding the number of visits made to them (in some cases, about three times). Others too could not be met for reasons beyond the explanation of the researcher. Devos (2005) considered a response rate of anything over 30% in tax compliance survey to be acceptable given the response rate of previous tax compliance surveys (example, as quoted by Devos (2005), McIntosh and Veal achieved a 50% response rate, Oxley 29% and Hasseldine 22%).

Test of reliability and validity

The survey instrument was largely adapted from the studies of Braithwaite (2003) and Kidder and Craig (1989). A copy of the instrument was given to experienced researchers of the School of Business, University of Cape Coast for their comments and suggestions on improving the instrument. This was done for the purposes of refinement and content validity. After those comments and suggestions, some adjustments were made by entirely removing some of the

survey questions, adding some new ones whilst maintaining many. Creswell (2008) asserts that it is necessary to re-establish the validity and reliability of an instrument when some modifications are made to the instrument on the grounds that the original validity or reliability may be distorted due to the modifications.

The validity and reliability of the survey instrument was then pre-tested at the Shama Ahanta Metropolis to help evaluate and further refine the instrument, but these were not analysed. Shama Ahanta Metropolis was selected for the pre-test because it shares similar characteristics as Tema Metropolis in terms of the percentage contribution of the self-employed to tax revenue. The instrument was tested on fifty (50) self-employed within the Shama Ahanta Metropolis in December 2009. These respondents were not included as part of actual respondents of the study. It was considered that the survey instrument appeared to be well understood. Regarding the survey questions, the cronbach alpha reliability coefficient obtained was between 0.96 and 0.77 for the individual scales, indicating that the instrument was reliable.

Data analysis

Creswell (2008) defines data analysis as a process that involves drawing conclusions and explaining findings in words about a study. The primary data collected was analysed to reflect each objective. With the help of the statistical analysis tool known as the Statistical Product for Services Solutions (SPSS), the data was analysed using frequency distribution tables, cross tabulation, chi-square

test and regression analysis. The test statistics that were used to analyse each of the objectives and hypothesis were as follows:

Five of the survey questions 1, 2, 3, 4 and 13 were asked in order to determine the demographic characteristics of the self-employed in attempting to establish who the self-employed are and how these demographic characteristics affect income tax compliance, in order to answer objective one of the study. These were presented and analysed using frequency distribution tables and cross-tabulation tables.

Objective two of this study was analysed in the light of survey questions 7, 8, 12, 14, 15, 16, 17 and 23 using frequency distribution tables. Objective Three was analysed in relation to survey questions 24, 25, 26, 27 and 28 using frequency distribution tables. The fourth objective of the study was analysed in relation to survey questions 18, 19, 20, 21, 22, 29 and 30 using frequency distribution tables.

Hypothesis one (1)

The first hypothesis for this study tested for the relationship between the severity of penalty and the level of intention to comply with income tax laws. Two variables were considered under the level of compliance. These two variables were high non-compliance (representing those self-employed who would feel remorseful and comply with their tax obligations when slapped with a penalty) and low non-compliance (also representing those self-employed who would ignore the penalty and take the risk after having been slapped with a penalty).

Two variables were also considered under the level of sanctions. Mild or low penalty for fines not exceeding 50% of the tax amount and heavy penalty for fines exceeding 50% of the tax amount. These variables were used to form a two-by-two contingency table and paved way for a chi-square statistical test to be performed to either confirm or disprove the stated hypothesis. The hypothesis was tested at 0.05 level of significance.

Hypothesis two (2)

The dependent variable considered is the level of compliance. The sub variables considered under the level of compliance are timely submission of returns, accurately reporting on income earned and accurately report on expenses.

The independent variables considered are sanctions or penalty and cooperation. The sub variables considered under sanctions are monetary fine, distress action and prison sentence. With respect to cooperation, the sub variables considered are: educating the self-employed on their income tax obligations (i.e. education on timing of filing returns, education on computation of tax liability, education on benefits of tax and education on the procedures for filing returns) and improving the accounting recording practices of the self-employed (i.e. helping the self-employed prepare or keep proper accounting records and organizing record-keeping seminars for the self-employed).

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

Introduction

This chapter presents and discusses the results of the investigations. The results are described to reflect the objectives of the study. Items discussed include the demographic characteristics of the self-employed and how these characteristics affect compliance and non-compliance. The chapter also presents results on the factors that cause compliance and non-compliance as enunciated by Kidder and Craig (1989). This chapter closes with findings and discussions on the role and use of sanctions and cooperation in enforcing income tax compliance.

Demographic characteristics of the self-employed

This section presents findings of who the self-employed are and how the demographic characteristics investigated influence income tax compliance in the study location. The demographic characteristics investigated are gender, age, educational level and marital status. Survey questions one (1) to four (4) were formulated in determining who the self-employed are, in terms of the demographic characteristics investigated. The responses are presented in Table 1.

Table 1: Respondent demographics

Demographic	Frequency	Percentage (%)
Gender		
Male	85	31.9
Female	182	68.1
Total	267	100
Age		
Below 20	8	2.9
20-29	87	32.6
30-39	104	39.0
40-49	49	18.4
50-59	16	6.0
Above 60	3	1.1
Total	267	100
Educational level		
No formal education	25	9.4
Primary	15	5.6
JHS/MSLC	68	25.5
Sec/technical education	140	52.4
Cert. A/ diploma	19	7.1
University degree	-	-
Total	267	100
Marital Status		
Married	152	56.9
Unmarried	115	43.1
Total	267	100

Source: Field Survey (2010)

Gender

The findings show from Table 1 that about 68% of the 197 respondents self-employed are females, whilst the remaining 32% are males. It is clear that females dominate the self-employed in the Tema Metropolis. This result does not support the findings of Brown, Farrel and Harris (2003) and that of Evans and Leighton (1989) whose findings found more men to be self-employed than women. The reason for women dominating the self-employed in the study area could partly be explained by the fact that no premium is placed on women education in Ghana. Women therefore tend to have very low educational and employable skills that would qualify them for employment in the formal sector that requires a much higher level of education. Women therefore resort to self-employment as a source of livelihood or to complement to their husbands' efforts in providing for their families.

Age

About 75% of the respondents are young people aged 39 or less, whilst about 25% are old people aged over 39 years. This shows that young people dominate the self-employed in the Tema Metropolis. This result does not confirm the findings of Kidd (1993) and of Brown, Farrell and Harris (2003) who found older people to be more inclined to self-employment than younger ones. This finding could be attributed to the fact that employment in the formal sector is choked and opportunities to employ more young persons are lacking. These young persons resort to petty trading as an alternative employment avenue as a source of

livelihood. Again not much capital is required to enter the small-scale self-employment like petty trading. As a result, young persons with the desire to contribute their quota to the national economy are able to enter self-employment with little resources and experience.

Educational level

About 93% of the self-employed respondents have a low level education (i.e. up to secondary and or technical education). The remaining 7% of the self-employed respondents have high level of education (i.e. those pass secondary education such as Teachers certificate A, diplomas and university degrees). From the analysis, most of the self-employed have low educational level.

The result of this study with respect to level of educational attainment does not support the findings of Rees and Shah (1986), Borjas and Bronars (1989), Brown, Farrell and Harris (2003) whose studies reported a positive relationship between educational attainment and the probability of self-employment. However, the finding of this study confirms that of DeWit and Winden (1989) and Kidd (1993) that there is an inverse relationship between the level of educational attainment and self-employment. Higher levels of educational attainment may play an important requirement in the labour market with high educational qualifications serving to secure employment in the formal sector. In fact, a requirement for most job vacancies in the formal sector requires at least diploma qualifications and in some cases, a number of years of working experience. These may partly account

for the reasons why most of the self-employed understudied have low educational level.

Marital Status

About 57% of the self-employed surveyed are married whilst the remaining 43% are not married. This indicates that married taxpayers dominate the self-employment sector in the study area. This revelation confirms the findings of Blanchflower and Oswald (1990), Bernhardt (1994), Brown, Farrell and Harris (2003) and Schiller and Crewson (1997) that having a working spouse enhances the probability of self-employment. There is the probability of intra-couple risk pooling with a husband's primary employment increasing the probability that a wife will be observed in self-employment. Self-employment comparatively provides flexible working time than employment in the formal sector. Most married couples may decide that one of them (usually, the husband) works in the formal sector while the wife becomes self-employed. This arrangement could then afford wives ample time to take care of their children as well as take good care of their homes, which is a requirement of a virtuous wife, particularly in the Ghanaian setting.

The understudied demographic variables, namely gender, age, educational level and marital status will now further be interrogated to find their effect on compliance.

Effect of gender on income tax compliance

The effect of gender on tax compliance was also investigated. Survey question one (1) and thirteen (13) were cross-tabulated to determine the effect of gender on income tax compliance by the self-employed. Respondents who have ever filed tax returns were considered as low non-compliant, while respondents who have never filed returns were considered high non-compliant.

From Table 2, about 9% of the male respondents were low non-compliant as against about 16% of female respondents. Again, about 91% of the male respondents were high non-compliant as against 84% of female respondents. It is therefore evident that female self-employed are more compliant with income tax laws than their male counterparts are.

Table 2: Effect of gender on income tax compliance

Gender		Have you ever filed returns?		Total
		Yes	No	
Male	Count	8	77	85
	% within gender	9.4	90.6	100
Female	Count	29	153	182
	% within gender	15.9	84.1	100

Source: Field Survey (2010)

This finding confirms the conclusions of Torgler and Valev (2007), Richardson and Sawyer (2001), and Jackson and Milliron (1986) that female taxpayers are more compliant than their male counterparts are. Females by nature are submissive and this quality is displayed in every sphere of their life including complying with income tax laws. Males on the other hand are generally risk loving and deviants and exhibit this quality in every aspect of life including compliance with income tax laws.

Effect of age on income tax compliance

The effect of age has also been investigated in numerous tax compliance literatures. Survey questions two (2) and thirteen (13) were cross-tabulated to determine the effect of age on income tax compliance by the self-employed. The responses obtained were summarized in Table 3. Respondents aged up to thirty-nine years were considered as young persons, while respondents aged above thirty-nine considered as old persons.

From Table 3, about 21% of the older respondents fall into the category of low non-compliers against 11% of the young respondent self-employed. Again, about 79% of the old respondents self-employed fall into the category of high non-compliers, whilst about 89% of the young respondents self-employed fall into the category of high non-compliers. This result shows that old persons are more compliant with income tax laws than their young counterparts are.

Table 3: Effect of age on income tax compliance

Age		Have you ever filed returns?		Total
		Yes	No	
Young	Count	23	178	201
	% within age	11.40	88.60	100
Old	Count	14	52	66
	% within age	21.2	78.8	100

Source: Field Survey (2010)

The finding of this study does not support that of Porcano (1988), Feinstein (1991), Mason and Calvin (1978), Dubin and Wilde (1985) whose works found no relationship between age and non-compliance. However, this finding confirms the works of Richardson and Sawyer (2001) that examined age variable and found that older taxpayers tended to be more compliant than younger taxpayers were.

Effect of educational level on income tax compliance

Survey questions three (3) and thirteen (13) were cross-tabulated to establish the effect of educational level on income tax compliance among the self-employed. Respondents with no educational qualification through to secondary or technical education were considered as having low educational level, whilst those

with qualifications ranging from diploma through to university degrees were considered as having high educational level.

Table 4: Effect of educational level on income tax compliance

Educational Level		Have you ever filed returns?		Total
		Yes	No	
Low	Count	24	224	248
	% within Qualification	9.8	90.2	100
	Count	12	7	19
High	% within Qualification	64.3	35.7	100

Source: Field Survey (2010)

From Table 4, respondents with high educational level had about 64% being low non-compliant as against about 10% of those considered as having low educational level. On the other hand, whilst about 36% of respondents with high level of education were high non-compliance, as much as about 90% of their counterparts with low level of education were high non-compliance. This indicates that respondents with high educational level are more compliant with income tax laws than their counterparts with low educational levels.

This finding is in sharp contrast with that of Beron, Tauchen and Witte (1992) that indicated that there is no correlation between levels of education and

tax compliance. However, this finding confirms the conclusions reached by Wallschutzky (1994) that indicated that education is a variable most likely to improve compliance. As individuals climb higher on the academic ladder, they are educated on a number of social and economic issues, including the need and essence to honour one's tax liabilities to the state. This may partly account for the reasons why the self-employed with high levels of education tend to be more compliant with income tax laws than those with low level of education.

Effect of marital status on income tax compliance

Survey questions four (4) and thirteen (13) were cross-tabulated to determine the effect of marital status of the self-employed on income tax compliance.

Table 5: Effect of marital status on income tax compliance

Marital status		Have you ever filed returns?		Total
		Yes	No	
Yes	Count	26	126	152
	% within m. Status	17	83	100
No	Count	11	104	115
	% within m. Status	9.4	90.6	100

Source: Field Survey (2010)

As Table 5 depicts, 17% of the married respondents were in the low non-compliant category as against about 9% of the unmarried respondent self-employed. On the other hand, 83% of the married respondent self-employed were high non-compliant as against about 91% of the unmarried respondent self-employed. This indicates that married self-employed are more compliant with income tax laws than their unmarried counterparts. The reasons for this revelation could be attributed to the fact that females are more compliant with income tax laws and could therefore exert more influence in the decision to comply with income tax laws. The finding of this study confirms that of Richardson and Sawyer (2001) who concluded that married taxpayers are more compliant than unmarried taxpayers.

Topology of tax non-compliance

Tax compliance literature has found the informal sector championed by the self-employed to be highly prone to non-compliance. Kidder and Craig (1989) found and studied seven variables that they termed 'topology' of tax non-compliance, namely: procedural, brokered, unknowingly, lazy accounting, protest or symbolic, asocial and habitual non-compliance. Intending to investigate the existence of this phenomenon among the self-employed in the study area, survey questions fifteen (15) was asked and analysed using frequency distribution table and the outcome presented here below.

Table 6: Causes of non-compliance

Causes of non-compliance	Extent of influence					Total	Mean
	Strongly agrees	Agrees	Neutral	Disagrees	Strongly disagrees		
Procedural	14	43	68	95	47	267	2.55
	5.2%	16.1%	25.5%	35.6%	17.6%	100%	
Brokered	0	0	57	153	57	267	2.00
	0%	0%	21.3%	57.3%	21.4%	100%	
Unknowing	91	98	36	31	11	267	3.85
	34.1%	36.7%	13.5%	11.6%	4.1%	100%	
Accounting or lazy	19	189	30	29	0	267	3.74
	7.1%	70.8%	11.2%	10.9%	0%	100%	
Protest or	24	144	61	36	2	267	3.57
Symbolic	9.0%	53.9%	22.9%	13.5%	0.7%	100%	
Asocial	0	129	15	43	80	267	2.72
	0%	48.3%	5.6%	16.1%	30%	100%	
Habitual	32	129	35	68	3	267	3.45
	12%	48.3%	13.1%	25.5%	1.1%	100%	
Standard or average mean							3.00

Source: Field survey, 2010.

Procedural non-compliance

Procedural non-compliance has been found to be one of the causes of tax non-compliance. Survey question fifteen (15a) asked respondents to indicate the extent to which complexity of the income tax laws influence their decision not to file returns. From Table 6, about 53% of respondents indicated procedural non-compliance did not influence their decision not to comply with their income tax obligations. About twenty-one (21%) percent of respondents however indicated that procedural non-compliance did influence their income tax non-compliance behaviour.

From the above findings, procedural non-compliance influences some of the self-employed in their income tax non-compliance behaviour and confirms the findings of Kidder and Craig (1989). It is however observed that procedural non-compliance does not influence majority of the self-employed in their income tax non-compliance behaviour. What may account for this situation is the fact that most of the respondents have never filed income tax returns to experience any difficulty in the filing procedures.

Brokered non-compliance

Accountants and tax experts play a crucial role in ensuring compliance and non-compliance to tax laws. Because of the knowledge of these groups of people of tax laws, taxpayers do rely on their advice for tax matters. Some potential taxpayers have been non-compliant due to advice sought from accountants and tax

experts on tax matters. In order to find out whether brokered non-compliance does exist in the study area, question 15b was asked for this purpose.

From Table 6, about 79% of respondents indicated that accountants or experts' advice did not influence their non-compliance decision. None of the respondents was influenced by accountant's advice in their income tax non-compliance decision. It is clear that brokered non-compliance does not influence the self-employed in their non-compliance decision in the study area.

What may account for this is the fact that none of the respondents does seek or rely on accountants when filing their income tax returns. Again, the entire respondents of those who keep some form of financial records of their business do not employ the services of accountants. As a result of this situation, it is very unlikely that accountants would have any influence on the self-employed in their income tax non-compliance decisions. However, if respondents were to make use of the services of accountants most of them would not have complied with their income tax obligations if advised to do so.

Unknowning non-compliance

Kidder and Craig (1989) found ignorance to be one of the main determinants of tax non-compliance. In order to investigate the extent of ignorance on income tax non-compliance among the self-employed, survey question 15c asked respondents to indicate the extent of influence of ignorance on income tax non-compliance.

As depicted in Table 6, about 71% of respondents indicated that ignorance influenced their decision not to comply with their income tax obligations. About sixteen (16%) of respondents indicated that ignorance did not influence their non-compliance decision. It is clear therefore that ignorance plays an instrumental role in the income tax non-compliance decision of majority of the self-employed in the study location. This confirms the findings of the studies of Picciotto (2007) and Yankelovich, Skelly and White (1984) that concluded that ignorance has been found to represent a significant proportion of tax non-compliance behaviour.

This finding could be attributed to the fact that most of the respondents indicated that they were unaware of the obligation to file income tax returns to the IRS. Again, most of the respondents who are aware of their income tax obligations fail to comply with such obligation. This could be due to the difficulties faced in complying with tax obligations by the self-employed.

Lazy accounting or accounting non-compliance

Proper level of record keeping (accounting records) is required if the income of taxpayers are to be properly assessed and taxed. However, poor or inadequate accounting records are one of the reasons attributed by Kidder and Craig (1989) for tax non-compliance. Survey question 15d was formulated to solicit information about the existence of this phenomenon in the study area.

Most of the self-employed surveyed indicated that they do not keep accounting records of their business transactions. The few who indicated keeping financial records of their businesses however keep records that at best can be

described as too low to allow for any meaningful assessment of one's tax liability. From table 6, poor or inadequate accounting records for not filing tax returns influenced about 78% of respondents, whilst 11% indicated that poor or inadequate accounting records did not influence their non-compliance behaviour. This shows that accounting non-compliance influences majority of the self-employed in the study area in their income tax non-compliance behaviour.

Symbolic or protest non-compliance

Kidder and Craig (1989) state that one of the causes of tax non-compliance is what they described as symbolic non-compliance. Some prospective taxpayers do not think tax monies are put to efficient and economic use, whilst others think the tax system is not fair. These lead to the use of non-compliance as a protest tool against the tax system. In order to determine the extent of this practice among the self-employed in the study area, survey questions 15e sought to solicit information for this purpose.

From Table 6, symbolic non-compliance influenced about 63% of respondents in their income tax non-compliance behaviour, whilst about 14% of respondents were not influenced by symbolic non-compliance in their income tax non-compliance behaviour. Symbolic non-compliance is in deed a factor that influences majority of the self-employed not to comply with their income tax obligations in the study location.

The respondents self-employed hide their operations from institutions like the IRS, Registrar General Department (RGD) and the Social Security and National Insurance Trust (SSNIT) whether consciously or unconsciously as a means of protesting against the injudicious use of tax monies. Most of the respondents have their businesses not registered with the RGD who has the mandate to register every form of business in the country. None of the respondents has their business registered with the SSNIT. Again, most of the respondents have not registered their businesses with the IRS. These developments in fact make it extremely difficult to be able to identify all potential revenue earners particularly the self-employed for tax purposes.

Asocial non-compliance

According to Kidder and Craig (1989) some taxpayers become non-compliant because of the advice of their associates, be it friends, family members or business partners. Survey question 15f sought to assess the extent of associates' influence of income tax non-compliance among the self-employed in the study area.

From Table 6, it was revealed that associates' advice in not complying with income tax obligations influenced about 48% of respondents. About 46% percent of respondents were not influenced by associates' advice in their income tax non-compliance behaviour. This analysis confirms the existence of asocial non-compliance in the study area and supports the findings of Kidder and Craig (1989), Grasmick and Bursik (1990) that concluded that asocial non-

compliance is one of the reasons for income tax non-compliance. What may account for this situation may be due to the fact that most of the self-employed indicated that they know some of their colleague self-employed who do not comply with their tax obligations. The knowledge that some self-employed do not comply with tax obligations with impunity could influence others not to comply.

Habitual non-compliance

Some prospective taxpayers develop the habit of not paying taxes over a long period. Kidder and Craig (1989) recognise this attitude to be one of the major causes of tax non-compliance. Survey question 15g sought to determine the extent of habitual non-compliance among the self-employed in the study area. As depicted in table 6, about 60% of respondents stated that habitual non-compliance influenced their non-compliance decision whilst about 26% was not influenced by habitual non-compliance.

Habitual non-compliance influences a greater number of the self-employed in their non-compliance behaviour. A greater amount of tax is therefore lost because some self-employed have developed the habit of not complying with income tax laws simply on the basis that other self-employed do not comply.

Kidder and Craig (1989) state seven variables, namely procedural, brokered, unknowing, lazy accounting, symbolic, asocial and habitual non-compliance as the factors that influence non-compliance with tax laws. From the analysis of the factors that influence non-compliance as stipulated by Kidder and

Craig (1989), only brokered non-compliance does not influence any of the self-employed in the study area in their income tax non-compliance decisions. This is because majority of the respondents do not keep accounting or financial records of their business operations. Even the few who keep financial records do not employ the services of accountants in their financial recording practices. Again, none of the respondent self-employed indicated consulting or relying on the advice of accountants in complying with their income tax obligations. The other remaining factors, namely, unknowing, lazy accounting, symbolic, habitual, asocial and procedural non-compliance with means of 3.85, 3.74, 3.57, 3.45, 2.72 and 2.55 respectively do exert influence in the income tax non-compliance decisions of majority of the self-employed.

It is therefore imperative that in fashioning out an enforcement strategy, there is the need to take into considerations strategies that would help tackle the reasons for non-compliance. Any enforcement strategy that would tackle say ignorance and inadequate financial record keeping would have the effect of improving income tax compliance.

Survey question fourteen (14) sought to find out the form to which income tax non-compliance takes among the self-employed in the study area. The form of non-compliance behaviour investigated includes under-statement of income, over-statement of expenses and none or late submission of returns. Respondents' responses to this question are summarized in Table 7.

Table 7: Forms of income tax non-compliance

Forms of non-compliance	Extent of Agreement					Totals
	Strongly Agrees	Agrees	Neutral	Disagrees	Strongly Disagrees	
Understatement of income	19 7.1%	134 50.2%	37 13.9%	28 10.5%	49 18.3%	267 100%
Overstatement of expenses	12 4.6%	203 76.1%	18 6.6%	4 1.5%	30 11.2%	267 100%
late submission of returns	136 50.8%	91 34%	19 7.6%	11 4.0%	10 3.6%	197 100%

Source: Field Survey (2010)

Under-statement of income

From Table 7, about 57% of respondents do agree that income tax non-compliance take the form of under-statement of income. Only about 29% of respondents disagree that income tax non-compliance takes the form of income under declaration. Majority of the self-employed agree that one of the forms of income tax non-compliance displayed by the self-employed is under-statement of income. What may account for this situation is the fact that most of the self-employed fail to keep proper records of their business operations, including their

earnings. The few self-employed who keep records of their business operations however intentionally under declare their income in order to avoid paying the appropriate tax.

Over-statement of expenses

About 81% of respondents agree that over-statement of expenses is one of the forms of income tax non-compliance. Only about 13% do not agree that income tax non-compliance take the form of over-statement of expenses. Again, the reason for this could be attributable to the fact that expenses are deductible from income in determining one's taxable income. This therefore leads to the situation where people create none existing expenses and get fictitious receipts to cover them as duly incurred expenses.

Late or non-submission of returns

About 85% of respondents agree that none or late submission of returns constitute one of the forms of income tax non-compliance whilst only about 8% disagree. Majority of the self-employed are ignorant about income tax itself, whilst some do not see the need to honour their tax obligation due to the perception that tax monies are not used judiciously. Again, the tax institution itself lacks the ability to identify potential taxpayers, particularly, those in the informal sector, since most of such participants do not register their business with the appropriate state institutions to make them easily identifiable for tax purposes.

Income tax compliance involves taxpayers declaring accurately on all incomes earned, reporting accurately on expenses incurred as well as timely

submitting tax returns. Reactions of the self-employed were sought regarding compliance should the appropriate income tax enforcement strategy be embarked upon and presented in table 8.

Table 8: Level of compliance if the appropriate enforcement strategy is embarked upon

Compliance variable	Extent of Agreement					Totals	Mean
	Strongly Agrees	Agrees	Neutral	Disagrees	Strongly Disagrees		
Accurately report income	0 0%	222 83.2%	1 0.4%	34 12.7%	10 3.7%	267 100%	3.63
Accurately report expenses	0 0%	191 71.6%	18 6.7%	19 7.1%	39 14.6%	267 100%	3.35
Timely submission of returns	142 53.2%	106 39.7%	19 7.1%	0 0%	0 0%	197 100%	4.26
Standard or Average Mean							3.00

Source: Field Survey (2010)

Accurately report income

From Table 8, about eighty-three percent (83%) of respondents agree to accurately reporting income should the appropriate enforcement strategy be adopted. Only about sixteen percent (16%) of respondents disagree to accurately reporting income should the appropriate enforcement strategy be adopted. It is inferred that the self-employed would report accurately on their incomes earned once the appropriate enforcement strategy is embarked upon. This revelation is healthy since income determination plays a pivotal role in determining one's tax liability.

Accurately report on expenses

About seventy-two percent (72%) of respondents agree to accurately reporting expenses if the appropriate income tax enforcement strategy be embarked upon. About 22% of respondents however disagree to accurately reporting on expenses incurred even if the appropriate enforcement strategy is adopted. This finding also suggests that more tax revenue would accrue to the state if the appropriate income tax enforcement strategy is adopted.

Timely submission of returns

Again, about 77% of respondents agree, whilst about 16% disagree to the timely submission of income tax returns should the appropriate enforcement strategy be adopted. There is a lot of hope for the IRS in increasing the number of self-employed on the tax roll and thereby increasing the self-employed contribution to tax revenue provided the appropriate enforcement strategy is

embarked upon. The nation stands to gain immensely in respect of tax revenue since income tax compliance from the self-employed would improve when the appropriate enforcement strategy is adopted.

From the analysis in Table 8, if the appropriate income tax enforcement strategy is embarked upon, income tax compliance would experience marked improvement in respect of accurately reporting income, accurately reporting of expenses and timely submission of returns. This is due to the fact that the mean of each of the compliance variables is higher than the standard mean of 3.00.

The use of sanctions has been one of the means of enforcing and ensuring tax compliance. Objective three of this study sought to assess the role of penalties in enforcing income tax compliance among the self-employed. Data relating to the use of penalties is presented using frequency distribution tables and chi-square analysis.

Survey question twenty-four sought to find out whether the imposition of penalties in tax laws deters non-compliance particularly from the self-employed and the responses have been presented in table 9. About 68% of respondents indicated that imposition of penalties in tax laws would deter non-compliance, whilst the remaining 32% percent thought otherwise.

Table 9: Does the imposition of sanctions deter non-compliance?

Responses	Frequency	Percentage
Yes	182	68.2%
No	85	31.8%
Total	267	100%

Source: Field Survey (2010)

This shows that majority of the self-employed are of the view that deterrence or sanctions deter non-compliance. This finding confirms the studies of Becker (1968) and Franzoni (2000) that reported evidence of a relationship between sanctions and crime rate (including tax non-compliance). The very awareness of the existence of sanctions in our tax laws would deter some self-employed from non-compliance.

Respondents were asked whether the use of some specific sanctions, including monetary fines, distress actions and or prison sentences would improve income tax compliance. The findings are presented in Table 10.

Table 10: Role of sanctions in enforcing income tax compliance

Forms of sanctions	Extent of Agreement						Totals	Mean
	Strongly Agrees	Agrees	Neutral	Disagrees	Strongly Disagrees			
Monetary fines	5 1.9%	180 67.4%	72 30%	10 3.7%	0 0%	267 100%	3.42	
Distress action	0 0%	5 1.9%	64 24%	114 42.7%	84 31.4%	267 100%	1.96	
Prison sentence	14 5.3%	16 6.0%	69 25.8%	117 43.8%	51 19.1%	267 100%	3.23	
Standard Mean							3.00	

Source: Field Survey (2010)

Monetary fines

Aryes and Braithwaite (1992) have advocated that the use of monetary fines as punitive measure ensure compliance with tax laws. As depicted in Table 10, majority of the self-employed agree that enforcing tax compliance through the use of monetary fines would improve compliance. About 70% of respondents agree that the use of monetary fines as punitive measure would improve income

tax compliance, whilst about 4% do not agree. A statistical mean of 3.42 shows that the use of monetary fines as punitive measure improves compliance.

This finding supports the assertion of Aryes and Braithwaite (1992) that compliance to tax laws would improve once people know they would be subjected to pay some monetary fines in addition to the tax amount. However, individuals always evaluate the value of the fine against the benefit to be derived from non-compliance. Where the benefit for non-compliance exceeds fine imposed then non-compliance becomes very attractive. Again, the probability for detecting non-compliance also plays a crucial role if fines are to serve as an effective punitive measure. Where the probability for detection is low, the value of fines as a punitive measure is weakened.

Distress action

This method is the processes where the assets of non-compliant taxpayers are taken over by the taxing institutions to settle the tax due the state. It often involves using force or legal assistance in obtaining possession of the assets of the non-compliant taxpayer. The argument is that taxpayers become compliant with tax laws when they know that the taxing institution has the power to take possession of their properties and will actually take possession if they fail to observe the tax laws.

As much as about 74% of respondents disagree to using distress action to enforce compliance, whilst only 2% agrees. A statistical mean of 1.96 shows that the self-employed in the study area do not think enforcing income tax compliance

using distress action would improve compliance. This finding does not support the findings of Aryes and Braithwaite (1992) who states that distress action incorporated in tax laws improves compliance.

Prison sentences

Again, about 63% of respondents agree that incorporating prison sentences in enforcing tax laws would improve compliance, whilst about 11% disagree. With a statistical mean of 3.32, there is sufficient evidence that enforcing income tax compliance through the incorporation of prison sentence improves compliance. The reasons for this could be due to the fact that once someone is sentenced for tax non-compliance, his integrity is impaired and affects his future business dealings. Such a person is considered as not creditworthy, and most people do not want to do business with them. It is to avoid this loss of credibility coupled with the stigmatization attached that might push the self-employed to comply with their taxing obligations.

On the question of whether the imposition of sanctions alone serves as a sufficient deterrent from non-compliance, about eighty-six percent (86%) of respondents do not think penalties alone serve as a sufficient deterrent from non-compliance whiles the remaining fourteen percent (14%) of respondents think the imposition of penalties alone would deter non-compliance. This finding supports the evidence of Job, Stout and Smith (2007) who questioned the value of deterrent alone in regulating non-compliance behaviour. It is clear therefore that, though

deterrent deters non-compliance that alone cannot sufficiently check the menace of income tax non-compliance.

In order to determine the extent to which the self-employed are sanctioned or penalized through fines, distress actions and or prosecution indicated that, none of the respondents has ever been fined or penalized by the IRS for not complying with income tax laws. What may account for this development could be due to the fact that most of the self-employed do not register their businesses with the IRS. The self-employed are therefore excluded from the tax roll of the IRS. This makes it difficult for the IRS to detect non-compliance that would result in applying the needed sanctions.

Hypothesis 1

The first hypothesis tested states that “there is no significant relationship between the severity of sanction or penalty and the level of intention to comply with income tax laws”. From the analysis in Table 11, about 55% of respondents would be low non-compliant when slapped with low penalty, as against about 54% when slapped with severe penalty. Again, about 45% of respondent would be high non-compliant when slapped a mild penalty, as against about 46% when slapped with severe penalty.

Table 11: Severity of sanction on compliance

Sanctions		Non-compliance		Total
		Low	High	
Low	Count	96	80	176
	% within penalty	54.5	45.5	100
High	Count	49	42	91
	% within penalty	53.8	46.2	100

Source: Field Survey (2010)

From the chi-square test, none of the cells has expected counts that were less than five (5). As a result, one can move ahead to report on the output of the chi-square results. The output of the chi-square analysis produced an asymptotic significant value of 0.906, which is higher than 0.05 (i.e. the alpha value). This indicates that there is no enough evidence to reject the null hypothesis that states that: ‘There is no significant relationship between the severity of sanctions and the level of intention to comply with income tax laws’.

Table 12: Relationship between severity of sanction and compliance

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.014(b)	1	.906	-	-
Continuity Correction(a)	.000	1	1.000	-	-
Likelihood Ratio	.014	1	.906	-	-
Fisher's Exact Test	-	-	-	1.000	.513
Linear-by-Linear Association	.014	1	.906	-	-
No. of Valid Cases	267	-	-	-	-

Source: Field Survey (2010)

The outcome of this result indicates that, no matter the severity of sanction, there would still be income tax non-compliance among the self-employed. This does not support the research findings of Williams (2001) which states that, the severity the sanctions or deterrence, the higher the level of compliance with tax laws.

Objective four sought to find out the role and use of cooperation in enforcing income tax compliance. Survey questions 18, 19, 20, 21, 22, 29 and 30 were formulated for this purpose. There are a number of sources from which information on tax issues are obtained. Survey question 18 sought to elicit from

the self-employed how much information they receive about income tax from the IRS, accountants, mass media (T.V., radio, newspapers) and friends.

Table 13: Sources of tax information

Sources of tax Education	Extent of information			Total	Mean
	A lot	Some	None		
IRS Sources	0	84	183	267	1.27
	0%	31.5%	68.5%	100%	
Accountants Sources	0	0	267	267	1.00
	0%	0%	100%	100%	
Mass Media Sources	0	214	53	267	1.86
	0%	80.2%	19.8%	100%	
Associates Sources	0	222	45	267	1.72
	0%	83.2%	16.7%	100%	
Standard or Average Mean					2.00

Source: Field Survey (2010)

Internal revenue service source

The IRS is the institution tasked with the administration of income tax in Ghana. Imbedded in its function is to educate individuals on their taxing

obligations though the ultimate responsibility for tax lies with individual taxpayers. From Table 13, about 69% of respondents indicated having received no information on income tax from the IRS. None of the respondents indicated having received a lot of information on income tax from the IRS. It is evident that the IRS does not provide much information about income tax to the self-employed. This is because the internal revenue source of income tax information has a mean of 1.27, which is far less than the standard mean of 2.00.

Accountants or tax experts' sources

Accountants by their training help businesses keep proper books of accounts as well as advise on tax issues. Accountants therefore help disseminate information on income tax. However, about 94% of respondents indicated having received no information about income tax from accountants, while none of the respondents indicated having received a lot of information about income tax from accountants. The statistical mean of 1.00 which is also far less than the standard average mean of 2.00 shows that not much information about income tax is received from accountants or tax experts.

This finding could partly be explained by the fact that the self-employed do not solicit the services of accountants in their financial recording practices. The reasons why the self-employed fail to employ the services of accountants could be due to the cost associated with hiring accountants which is perceived to be quite high. Again, most of the self-employed do not file income tax returns; as such do not see the need to hire the services of an accountant.

Mass media (Television, radio and news paper) sources

One of the effective means of disseminating information with wide public interest is by the mass media. The mass media can be used to educate people on their tax obligations. About 80% of respondents indicated having received some amount of information about income tax from the various mass media. None of the respondents indicated having received a lot of information about income tax from the various mass media.

The above results indicate that IRS is not making maximum use of the various mass media to educate taxpayers particularly, the self-employed. This is because the statistical mean of mass media sources of income tax education of 1.86 is less than the standard mean of 2.00. This may account for the reasons why there is high income tax non-compliance among the self-employed.

Friends and associates sources

Individuals as social beings interact with one another on a number of issues including tax matters. About 83% of respondents indicated having received some amount of information about income tax from their associates', whilst about 17% indicated having received no information about income tax from their associates. It is clear that not much information about tax issues are received from people associated with the self-employed. This is because the statistical mean of associate's sources of income tax education of 1.72 is less than the standard mean of 2.00.

Survey question nineteen (19) sought to determine the extent of income tax education with respect to timing of filing returns, computation of tax liabilities, benefits of income tax as well as procedures for filing returns to the self-employed.

Timing of filing returns

Every tax system has a given time period within which returns must be submitted. From Table 14, about 72% of respondents receive no education or information on the period to submit income tax returns. Only about 28% of respondents have received some amount of information on the timing of income tax returns. It is evident that not much information is received about the timing of tax returns. This is because the statistical mean of education on timing of filing returns is 1.72, less than the standard mean of 2.00. This situation may account for some of the reasons for income tax non-compliance among the self-employed. When some of the self-employed are even willing to comply with their tax obligations, the lack of knowledge about when to file returns may discourage compliance.

Table 14: Income tax compliance information

Type of information	Extent of information				
	A lot	Some	None	Totals	Mean
Timing of tax returns	0 0%	74 27.0%	193 72.3%	267 100%	1.72
Computation of tax liability	0 0%	50 18.7%	217 81.3%	267 100%	1.44
Benefits of income tax	0 0%	168 62.9%	99 37.1%	267 100%	1.91
Procedures for filing	0 0%	211 79.0%	56 21.0%	267 100%	1.55
Standard or average mean					2.00

Source: Field Survey (2010)

Computation of tax liability

Most self-employed do not know how to compute their tax liabilities. About 81% of respondents have not received any information about their income tax computation, whilst only about 19% have received some information on income tax computation. As regards education on the computation of tax, a statistical mean of 1.44 also indicates that not much education is received on the computation of tax liability. The self-employed therefore need to rely on

accountants and other experts who are knowledgeable in income tax computation, which goes with a cost. This and other reasons may have led to the present situation where most self-employed do not comply with the income tax laws.

Benefits of income tax

It is argued that most people will willingly comply with their tax obligations when they see, and are educated on, the benefits of tax. About 63% of respondents indicated having received some information on the benefits and uses of income tax, whilst about 37% of respondents said they do not receive any information on the benefits of income tax. And concerning education on the benefits of income tax, a statistical mean of 1.91 which is less than the standard mean of 2.00 indicates that some amount of education is received on the benefits of income tax. Though most of the self-employed have received some amount of information about the benefits of income tax, the perception of misappropriation of tax monies may account for the high level of income tax non-compliance among the self-employed.

Procedure for filing returns

About 79% of respondents indicated they do not receive any information on the procedures for complying with income tax obligations, whilst about 21% receive some amount of information. A statistical mean of 1.55 shows that most of the self-employed receive little or no information about the procedures for

filing returns. The lack of such information could explain why a lot of the self-employed are ignorant about filing income tax returns.

Survey questions Twenty-nine and thirty sought to determine the extent to which the self-employed agree to the assertion that tax education and improved accounting records would improve income tax compliance. Respondents' responses are presented in Table 15.

Table 15: Extent of income tax compliance when education is improved

Level of compliance	Extent of Agreement						Totals	Mean
	Strongly Agrees	Agrees	Neutral	Disagrees	Strongly Disagrees			
Timing of filing returns	0 0%	243 91.0%	15 5.6%	0 0%	9 3.4%	267 100%	3.80	
Computation of tax liability	24 9.0%	182 68.2%	23 8.6%	10 3.7%	28 10.5%	267 100%	3.84	
Benefits of tax	80 30%	146 54.7%	5 1.9%	18 6.7%	18 6.7%	267 100%	3.95	
Tax filing procedures	18 6.7%	217 81.3%	0 0%	23 8.6%	9 3.4%	267 100%	3.79	
Standard or average mean							3.00	

Source: Field Survey (2010)

Timing of filing returns

From Table 15, about 91% of the respondents agree to file income tax returns on time when educated properly on when to file returns. About 4% of respondents however disagree to filing returns on time when educated on the timing of filing returns. A statistical mean of 3.82, shows that the self-employed would timely submit or file their income tax return when educated on the timing of submission of returns.

Computation of tax liability

About 77% of respondents agree to pay the right amount of tax when educated on how to determine or calculate tax liability, whilst only about 14% of respondents disagree to paying the right amount of income tax when educated on income tax computation. The practice where individuals under-declare income and over-state expenses in the bid to reduce tax liability would reduce, and thereby improve income tax compliance as evidenced by the statistical mean of 3.82.

Benefits of income tax

Most self-employed fail to comply with income tax obligations because they do not know or see the benefit to which tax monies are put to use. About 79% of respondents agree to honour their income tax obligations when they are educated on the benefits to which tax monies are used. About 16% of respondents however disagree to honouring their tax obligations even when educated. It is clear from the statistical mean of 3.95 that income tax compliance would improve when the benefits of tax is sounded loud.

Tax authorities must therefore capitalize on every opportunity to showcase some of the physical and identifiable projects for which tax monies are used.

Procedure for filing returns

Lack of understanding the procedures for filing income tax return is identified as one of the reasons for income tax non-compliance. About 88% of respondents agree to comply with their income tax obligation when educated on the procedures for filing returns, while about 12% disagree. It is again clear that income tax compliance among the self-employed would improve when education on the procedures for filing income tax returns are improved as evidenced by the statistical mean of 3.79.

Most self-employed do not keep proper accounting records of their business transactions. This makes it difficult to determine their chargeable income let alone determine their tax liabilities. The lack of proper accounting records among the self-employed has been identified as one of the causes of income tax non-compliance. Braithwaite (2003) asserts therefore that compliance with tax laws would improve when individuals are assisted to improve on the accounting records of their businesses. The views of the self-employed were sought on the extent to which they agree to Braithwaite's (2003) assertion.

Table 16: Improving financial record practices

Ways of improving records keeping	Extent of Agreement					Totals	Mean
	Strongly Agrees	Agrees	Neutral	Disagrees	Strongly Disagrees		
Helping with records keeping	10 3.8%	210 78.7%	0 0%	28 10.5%	19 7.1%	267 100%	4.16
Organizing book keeping seminars	58 21.7%	180 67.4%	23 8.6%	6 2.3%	0 0%	267 100%	4.03
Standard or average mean							3.00

Source: Field Survey (2010)

Helping the self-employed to prepare accounting records

From Table 16, about 82% of respondents agree to comply with the income tax laws when helped to prepare financial records of their business operations. Only about 18% of respondents disagree to comply with the income tax laws when helped to prepare financial records of their business operations. This shows that majority of the self-employed would comply with their tax obligations when they are helped to prepare basic accounting records of their business operations. Having a statistical mean of 4.16 indicates a significant improvement in compliance.

Organizing bookkeeping seminars for the self-employed

Again, respondents were of the view that income tax compliance among the self-employed would improve when financial recording seminars are organized periodically for the self-employed, particularly, income tax non-compliant self-employed. From table 34, about 89% of respondents agree to comply with the income tax laws when financial accounting seminars are organized periodically, whilst only about 2% disagree.

With a statistical mean of 4.06, it is clear that income tax compliance would improve when the self-employed are helped to improve on their financial recording practices. This confirms the assertion of Braithwaite (2003). The IRS must therefore take pragmatic steps to ensure that the accounting recording practices of the self-employed are improved.

Survey question twenty-one sought to find out which means of educating the self-employed on income tax compliance would be effective. This study looked at using the self-employed who are income tax compliant (i.e. peer self-employed), IRS officials, accountants or tax advisors and mass media (television, radio and newspapers).

Table 17: Effectiveness of tax education information sources

Sources of tax education	Level of effectiveness			Totals	Mean
	Effective	Neutral	Ineffective		
IRS sources	142	72	53	267	2.34
	53.2%	27.0%	19.8%	100%	
Accountants sources	153	61	53	267	2.38
	57.3%	22.9%	19.8%	100%	
Mass media sources	196	30	41	267	2.58
	73.4%	11.2%	15.4%	100%	
Peer self-employed	183	39	45	267	2.52
	68.5%	14.6%	16.9%	100%	
Standard or average mean					2.00

. Source: Field Survey (2010)

IRS officials' sources

As administrators of the income tax laws, it is suggested that educating the self-employed using IRS officials would achieve the needed level of compliance. About 53% think educating the self-employed using IRS officials would be effective. About 20% of respondent however do not think in the same way. The statistical mean of educating the self-employed using the IRS officials is 2.34 higher than the standard or average mean of 2.00. This means that educating the self-employed using the IRS officials would be effective in improving income tax compliance among majority of the self-employed.

Tax advisors and accountants sources

Accountants and tax advisors play a very important role in ensuring income tax compliance. They provide professional advice on how to keep proper accounting records (which play an instrumental role in determining one's chargeable income), timing and procedures for filing tax returns, etc. About 57% of respondents agree that educating the self-employed through accountants and tax experts would be effective, whilst about 20% think otherwise. As shown by the statistical mean of 2.38, compliance would be improved when accountants are used as conduit for educating the self-employed on income tax obligations.

Mass media (television, radio and newspapers) sources

Using the various mass media is one of the effective means of educating people on issues of national interest. About 74% of respondents agree to the use of the mass media as an effective means of educating the self-employed whilst about 15% think otherwise. Using the mass media as a means of educating the self-employed on income tax matters has a statistical mean of 2.58 indicating an improved compliance to income tax laws among majority of the self-employed.

Peer self-employed sources

Using income tax compliant self-employed to educate the self-employed would be effective among majority of the self-employed as evidenced by the statistical mean of 2.52. About 69% of respondents agree that using income tax compliant self-employed to educate the self-employed would be effective, whilst about 15% think otherwise. This shows that majority of the self-employed think

using their peer compliant self-employed to educate them would help improve income tax compliance. This supports Braithwaite's (2003) suggestion that one of the means to effectively educate taxpayers on tax issues is by using their peers who are income tax compliant

Hypothesis 2

The second hypothesis tests for the relationship between cooperation and sanctions on income tax compliance. The variables considered under sanctions include monetary fines, distress action and prison sentence. On the level of cooperation, the variables considered are income tax education (comprising of education on income tax computation, benefits of income tax, timing of submission of tax returns and procedures for filing returns) and improving the record keeping practices of the self-employed (comprising of helping the self-employed keep and maintain accounting records of their business operations and organizing record keeping seminars for the self-employed). The variables considered under the level of compliance include reporting accurately on income earned, reporting accurately on expenses incurred and timely submission of income tax returns. A two variable multiple regression model was used, resulting in the following regression equation

$$Y = a + bx_1 + bx_2, \quad \text{where,}$$

Y = the dependent variable representing the level of compliance

A = the intercept (level of compliance when the independent variables equal to 0)

Bx1 = one of the independent variables representing sanctions

Bx2 = the other independent variable representing cooperation

Table 18: Linear regression model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.542	.294	.287	2.542

Predictors: Cooperation, sanction

The “R-square” value in the model is the coefficient of determination. It is indicative of how much of the variability in the dependent variable is explained by the model. Thus, Table 18 reveals that about 29.4% of the variability in the level of compliance is explained by the model. The “R” in Table 18 is the square root of R-square. It is the correlation between the predictor variables and the dependent variable. Table 18 therefore shows that in the linear regression model, the correlation between the level of compliance and the independent variables (sanctions and cooperation) is about 54%.

Table 19: Coefficients of the linear regression model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.857	2.160		.443	.658	-3.303	5.217
	Sanction	.279	.144	.124	1.937	.054	-.005	.562
	Cooperation	.385	.043	.572	8.912	.000	.300	.470

Coefficients

Dependent Variable: Compliance

Sanctions. The sig. value of the variable is located at the coefficient table. The sig. value of 0.054 is greater than the alpha value of 0.05. It means that sanction or penalty alone does not significantly improve income tax compliance.

Cooperation. The sig. value of the variable is located at the coefficient table. The sig. value of .000 is less than the alpha value of 0.050. There is an indication that cooperation significantly improves income tax compliance. It is clear from the sig. values of the individual variables that cooperation significantly improves compliance, whilst penalty does not. Cooperation if encouraged would significantly improve income tax compliance among the self-employed.

The regression co-efficient of the two variables which measures the proportion of each of the variables to the dependent variable (compliance) is located on the B values under the unstandardized coefficients in the coefficient

table. Sanction and cooperation have coefficients of 0.279 and 0.385 respectively with an intercept value of 0.857. The regression equation of

$Y = a + bx_1 + bx_2$ is re-written as

$$Y = 0.857 + 0.279bx_1 + 0.385bx_2 \text{ where,}$$

Y = the dependent variable representing the level of compliance

Bx_1 = the independent variable sanction

Bx_2 = the independent variable cooperation

0.857 = the intercept (level of compliance when the independent variables equal 0)

0.279 = the slope for the predictor sanction

0.385 = the slope for the predictor cooperation

This shows that a unit change in cooperation would improve compliance by a factor of 0.385, whilst a unit change in penalty would lead to an improvement in compliance by a factor of 0.279. This suggests that more attention needs to be placed on cooperation rather than on sanctions in order to improve income tax compliance. This is in line with the ATO model propounded by Braithwaite (2003) to improve tax compliance. Braithwaite (2003) suggests that tax authorities must focus on educating taxpayers on their tax obligations as well as help them improve their record keeping practices. Sanctions must however be preserved and reserved as the last resort, particularly in cases of deviant non-compliance. These, according to Braithwaite's (2003) view would help improve tax compliance.

This study showed that factors like procedural, unknowingly, lazy accounting, protest or symbolic and habitual non-compliance significantly influence the income tax non-compliance behaviour of the self-employed in the study area. These factors cannot be dealt with through sanctions or penalties. Through cooperation, which involves education, helping the self-employed to improve on their record keeping etc, factors like ignorance, poor record keeping practices could be dealt with and help check the menace of income tax non-compliance.

Table 20: ANOVA test of significance of the predictor in the model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	522.304	2	261.152	40.417	.000
	Residual	1253.513	194	6.461		
	Total	1775.817	196			

From Table 20, the extent to which the two independent variables (cooperation and sanctions) jointly associate with each other is located at sig. value on the ANOVA table. The sig. value of the variable is .000 less than the alpha value of .050. This is an indication that the two variables jointly improve income tax compliance significantly.

There is enough evidence therefore to reject the null hypothesis that says that cooperation and sanctions do not significantly improve income tax compliance and conclude that cooperation, and sanctions significantly improve income tax compliance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The primary objective of this study is to determine which income tax enforcement strategy should be embarked upon to elicit maximum compliance from the self-employed. Specifically, the study looked at some demographic characteristics of the self-employed and how these characteristics influence income tax compliance. In addition, the factors affecting income tax compliance and or non-compliance were examined. This study also examined the role and use of sanctions and cooperation in enforcing income tax compliance.

Summary of findings

The following findings are presented from the data analysed:

Demographic characteristics or profile of the self-employed. The demographic characteristics investigated are gender, age, educational level and marital status. About 68% of respondents self-employed are females, whilst the remaining 32% are males. About 74.6% of the respondents are young people aged thirty-nine or less, whilst about 25.4% are old people aged over thirty-nine years.

As high as 93% of the respondents self-employed have low educational level (i.e. those without formal education up to those with secondary and or technical education). The remaining 7% of the respondents self-employed have high level of education (i.e. those with Teachers certificate A, diplomas and university degrees). About 57% of the self-employed surveyed are married whilst the remaining 43% are not married.

About 10% of the male respondents were low non-compliant as against about 16% of female respondents. Again, about 90% of the male respondents were high non-compliant as against 83% of female respondents. About 20% of the older respondents were low non-compliant, as against 12% of the young respondent self-employed. Again, about 80% of the old respondents self-employed were high non-compliant, whilst about 88% of the young respondents self-employed were high non-compliant.

Respondents with high educational level had about 64% being low non-compliant as against about 10% of those considered as having low educational level. On the other hand, about 36% of respondents with high level of education were high non-compliant, whilst about 90% of their counterparts with low level of education were high non-compliant. About 17% of the married respondents were low non-compliant as against about 9% of the unmarried respondent self-employed. On the other hand, 83% of the married respondent self-employed were high non-compliant as against about 91% of the unmarried respondent self-employed

About 21% of respondents indicated procedural non-compliance influences their decision not to comply with their income tax obligations. Again, brokered non-compliance influenced none of the respondents in complying with their income tax obligations. About 71% of respondents indicated that ignorance influenced their decision not to comply with their income tax obligations.

Lazy non-compliance influenced about 78% of respondents in their income tax non-compliance decisions, whilst symbolic non-compliance influenced about 63% of respondents in their income tax non-compliance decisions. Asocial non-compliance influenced about 48% of respondents whilst habitual non-compliance influenced about sixty (60%) of respondents.

About 84% of respondents operate sole proprietorship business, whilst about 16% operate partnership business. Only about 25% of the respondents have their businesses registered with the Registrar General's department. About 19% of respondents have their businesses registered with the IRS, whilst none of the respondents has his/her business registered with the SSNIT.

About 57%, 81% and 85% of respondents agree that income understatement, over-statement of expenses and no or late submission of returns respectively are the various modes of income tax non-compliance. With the appropriate enforcement strategy, about 72% of respondents agree to accurately reporting expenses, 83% respondents agree to accurately reporting income and about 77% of respondents agree to the timely submission of income tax returns.

About 68% of respondents indicated that imposition of penalties in tax laws would deter non-compliance, whilst the remaining thirty-two percent thought otherwise. About 86% of respondents do not think penalties alone serve as a sufficient deterrent from non-compliance while the remaining 14% of respondents think the imposition of penalties alone would deter non-compliance. About 70% of respondents agree that the use of monetary fines as punitive measure would improve income tax compliance. As many as about 74% of respondents disagree to using distress action to enforce and improve compliance, whilst about 63% of respondents agree that incorporating prison sentences in enforcing tax laws would improve compliance.

None of the respondents indicated having received a lot or much information about income tax from the IRS itself, accountants, friends and associates and from the various mass media. A greater proportion of the respondents indicated having received little or no information about income tax from the sources mentioned. About 69% of respondents indicated having received no information on income tax from the IRS. About 94% of respondents indicated having received no information about income tax from accountants, and about 94% of respondents indicated having received some amount of information about income tax from the various mass media.

About 72% of respondents receive no education or information on when to submit income tax returns. As much as about 81% of respondents do not receive any information about income tax computation. About 63% of respondents indicated having received some information on the benefits and uses of income

tax, whilst about 79% of respondents indicated they do not receive any information on the procedures for complying with income tax obligations. Most of the self-employed were of the view that compliance would improve when they are educated on timing of filing returns, computation of tax liability and the benefits of income tax.

Income tax compliance would improve when the self-employed are helped to improve their financial recording practices. About 82% of respondents agree to comply with the income tax laws when helped to prepare financial records of their business operations. About 89% of respondents agree to comply with the income tax laws when financial accounting seminars are organized periodically for the self-employed.

In finding out which means of educating the self-employed would be effective, it came out that: about 69% of respondents agree that using income tax compliant self-employed to educate the self-employed would be effective. About 53% think educating the self-employed using IRS officials would be effective. About 57% of respondents agree that educating the self-employed through accountants and tax experts would be effective. About 74% of respondents agree to the use of the mass media as an effective means of educating the self-employed.

Conclusions

The following conclusions are drawn from the study. Females dominate the self-employed in the Tema Metropolis with as many as 68% of the respondent self-employed. Most of the self-employed in the Tema Metropolis are young

people. About 75% of the respondents are young people aged thirty-nine or less. Majority of the self-employed have low educational level. Married couples dominate the self-employed in the study area.

Female self-employed are more compliant with income tax laws than their male counterparts are. This study again shows that old persons are more compliant with income tax laws than their young counterparts. The self-employed with high educational level are more compliant with income tax laws than their counterparts with low educational levels are. Married self-employed are more compliant with income tax laws than their unmarried counterparts.

The self-employed in the Tema Metropolis are generally not familiar with the income tax laws with most of them not on the tax roll of the Internal Revenue Service. As a result of this deficiency, almost all the variables for non-compliance studied were found to be present among the self-employed in the study area with the exception of brokered non-compliance. The other remaining factors, namely, unknowing, lazy accounting, symbolic, habitual, asocial and procedural non-compliance do exert influence in the income tax non-compliance decisions of majority of the self-employed.

The level of income tax education in the study area is very low resulting in the high income tax non-compliance among the self-employed. The good news however is that, with an effective income tax education in areas such as timing of submission of returns and computation of tax liability, income tax compliance would see a much and better improvement. Educating the self-employed using

IRS officials, peer compliant self-employed, tax advisors and the mass media were all shown to be an effective means of helping to improve income tax compliance.

Though majority of the self-employed are of the view that sanctions in tax laws would deter non-compliance and help improve income tax compliance, they were also of the view that the use of sanctions alone do not serve as sufficient deterrent from non-compliance. Specifically, most of the self-employed think the use of monetary fines and prison sentences in income tax laws would deter non-compliance. However, most of the self-employed do not think the use of distress actions in income tax laws would deter non-compliance.

It was however concluded that there is no significant relationship between the severity of sanctions and the level of intention to comply with income tax laws. The outcome of this result indicates that, no matter the severity of sanction, there would still be income tax non-compliance among the self-employed. However, if tax authorities were first prepared to cooperate with taxpayers, resorting first to education and helping the self-employed to improve upon their accounting recording practices, then compliance to income tax laws would improve.

Recommendations

In order to avert the high income tax non-compliance among the self-employed, the following recommendations are made:

Vigorous income tax education

Income tax information and education is generally low among the self-employed. It is therefore important for tax authorities to establish an educational desk for the informal sector. The educational desk should incorporate in its schedule visits to people in their homes, businesses and churches to provide information and educate people about their income tax obligations. The desk should be able to provide assistance and advice on matters ranging from registration, record keeping and payment requirements (including expenses that can be claimed on tax returns). The information desk should be able to provide ongoing support and advice either by phone or by personal visit on the range of taxation matters affecting the self-employed.

Again, tax authorities should consider sponsoring small business tax advice services tailored for the self-employed, which could be conducted by credible third party institutions or individuals, such as tax experts or accountants and other compliant self-employed. This calls for a close collaboration between tax authorities (in this situation the IRS) and credible third parties who are willing to participate and cooperate in developing an effective regulatory regime. Tax authorities should also consider periodically educating the self-employed about their tax obligations in the various mass media (print, electronic).

As part of its education program, tax authorities should undertake record keeping programs to improve the quality of reporting by the self-employed. The program should primarily be an education initiative that seeks to improve business

practices and to increase taxpayer compliance by encouraging more complete and comprehensive record keeping practices by the self-employed. Tax authorities should further promote the benefits to be obtained from good record practices and consider introducing additional education programs such as public workshops on maintaining books and records keeping.

Again, the IRS must embark on vigorous nationwide exercise to establish a master list of all informal sector businesses that can conveniently be identified. This can be done by collaborating with the various districts, municipal and metropolitan assemblies. The various assemblies have the capacity to better identify, locate and help rope more of the informal participants into the tax net.

Targeted amnesties

Judging from the high income tax non-compliance among the self-employed, tax authorities should develop tax amnesties aimed at improving compliance, generally in return for indemnity from prosecution or whole/partial remission of monetary sanctions that would otherwise apply. The amnesty must offer rewards for taking up the amnesty offer and consequences for not taking up the amnesty offer. The reward component should generally be a reduction or elimination of sanctions that would normally apply to non-compliant behaviour. The consequences component should generally be a credible threat that, after the amnesty, non-compliant behaviour will be detected and dealt with severely. Amnesty targeted at the self-employed could cover; non-registered taxpayers, failure

to file returns, false records (unrecorded receipts and over-statement of expenses) and outstanding tax payments.

Tax audits

Given the limited financial resources available to enforce compliance, tax audit schemes should be made to target self-employed persons who are young and unmarried with low level of education. These are the category of taxpayers found to be largely non-compliant with their tax obligations.

Sanctions

The IRS like many other taxing authorities already has in place and makes use of various forms of sanctions, including monetary fines, prison sentences and distress action. These forms of sanctions however do not take into account the actual causes or reasons for non-compliance. The IRS should therefore assume that majority of the people (taxpayers) are good citizens and would be willing to comply if they understood the tax system and are helped to comply. It should however be made known that if the trust of the IRS is breached, it will evoke its punitive measures. On this basis, sanctions must be preserved in tax laws but as the last resort in enforcing compliance.

Suggestion for future research

As a limitation, the study did not include officials of IRS who have wealth of information and experience in income tax administration in Ghana. It is

therefore suggested that similar future research could be conducted to include this officials in addition to the self-employed to further enrich the study.

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APPENDIX

Questionnaire

Enforcing income tax compliance among the self-employed in the Tema Metropolis of Ghana

This study is being undertaken to ascertain the reasons for income tax non-compliance and offer suggestions to ensure compliance among the self-employed. This is a part of the requirement for the award of an MBA degree in Accounting from the University of Cape Coast. Your participation will be extremely helpful to generate data to answer questions posed in the research. Kindly answer the questions as accurate as possible. The confidentiality and anonymity of your participation are assured.

1. What is your gender?
Male Female

2. What is your age in years? years

3. What was the highest level of education you completed?
 - a. No formal Education
 - b. Primary Education
 - c. MSLC / JHS
 - d. Secondary or technical education
 - e. Teachers certificate A or Diploma certificates
 - f. Bachelor's, Master's or PhD. degree

4. Are you married?

Yes No

5. For how long have you been trading?years.

6. What type of business do you operate?

a. Sole proprietorship

b. Partnership

c. Others (specify).....

7. Is your business or enterprise registered with any of the following state institutions?

a. the registrar-general's department Yes No

b. the internal revenue service Yes No

c. the social security and national insurance trust. Yes No

8. Do you keep financial records of your business transactions?

Yes No

9. If you do, which of the following financial records do you maintain?

a. Purchases daybook only

b. Sales daybook only

c. Cash book only

- d. Purchases and sales daybooks
- e. Sales and cashbook only
- e. Purchases, sales and cashbook.

10. Are these records prepared separately from your personal income and expenses?

Yes No

11. Who prepares your business financial records for you?

- a. Self (i.e. Owner)
- b. Business-employed Accountant
- c. External Accountant.
- d. Others (Specify).....

12. Do you know of income tax returns?

Yes No

13. If yes, have you ever furnished income tax returns to the IRS?

Yes No

14. What form does the income tax non-compliance behaviour of the self-employed take?

Scale; strongly agrees = 5, agrees = 4, do not know = 3, disagrees = 2, strongly disagrees = 1.

a. under-statement of income	5	4	3	2	1
b. over-statement of expenses	5	4	3	2	1
c. none or late submission of returns	5	4	3	2	1

15. Indicate the extent to which the following factors influence your decision not to file returns for any year.

Scale: Strongly influenced 5, Influenced 4, Neutral = 3, Not influenced =2, Strongly not influenced=1.

a. Complex income tax returns procedure	5	4	3	2	1
b. Accountants advice	5	4	3	2	1
c. Ignorance	5	4	3	2	1
d. Lazy accounting	5	4	3	2	1
e. Taxes not beneficial or fair	5	4	3	2	1
f. Associate or friends advice	5	4	3	2	1
g. Maintain the status quo of not filing	5	4	3	2	1

16. Do you rely on tax advisors in preparing your income tax returns?

Yes

No

17. Assuming you use a tax advisor, who advises you not to file returns for whatever reasons, would you comply with such advice?

- Definitely yes
- Probably yes
- Probably not
- Definitely not
- Do not know

18. How much information about tax issues do you receive from the following sources?

Scale: A lot=3, some = 2, none =1

	A lot	Some	None
a. I R S	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Accountants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. TV, Radio, News papers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Friends / family	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

19. How much information do you receive on the following?

Scale: A lot = 3, some = 2, none =1

	A lot	Some	None
a. Timing of filing returns	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Computation of tax liability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Benefits of paying income tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Procedure for filing income tax returns	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Penalties for non-compliance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

24. Will the imposition of penalties in our income tax laws deter the self-employed from non-compliance?

Yes

No

25. Do you think the imposition of penalties alone would serve as a sufficient deterrent from income tax non-compliance?

Yes

No

26. Have you ever been fined or penalized in some way by the IRS for not filing returns?

Yes

No

Please, assume you have been slapped with any of the following penalties for income tax non-compliance, what would be your future reactions regarding compliance? if;

27. In addition to the tax, you are fined:

	Timely file tax Returns	Ignore the fine & take the risk
a. up to 10% of the tax amount	<input type="checkbox"/>	<input type="checkbox"/>
b. between 10% and 20%	<input type="checkbox"/>	<input type="checkbox"/>
c. between 20% and 30%	<input type="checkbox"/>	<input type="checkbox"/>
d. between 30% and 40%	<input type="checkbox"/>	<input type="checkbox"/>
e. between 40% and 50%	<input type="checkbox"/>	<input type="checkbox"/>
f. between 50% and 60%	<input type="checkbox"/>	<input type="checkbox"/>
g. between 60% and 70%	<input type="checkbox"/>	<input type="checkbox"/>

- | | | |
|-------------------------|--------------------------|--------------------------|
| h. between 70% and 80% | <input type="checkbox"/> | <input type="checkbox"/> |
| i. between 80% and 90% | <input type="checkbox"/> | <input type="checkbox"/> |
| j. between 90% and 100% | <input type="checkbox"/> | <input type="checkbox"/> |
| k. over 100% | <input type="checkbox"/> | <input type="checkbox"/> |

These are some general positions concerning the issue of tax enforcement to improve compliance. Please state the extent to which you agree or disagree with these views to answer questions 28 to 30.

Scale: Strongly agree = 5, agrees = 4, neutral = 3, disagree = 2, strongly disagree = 1

28. Tough penalties

- | | | | | | |
|----------------------|---|---|---|---|---|
| i. Monetary fines | 5 | 4 | 3 | 2 | 1 |
| ii. Distress action | 5 | 4 | 3 | 2 | 1 |
| iii. Prison sentence | 5 | 4 | 3 | 2 | 1 |

29. Education

- | | | | | | |
|-----------------------------------|---|---|---|---|---|
| i. Timing of filing returns | 5 | 4 | 3 | 2 | 1 |
| ii. Computation of tax liability | 5 | 4 | 3 | 2 | 1 |
| iii. Benefits of taxes | 5 | 4 | 3 | 2 | 1 |
| iv. Procedures for filing returns | 5 | 4 | 3 | 2 | 1 |

30. Helping improve financial records of the self-employed

i. Helping the self-employed to prepare and keep financial records of their business operations

5 4 3 2 1

ii. Organising compulsory bookkeeping seminars for the self-employed

5 4 3 2 1