

UNIVERSITY OF CAPE COAST

SMALL BUSINESS OWNERS' ATTITUDE TOWARDS TAX STAMP:

A CASE STUDY OF TAXPAYERS IN SEKONDI

BY

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DECLARATION

Candidate's Declaration

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

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

Candidate's Name: Patricia Thompson Amoah

Supervisor's Declaration

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

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ABSTRACT

This study was undertaken to examine the attitude of small business owners towards the Tax Stamp System in Sekondi in the Western Region of Ghana. The study assessed the level of knowledge of the nuances of the Tax Stamp as well as their level of compliance. The study also investigated the problems in the payment and collection of the Tax Stamp.

Using a descriptive survey method, 184 respondents in the informal sector in designated areas of Sekondi were conveniently selected for the study. They included persons such as shop owners, dress makers and hair dressers. Questionnaires were used to collect data from respondents.

The main findings of the study indicate a general high level awareness of the Tax Stamp among the respondents. It was also found that compliance to taxation among the informal sector was quite high contrary to the perception that they are untaxed. Again, it was found that logistical constraints, lack of training and corruption still remained the main challenges to tax collection in the study area. In view of this it was recommended that adequate logistics should be provided to aid the effectiveness of tax collection in the informal sector.

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DEDICATION

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CHAPTER ONE

INTRODUCTION

Background to the Study

Throughout the course of human history, governments and rulers have always found ways to collect revenue from its citizens in the form of taxes. Lamont (1992) states that of all the powers of government, other than its authority to declare war, none bears so incisively upon the welfare of citizens, both privately and in their economic enterprise, as does its power to tax. The effect of taxation is that subjects are forced to give up hard earned earnings or possessions, or, in the early days, also payments in kind, without receiving visible benefits in return (Coetzee, 1993; Theron, 1994).

In many ways the raising of tax revenues is the most central activity of any state. Most fundamentally, revenue from taxation is what literally sustains the existence of the state, providing the funding for everything from social programmes to infrastructure investment. Taxation also plays an important role in shaping the distribution of benefits, as it is the basis for redistribution from those with the highest incomes to those most in need, and allows government to encourage certain activities and discourage others by altering their relative prices (Prichard, 2009).

The obligation to pay one's fair share of taxes as and when they fall due is part of the new morality which democratic governance must inculcate in every citizen. It is widely accepted that tax evasion and fraud are among the most insidious forms of criminality that plague the Ghanaian society and that millions of cedis are diverted everyday from the national income by tax criminals (Ayee, 2007).

The taxation of small and medium enterprises (SMEs) has come to attract increasing attention in recent years, in developed and developing countries alike. The increased focus on SMEs also reflects a growing emphasis on their potentially critical role in fostering innovation, employment and growth, not least in the service sector that is increasingly important in both developed and developing countries. Privatization and deregulation have spurred the development of the SME sector, most spectacularly in countries transitioning towards market economies (Prichard, 2009). Their potential economic significance and vitality lends an importance to the tax treatment of SMEs that is potentially far greater than their contribution to revenue alone could warrant.

Ghana has a large and diverse informal sector. It spans activities such as trading, spare parts, transportation, construction, agriculture, livestock, food preparation, credit facilities, refrigeration, electricity, dressmaking, footwear distilleries, gold and silver smiting and traditional healing (Ayee, 2007). Because of its sheer size, it has become difficult for the Ministry of Finance and Economic Planning and the Statistical Service to have a reliable data on their membership and activities.

In Ghana, the informal sector is said to be important to the growth of the overall economy because it serves as; (a) major sources of employment; (b) main sources of continued job creation; (c) condition for sustained growth of large corporations; (d) basis of national competitiveness and (e) sources of innovation and entrepreneurship. However, it is also bedevilled with a number of problems including; very limited skilled labour, low access to capital and technology, poor entrepreneurship, small and segmented markets, poor records

keeping culture, very illusive, highly Itinerant, unregulated by legislation, and finally a very low level of literacy (Ayee, 2007).

The size of the informal sector is also an obstacle to income tax collection. The income tax base in Ghana is very narrow. Only about 20% of the work force is employed for wages and salaries. The rest are in the informal sector. In some cases, it is almost impossible to determine the income of those in the informal sector because they are mainly self-employed and therefore the greater part of the real income cannot be satisfactorily assessed. As a result, majority of the informal sector have been the worst income tax evaders. The evasion takes three forms, namely, non-declaration of income, under-declaration and inflation of deductions from income (Ayee, 2007).

The economy of Ghana is dominated by the activities of enterprises in the informal sector. It is estimated that, in terms of economic activity, about 86.3% is carried out by the self-employed sector mostly operating informal structures (Ghana Living Standard Survey, 2000), even though quite a significant number could easily be classified as earning below the taxable threshold of income liable to tax. According to records at the Registrar General's Department, Ghana, there are 266,760 self-employed registered in the informal sector. It is however sad to note that only 53,352 have been registered and are being assessed to tax (Ghana Revenue Authority [GRA], 2009).

The informal sector in Ghana just like anywhere else is a sector that comprises a diverse collection of individuals, businesses, beliefs and backgrounds. It is conceivable that these different small business groups may have differing perceptions of taxation resulting from their cultural

backgrounds or even their political and social histories. These perceptions may, in turn, influence their attitudes towards tax compliance. If taxpayers' perceptions influence their attitudes towards tax compliance, it can be concluded that it is important to focus on changing taxpayers' perceptions towards taxation in order to achieve a more positive attitude towards tax compliance.

It is of utmost importance to determine taxpayers' perceptions towards taxation in order, not only to influence Government policy regarding taxation but also to enable Government to market itself and its services more effectively to the general public. There appears to be a substantial tax gap between the tax that is theoretically collectable from economically active persons in the country and the tax that is actually collected. One of the main reasons for the tax gap is non-compliance by taxpayers and potential taxpayers, with tax legislation. One of the causes of non-compliance has been demonstrated to be the attitudes and perceptions of people.

Statement of the Problem

Taxation is a major source of revenue for governments worldwide. In Ghana, tax revenue is used for: a) the provision of infrastructural development i.e. good roads, schools, portable water, provision of health and sporting facilities, electricity etc.; b) the maintenance of law and order for the security of the state and all individuals; c) The payment of salaries of government employees e.g. Doctors, teachers, civil servants etc. so as to keep government business running; and provide welfare services, for example, National Health Insurance.

In an effort to improve the contribution of self employed tax collection, the Tax stamp was introduced in 2005. This is tax collected from small scale self employed persons in the informal sector on quarterly basis. Under the Tax Stamp System in Ghana, business operators in the informal sector are grouped according to business type such as dressmakers, susu collectors, chop bar owners, butchers and so on. The business types are further grouped by class/size to arrive at equitable rates to be paid according to both type and size (GRA, 2009).

The Tax Stamp system was introduced by the Internal Revenue (Amendment) Regulations, 2004. The system came into effect on Tuesday the 1st of February, 2005 by Legislative Instrument (LI) 1803 of 2004. It allows for easy identification of small-scale self-employed persons in the informal sector according to business type such as persons operating in kiosks, on table tops, identifiable groups such as hairdressers, dressmakers and tailors, butchers, market traders, chop bar and cooked food sellers, artisans such as masons carpenters, welders, and mechanics.

The introduction of the Tax Stamp System followed the successful implementation of the Vehicle Income Tax (VIT) Sticker system for the Commercial Vehicle Operators in third quarter of 2003. According to revenue officials, the VIT was a huge success hence the need to model the Tax Stamp System along the same lines.

Unfortunately, despite its best intentions the Tax Stamp was met with resistance by the target group for whom it was intended. The main reason for the resistance and apparent failure of the initial Tax Stamp System was due largely to the very nature of the sector. According to Ayee (2007), it

comprises a large number of small-scale operators, each with low turnover. Many activities are carried out within homes and out of public sight; it may be difficult to identify them for tax purposes. Barriers to entry are low. This leads to fierce competition and a high degree of transience and uncertainty. Businesses in operation today may not exist tomorrow. In activities like transportation or street vending, operators may be very mobile. Low levels of literacy and lack of access to banking services mean that cash transactions dominate. The family-oriented, small-scale nature of most businesses leads to a lack of separate accounting of personal and business transactions. Affordable accountancy services are rare (Joshi & Ayee, 2006a).

In spite of these difficulties, the tax stamp was re-launched on 28th September 2006 after addressing the problems that hampered the operations of the tax stamp. The new innovations employed to ensure the success of the new system included;

- Establishment of Small Tax Bureaux (STB) in all Tax Districts;
- Collection to be done in zones;
- Collection to be done exhaustively (from store to store, table to table, market stall to market stall etc);
- Data sheets used to capture necessary information;
- Information to be transmitted into registers (after each field operation);
- Intensified and consistent field work; and
- Enforcement and strict Monitoring.

Since the re-launch of the Tax Stamp in 2006, the GRA, reports that there have been a marked improvement in the collection of the revenue from the informal sector. However, it is believed that compliance can still be

enhanced to ensure the maximum collection of taxes from the informal sector. A study of this nature is therefore necessary to assess the views and attitudes of small business owners towards the payment of taxes for whom the Tax Stamp was specifically introduced.

Objectives of the Study

The main objective of the study is to examine the attitudes and perceptions of small business owners towards the Tax Stamp System. More specifically the study seeks to:

1. Explore the level of awareness of business owners concerning the Tax Stamp
2. Examine the level of compliance to the payment of taxes using the Tax Stamp
3. Assess the effectiveness of measures to elicit compliance towards the Tax Stamp
4. Identify major challenges small businesses face in the payment of their taxes
5. Make recommendations towards the improvement of compliance levels for the Tax Stamp.

Research Questions

1. How much do the small business owners know about the Tax Stamp?
2. To what extent are small businesses complying with revenue collecting agencies toward the purchase of Tax Stamps?

3. How effective are the measures adopted to enhance compliance for the Tax Stamp?
4. What are the major difficulties encountered during the purchase of Tax Stamps?
5. What are the ways of improving compliance and collection of revenue through the Tax Stamp System?

Significance of the Study

A study of this nature will be relevant in several ways. First, the study will provide an opportunity for the Tax Stamp System in the study area to be evaluated five years after its re-introduction; secondly, data from the study will also guide revenue officers and other business owners to identify the challenges that occur within the informal sector in terms of taxation. Again the study will also attempt to provide information towards the improvement of the tax collection and compliance in Sekondi; also, the study may also unearth relevant information that reveals the potential of the informal sector towards the contribution to the national kitty. Finally, the study will provide the researcher hands on experience in researching the informal sector.

Organization of the Study

The study is organized into five chapters. The first chapter is the introduction which provides the background to the study, statement of the problem as well as research objectives and research questions. The remaining part of the chapter discusses the significance of the study as well as how the study is organized. The second chapter presents a review of related literature.

It comprises sections that discuss literature on taxation and its history, importance of taxation, taxation in the third world and taxation in the informal sector.

Chapter three focuses on the methodology adopted for the study. It covers research design, target population, sample and sampling techniques, data collection instruments and the procedure used for data analysis. The fourth chapter presents the results and discussion of findings. The final chapter deals with the summary of findings, conclusions and makes some recommendations for policy and further studies.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviews literature on taxation in general and on tax stamp in Ghana. The chapter begins with a brief history of taxation around the globe. That of Ghana is also discussed. Issues concerning the role of taxation, the informal sector and taxation in the informal sector are also reviewed. The chapter ends with a review of the tax stamp system in Ghana.

Historical Perspectives

Paying taxes, and avoiding paying taxes, is an act older than the pyramids. All forms of government rule through control of taxation revenues, it has been a necessity of civilization since time began. If we grant prostitutes their claim to be the world's oldest profession, we can be certain they had dealings with a tax collector. When considering the question, what is tax, Messere and Owens (1987, p. 94) point out that it is not self-evident when they say: "...taxes are difficult both to define and identify". For Lewis (1982), taxation is the principal means by which governments can attempt to redistribute wealth and bring about social change through various social policies. It is, therefore, central in the economic and political framework of Western industrialized countries.

There is evidence of early civilizations using income tax. A ruler collects a portion of people's properties to finance in materials needed during financial crisis, help the needy and to increase the power and wealth of the rulers. There were several traditional kinds of taxation designed to meet the

needs of government. The earliest cuneiform samples of Mesopotamia circa 2500 BC describe the relevant poll tax and the types of tolls and fees that merchants had to pay when transporting goods from one region to another (Douglas, 1999; Webber & Wildavsky, 1986). The law codes of Hammurabi, made famous in the Old Testament, deal with the penalties for smuggling to avoid paying tax as well as the punishments of citizens trying to avoid the obligatory government service. This form of tax could take the form of hard labour on civil projects such as digging a canal or, at worst, military service.

Although technically illegal, sending a hired surrogate to fulfill this obligation was a thriving trade in this ancient society, perhaps making getting out of paying your tax the world's third oldest profession. Tax shelters have been documented as early as the fourth dynasty in the Old Kingdom of Egypt (2625-2500 BC). The staff and the property of sacred temples, which were often funded through tax revenues, appeared to have been successful in gaining an exemption from paying taxes or compulsory labour. The tax collector truly became a villain in the Roman Empire, when the function was given over to ruthless profiteers who employed gangs of thugs to ensure the colonials had rendered Caesar his due.

By the time of the New Testament being written, tax collectors were considered to be amongst the lower professions. However Paul does put a divine induction on tax season saying in Romans 13:5 "This is also why you pay taxes, for the authorities are God's servants, who give their full time to governing." In the Middle East, rulers collected the money from taxation to pay for the cost needed in building public artifacts like monuments and temples. Some of the money was used to finance warfare. Taxation originated

there and was spread around the world. Because taxation and budgeting are ubiquitous state functions whose character can be traced through different ages, cultures and politics, the problems of getting and spending are among the best known to mankind (Webber & Wildavsky, 1986).

Webber and Wildavsky (1986) note that the structures of financial administration that appeared repeatedly in the ancient civilizations surveyed resulted from parallel efforts to solve such problems common to them all. Governments of Mesopotamian city-states, beginning in the third millennium B.C., ancient Egypt and Crete (3100-100 BC), Mauryan India (300 BC – AD 200), China during the Shang (1523-1027 BC) and Han (200 BC – AD 200) dynasties, Japan up to the nineteenth century, the Bronze Age civilizations of sub-Saharan Africa (AD 1200-1532) all had well-developed, similar systems of financial administration. Although widely dispersed in space and time, these governments produced similar solutions to the problems of supporting monarchs. Similar kinds of taxes were levied, administered in similar ways and the funds were used for like purposes.

Webber and Wildavsky (1986) also point out that for many generations governments collected only a few types of taxes. They levied direct taxes on part of the produce of land (that is, those who grew crops paid by the bur of millet, the catty of rice, or the bushel of oats; or in livestock, lambs and kids, salmon or herring). Governments also assessed head taxes.

In more modern times, as governments became more adept at collecting taxes, the revenue accrued increased dramatically. Unfortunately for the taxpayer, so did expenditure. As wars became more common and more expensive, the tax burden increased. In England, an attempt was made in 1404

to collect real taxes based on the people's wages. However, the public refused the proposal and the method was repealed. Tax records were burned. The first development of modern income tax occurred in England around 1719. This tax was used to finance warfare against France during the Napoleonic Wars. This helped Britain and its other European allies win in 1815. After the war, the people again demanded its repeal and so it was in 1816. The tax records were again burned for the second time. The “pay as you earn” system, which has been an effective counter to evasion, was introduced under the impetus of the Second World War. Before the war, less than a fifth of the working population paid income tax.

However, by 1948 this figure had increased to two-thirds and now stands at more than 90% (Rose & Karran, 1987). Other European countries like Germany, the Netherlands, Sweden, Switzerland and others adopted the method and thus it was spread. In the U.S., a direct tax was placed on citizens after drafting the Constitution in 1787. The Supreme Court supported the government's first income tax during the Civil War in 1862. The Union government found financial burdens for warfare, just by using taxes based on tariffs so the government used income tax for emergency reasons. It was then renewed in 1864 and was achieving a good rate since it imposed heavier tax burdens on people with a larger income than most. After the war, it was repealed in 1872.

Venter et al. (2004) explain that taxes are usually categorized as *direct* (income) or (consumption). Direct taxes are more visible to the taxpayer (income tax, capital gains tax) whereas indirect taxes (VAT and excise duty) are often less visible and are collected by an intermediary. The rate structure of

a tax is usually described as being progressive, proportional or regressive. Taxes that take an increasing proportion of income as it rises, are progressive (income tax levied on natural persons), those that take a constant portion (income tax on companies at a fixed rate) are proportional, and those that take a decreasing proportion are regressive (VAT).

Taxation in Ghana: A Brief History

Taxation in Ghana began in the then Gold Coast by the Income Tax Ordinance 1943 (Ordinance No. 1943). However, this Ordinance has been amended several times. The Consolidated Edition was first amended in 1961 by Act 68, followed by Acts 178 and 197 in 1963. Thus between 1961 and 1963, additional taxes and duties were introduced. Among these were Property Tax (1961), Entertainment Duty Tax (1962) Airport Tax, Hotel Customers Tax, Standard Assessment and Excess Profits Tax, all in 1963.

In July 1961, the tax year was changed to 1st July-30th June. The Pay As You Earn (PAYE) system was also introduced. In July 1963, with the addition of more taxes, the Income Tax Department was renamed Central Revenue Department to reflect the broad scope of taxes collected. This was followed by the Income Tax Decree in 1966 – No. 78 and the Income Tax Decree – SMCD5 in 1975. Section 71 of the Income Tax Decree 1975 provides for a Commissioner who is responsible for the assessment and collection of income tax.

All these years – 1943 to 1985 – the Department was a civil service department. In July 1986 government took a decision on structural changes in the Department. The Internal Revenue Service, Law – 1986 (PNDCL,143) –

was passed. This law transformed the hitherto Central Revenue Department into a public service organization, the Internal Revenue Service, with its own Board of Directors. The current Income Tax Law is the Internal Revenue Act, 2000 (Act 5592) (Ali-Nakyea, 2008).

The Ghanaian Tax System

There are two main types of tax levied by the government which are direct and indirect taxes. Examples of direct taxes are personal income taxes, company taxes, capital gain taxes, toll taxes, poll taxes gift taxes and property taxes to mention a few. Indirect taxes on the other hand include Value Added Taxes (VAT), Tariffs, and import and export duties.

Direct Taxes have two major components, these are individual income tax and corporate tax, as other direct taxes, including capital gains, property and rent taxes, contribute very little revenue due to extremely weak enforcement. Ghana's income tax system which is influenced by that of the United Kingdom (Thuronyi, 2003) falls under the common law legal system. Individual income tax is a progressive tax with a top rate of 25%, while the corporate tax rate has been significantly reduced over the past few years from 32.5% in 2001 to 25% in 2006. Principle legislation regarding direct taxation is the Income Tax Act 592 (2000) which comprises Personal Income Tax (PIT) and Corporate Income Tax / Profit Tax (CIT). Recently the act was amended by Amendment 622 (2002). The Act sets out tax policy as well as tax procedures.

Personal income tax in Ghana has always been progressive, thus tax rates are graduated with higher income earners paying more tax. The

progressive rates are divided into six bands with tax rates set between 5 and 25 per cent. Tax payments of employees are withheld monthly. All resident individuals in receipt of business, investment or employment income accruing in derived from, brought into or received in Ghana are liable to pay income tax. Over the years other taxes and duties were added to the income tax. These were Minerals Duty in 1952, Betting Tax in 1952, and Casino Revenue Tax in 1955. These reductions in the corporate tax rate, coupled with improved ease of compliance, were reflected in Ghana's gains in the World Bank Doing Business survey, climbing from 83rd position to 77th position in a League of 175 countries. Ghana was for that period among the top ten movers in the World Bank Doing Business survey (Prichard & Bentum, 2009).

In revenue terms, corporate taxes and individual income taxes comprise almost identical shares of the total tax take, which is the end result of steady gains in the area of individual income taxation. Of individual income taxes the overwhelming share (88.7% in 2007) comes from withholding taxes on formal sector wages (PAYE), with only tiny share accruing from the self-employed, which encompasses most of the informal sector and many professional occupations, such as consultants. Arguably the most glaring weakness of the direct tax system is the almost total failure to tax property or rental income. While this failure is common across most of sub-Saharan Africa, it nonetheless represents a major revenue loss, and erodes the redistributive capacity of the tax system. The housing market in Accra in particular is dominated by rental properties, while rental prices and property values are remarkably high given the relatively low-incomes of most citizens (Cooperative Housing Foundation [CHF], 2004). As such taxation of rental

incomes and property could yield potentially very significant additional revenues, which some estimate at as much as 1-2% of GDP. Property taxation would have the added advantage of implicitly clarifying ownership, which would represent a major success given that land tenure disputes are a source of major conflicts in Ghana, and one of the major causes of inefficiency and high costs in the property and real estate markets (CHF, 2004).

Indirect taxes and for that matter taxes on goods and services mainly composed of the VAT and excise taxes, the latter of which have declined consistently over time (Prichard & Bentum, 2009). The VAT was initially introduced to replace the existing sales tax in 1995 under significant pressure from the IMF, which was concerned about high levels of indebtedness in the aftermath of huge expenditure increases surrounding the 1992 election. Because of the looming fiscal crisis it was introduced at a relatively high rate of 17.5%, with somewhat less public education that might have been desirable, and without the support of the opposition, which was boycotting parliament over alleged electoral irregularities.

The consequence of these three factors was the outbreak of massive street demonstrations against the tax, with the protests becoming incorporated into broader demands for political liberalization. The government eventually revoked the tax and only reintroduced it three years later at the much lower rate of 10% (Osei, 2000). The rate was subsequently increased to 12.5% in 1999, but was earmarked for the newly created Ghana Education Trust (GET) Fund in order to secure political support. In 2003 the rate was effectively further increased to 15%, though political concerns led the government to go so far as to identify it as an independent tax item, the National Health

Insurance Levy (NHIL), which was earmarked for funding a new health insurance scheme (Osei & Quartey, 2005). Though smaller in absolute terms, the most volatile element of indirect taxation has been the share of petroleum taxes in total revenue. The change of government at the end of the year 2000 saw a renewed surge in petroleum taxes, but this began to be reversed by 2005, while further major cuts in petroleum taxes were announced in the run-up to the 2008 elections.

The reach of the VAT is significantly wider than income tax, as it is, in principle, levied on all forms of consumption. Because the VAT is levied on every transaction along the value chain, even goods that are not taxed at the final point of sale may carry a significant tax component that was levied at an earlier stage (Prichard & Bentum, 2009). That said it is worth noting various factors that reduce the tax burden on lower income taxpayers. First, the Value Added Tax Act contains a fairly wide range of exemptions primarily on basic consumption goods, which reduces the burden on lower income taxpayers.

Likewise, in 2008 there were 46,842 traders registered (up from 30 377 in 2006), of whom 36,000 filed tax returns, which represents only a fraction of the total number of businesses in the country (Prichard & Bentum, 2009). In an effort to bring small traders into the tax net the government introduced the VAT Flat Rate Scheme (VFRS) in September 2007 at a flat rate of 3% of turnover. In principle every trader is meant to be registered, irrespective of the VAT threshold, though the VAT Service estimates that only about 26.4% of potential informal sector traders are currently registered.

The Role of Tax in Development

Countries use taxes for many purposes. Taxes are used to raise revenues to fund government services, to correct market imperfections, and to encourage or discourage certain types of behaviour (Bird & Zolt, 2005). Thus taxes of all form could be levied to achieve national goals such as economic stability, equity, economic growth and protectionism. It could as well be employed to mobilize revenue into the nation's coffers as reserves.

On the economic stability, for example, wild fluctuations (ups and downs) in prices are very harmful for the development of the economy of the country. Declining prices, for example, as witnessed during the recent Global Financial crisis, causes depression which leads to a fall in company profits, saving, investments, employment and the Gross Domestic Product (GDP). Taxation therefore supports the Government's goals by ensuring that the public finances are sustainable, contributing to a stable environment that promotes economic growth. This environment is important in building a stronger, more enterprising economy and a fairer society, extending economic opportunity and supporting those most in need to ensure that rising national prosperity is shared by all (Thuronyi, 2003 in Pfeuffer & Weißert, 2006).

Though economic growth could be attained through the employment of taxation, the excessive use of taxation may be counterproductive (Baafi, 2010). For example, if tariffs on food imports including rice, edible oil, and fish and poultry products are astronomically increased as has been the case, the effects trickle down to affect consumers. Currently, there has been a drastic increase in the Roads and Bridge tolls which is still hanging over commuters. Price hikes of water (pure water) and alcoholic beverages

including 'Akpeteshie' having been taxed 20%. Tariffs on electricity and water are also up and also to be pushed down the throat of the ordinary man on the street. All these tax initiatives go a long way to further reduce incomes. Because of low incomes and mass unemployment in our society, we must carefully levy taxes and skew it towards equity.

Taxation could be to strive towards equitable distribution of income to create peace and harmony in the society by bridging the gap between the rich and the poor (Baafi, 2010). Progressive forms of taxation could be used for that matter. Ali-Nakyea (2008) summarized the role of taxation in the national economy. He emphasized that taxation raises revenue to defray the cost of services provided by the state; reduce inequality arising from the distribution of wealth; restrain consumption of certain types of goods; protect indigenous industries, and controls the country's economy.

The Informal Sector

The study looks at taxing the informal sector and the concerns raised by clients with special reference to the issuance of the tax stamp therefore, a review of literature on the informal sector is desired. In some years past, researchers paid no attention to activities carried out outside the formal sector of the economy. Sociologists and anthropologists were the only ones who seemed to consider the existence of such activities (Gërkhani, 2004). In the 1950s and 1960s, however, the informal dimensions of organizational life became increasingly recognized as important and were accepted as a commonplace topic for researchers (Blau & Scott, 1963). This neglected

phenomenon was analyzed in 1972 by the International Labour Office (ILO), under the name informal sector.

Hart (1973) – a social anthropologist – was the first person to use the term informality in his article titled *Informal Income Opportunities and Urban Employment in Ghana*. In this article, he introduced the concept of the informal sector to describe a part of the urban labour force, which works outside the formal labour market. Hart considered the informal sector as almost synonymous for all categories of (small) self-employed individuals. This was thereafter typically used to refer to ways of making a living outside the formal wage economy, either as an alternative to it, or as a means of supplementing income earned within it (Bromley & Gerry, 1979). Even though Hart's original notion of the informal sector is limited to the self-employed, the introduction of the concept made it possible to incorporate activities that were previously ignored in theoretical models of development and in national economic accounts (Swaminathan, 1991). This was an important characteristic of the subsequent use of the term.

In spite of the early work by Hart, the pioneering research on the informal sector is widely considered to be a report of the International Labour Office (ILO, 1972) on employment in Kenya (Gërkhani, 2004). Informality in this report is mainly characterized by the avoidance of government regulations and taxes. Initially, the ILO considered the main aim of the informal sector to be the provision of subsistence to families. It related the growth of the informal sector to its positive effects on employment opportunities and the distribution of income. As a consequence, it argued that solving the problems

of the informal sector is only possible if issues like employment relationships and inequality are solved.

The conceptualization of the informal sector took yet another meaning, by focusing on the regulatory framework. In this approach, the legal status is the main element distinguishing informal from formal activities. It relates the emergence of the informal sector to the policies applied and to transaction costs (De Soto, 1989). It suggests, therefore, that to let the informal sector develop, deregulation of the market, greater private property rights, and almost complete abolition of state intervention are needed.

The Ghanaian Informal Sector

Ghana, like most sub-Saharan African countries, has a large and diverse informal sector. It is estimated that, in terms of economic activity, about 86.3% is carried out by the self-employed sector mostly operating informal structures. (Ghana Living Standard Survey [GLSS], 2000), even though quite a significant number could easily be classified as earning below the taxable threshold of income liable to tax. This comprises activities such as trading, transportation, construction, agriculture, livestock, food preparation, credit facilities, refrigeration, electricity, dressmaking, footwear distilleries, gold and silver smiting and traditional healing (Ayee, 2007).

The size of the Ghanaian informal sector does not only make it difficult for the concerned sectors (Ministry of Finance and Economic Planning and the Statistical Service) to have accurate data on their membership and activities, but also makes it difficult to tax them (Ayee, 2007). According to records at the Registrar General's Department, Ghana,

there are 266,760 self-employed registered in the informal sector. It is however sad to note that only 53,352 have been registered and are being assessed to tax.

The income tax base in Ghana is very narrow. Only about 20% of the work force is employed for wages and salaries. The rest are in the informal sector. In some cases, it is almost impossible to determine the income of those in the informal sector because they are mainly self-employed and therefore the greater part of the real income cannot be satisfactorily assessed. As a result, majority of the informal sector have been the worst income tax evaders. The evasion takes three forms, namely, non-declaration of income, under-declaration and inflation of deductions from income (Ayee, 2007). Some of the informal organizations in Ghana are the Ghana Private Road Transport Union (GPRTU), Progressive Transport Owners Association (PROTOA), Ghana National Tailors and Dressmakers, Association Musician Union of Ghana, National Drinking Bar Operators Association, Chop Bar Keepers and Cooked Food Sellers Association, Hair Dressers Association of Ghana, Susu Collectors Association, Traditional Healers, Fetish Priests, Mallams and Drug Peddlers Association, Cornmill Owners Association, just to mention a few.

Taxation in the Informal Sector

The government has shown an increasing desire to tax the informal sector, and there are several reasons for this desire. The reasons include the size and growth of the sector, the perception that the formal sector is heavily taxed, the demands from the informal sector and state legitimacy.

The size and the rapid growth of the informal sector make it a viable tax avenue for the government. Recent calculations estimate that the size of the informal sector in developing countries varies between about twenty percent in Indonesia to around sixty seven percent of GDP in Bolivia (Schneider, 2002). The informal sector is complex and heterogeneous comprising of large enterprises and small; urban firms and rural ones; visible activities as well as invisible ones; owners as well as workers; local activities as well as those that cross jurisdictional boundaries.

Also tax payers in the formal sector perceive the state as being unfair in pursuing them for taxes while the informal sector continues to operate untaxed. Ignoring informal sector activities will lower compliance morale and increase the risk of generalized non compliance (Terkper, 2003). There is some evidence from Latin America suggesting that tax compliance in the formal sector is higher in countries which have a relatively small informal sector (Torgler, 2003).

Several studies have shown the willingness of those within the informal sector to pay taxes, specifically when these are in exchange for some legitimacy, stability and protection from arbitrary harassment from state agents (Eaton & Dickovick, 2004). For many within the sector, the tax burden is not burdensome, especially as they are paying informally anyway in order to stay in business (Ayee, 2007).

In order to regain legitimacy, governments are looking for ways to incorporate informal activities into formal systems. Taxation is a good route into the problem, as it enables governments to recognize informal activities without legitimizing the breaking of other rules and regulations. Broadening

the tax base and developing a ‘culture of compliance’ can achieve more than simply increasing revenues; it can be a way of re-engaging citizens with the state (Ayee, 2007).

However there are several difficulties in taxing the informal sector and Ghana, as a developing country has not escaped these difficulties. Crucial among these difficulties are capacity constraints, the inappropriateness of tax collection mechanisms, the politics in taxing the informal sector, and lack of incentives for tax collectors.

In view of these reasons, the government has introduced several taxes to specifically target informal sector operators. These include the Vehicle Income Tax on public transport operators, the Tax Stamp for collecting income tax from small traders, and the Flat Rate Scheme for expanding the reach of the VAT. These taxes all collect relatively very little income, but the government is determined to continue to expand their collection.

As mentioned earlier, the focus of the study is on the tax stamp and clients concerns about it. As such, the tax stamp as a component of taxes in the informal sector is examined in details below.

The Tax Stamp

The Internal Revenue Service introduced the Vehicle Income Tax (VIT) Sticker system for the commercial vehicle operators in third quarter of 2003. This was a huge success. The success story of VIT and the experience gained, informed the Service to introduce a similar product for the other operators in the informal sector, hence the introduction of the Tax Stamp System in February 2005.

The Tax Stamp system was introduced by the Internal Revenue (Amendment) Regulations, 2004. The system came into effect on Tuesday the 1st of February, 2005. It allows for easy identification of small-scale self-employed persons in the informal sector e.g. persons operating in kiosks, on table tops, identifiable groups such as hairdressers, dressmakers and tailors, butchers, market traders, chop bar and cooked food sellers, artisans such as masons carpenters, welders, mechanics, just to mention a few (Ghana Revenue Authority [GRA], 2007). Under the Tax Stamp System, business operators in the informal sector are grouped according to the business type and volume. The tax is paid quarterly in advance, thus 15th January, 15th April, 15th July and 15th October (GRA, 2007).

Operators in the informal sector affected by the Tax Stamp system have two obligations, these are, they must buy the Tax Stamp from the GRA District Office in their District on or before 15th January, 15th April, 15th July and 15th October of each year. Also they must display the Tax Stamp at a conspicuous place on the premises of their business.

The tax stamp was introduced for the self-employed in the sector with a view to widening the tax net. It covers artisans such as carpenters, dressmakers, masons and mechanics as well as petty traders, mobile-to-mobile operators and other businesses in the informal sector, which constitute about 80% of the economic activity in the country. The tax stamp was introduced because of the insignificant contribution made by the informal sector to national tax revenue (Joshi & Ayee, 2006b).

Reasons for the Introduction of the Tax Stamp

Primary among the reasons is the charge to income tax which states, that “a person who has a chargeable income shall pay...for each year of assessment income tax as calculated” in accordance with the law. The authorizing law for the implementation of the Tax Stamp system remains the Legislative Instrument, (LI) 1803 (Republic of Ghana, 2002). Every income earner should pay tax according to the tax laws unless otherwise exempted. As such the small business owners could not be exempted.

Another reason for the introduction of the Tax Stamp is the low level of revenue contribution from the self-employed persons because they have control over their earnings (Osei, 2000). Records at the GRA reveal that over the years, tax revenue from the self-employed who constitute a large percentage of the economically active population continue to diminish from a revenue level of 5.4% of total revenue collection in 2000 to 4.9% in 2005. This is at variance with the apparent boom in business activity across the length and breadth of the country in the informal sector. This therefore means that a large section of the self-employed are contributing nothing to national revenue but yet enjoy the benefits of the maintenance of law and order for their personal security and peace of mind, improvements in communication, technology and other infrastructural developments. The provision of these amenities, services and many more cost money and can only be sustained with the collective efforts of all Ghanaians. This therefore called for the introduction of the Tax Stamp to rope in the vast majority of the potential tax payers in the informal sector.

Benefits of the Tax Stamp

When the tax stamp was first introduced in 2005, many problems were encountered and as a result, the tax stamp did not have any significant impact on self employed tax collection. However, the tax stamp was re-launched on 28th September 2006. This was after the GRA was forced to go back to the drawing board, analyse reasons for the failure and review the entire product to make it acceptable to the target group. The main problem which led to the low level of compliance was the initial high rate of tax on the introduction of the new Tax Stamp System. Consequently, the Ghana Revenue Authority with approval from the appropriate authorities reduced the tax rates. As a result, the following has been the tax rates applicable under the Tax Stamp system (Table 1).

Table 1: Tax Rate Reduction

Category	Before July 2005	After July,2005
	Old Quarterly Rate GH¢	New Quarterly Rate GH¢
Large	25.00	15.00
Medium	15.00	10.00
Small	10.00	5.00
Table Top Operators/		
Hawkers(urban)	5.00	5.00
Table Top Operators/		
Hawkers(Rural)	-	3.00

Source: Ablorh-Quarcoo, 2006.

The ₵30,000 was a new category which has been introduced and applies only in the rural areas. It may however apply in certain poor communities in urban centres. After the reassessment and the reintroduction of the Tax Stamp, collection figures available indicate that there has been a marked improvement in the collection of the tax stamp after the second launch. The Table 2 shows data to this effect.

Table 2: Tax Stamp Collection Figures from January 2005 to December

2010

Year	Month	Amount (GH₵)	Difference (GH₵)
2005	(Jan-Dec)	9,266.43	1,823.24
2006	(Jan-Dec)	11,089.67	
2007	(Jan-Dec)	28,449.85	9,478.63
2008	(Jan-Dec)	37,928.48	
2009	(Jan-Dec)	58,532.04	14,213.68
2010	(Jan-Dec)	72,745.72	

Source: GRA (Internal Revenue Service) Records (Sekondi Office, 2010).

The figures as presented in Table 2 look encouraging but the tax stamp system is bedevilled with certain challenges that continue to hamper its operations. Key among these challenges are difficulty in establishing appropriate and acceptable presumptive tax for the sector, existence of parallel levies by local authorities, inadequate resource and logistics, inadequate record keeping, migration of some existing taxpayers to the tax stamp, inadequate monitoring, just to mention a few.

The GRA promises to establish a small taxpayer bureau in each district office to handle operators of small businesses with particular emphasis on the Tax Stamp system. In addition to these measures, Tax district offices nationwide had been divided into geographical zones with specific collectors who are required to pursue defaulting taxpayers.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter highlights the methodology employed for the conduct of this study. It includes the study area, study design, target population, sample and sampling procedure. It also discusses the instruments used as well as plan for data management and analysis.

Study Area

The study was carried out at Sekondi a town located in the Western Region of Ghana. It is an important seaport and a commercial city. Sekondi as a town, prospered after the construction of a railroad in 1903 to the mineral and timber resources of the hinterland. Sekondi was attached to Takoradi in 1946. The City has attracted massive migration of people from all over the world due to the massive discovery of oil in the Western Region of Ghana.

A study of this nature was necessary in this area because the highly industrialized and commercialized nature of the town has given rise to a number of small business operators in the informal sector. The study therefore explores their concerns about the tax stamp.

Study Design

Exploratory design was used. According to Babbie and Mouton (2002), exploration is done for three main reasons namely; to satisfy the researcher's curiosity and desire for better understanding; to test the feasibility of undertaking a more extensive study; and to develop the methods to be

employed for any subsequent study. The main purpose of this study is more inclined toward the desire to seek a better understanding of the situation about taxing the informal sector in Sekondi.

The design also enabled the use of both qualitative and quantitative information from respondents. Quantitative information included volumes of trade, amount of tax stamp bought, and frequency of payment of taxes among others. Qualitative information on the other hand included largely the views and opinions of respondents on why they pay their taxes, difficulties encountered with tax officials, ways of improving the informal sector tax collection mechanisms among others.

Population

The target population of this study was the small business owners in Sekondi. It included all persons classified by the GRA as small or informal businesses including but not limited to the following; chop bar operators, liquor stores, hairdressing saloons, tailor shops, barbering saloons, table top businesses, and other petty traders. These represent the bulk of the informal sector tax payers who hitherto were left out of the tax net and for whom the tax stamp was introduced.

Sample and Sampling Procedure

A sample of small business owners was selected to represent the target population. Since the total number of informal businesses in the area was unknown, probability sampling procedure could not be used. As such, the

research employed convenient sampling to ensure a fair and broad representation of the sample.

This technique allowed the researcher to select 184 respondents. The respondents were selected based on their willingness to participate in the study and their type of enterprise. This ensured that the respondents were not limited to only one or a few informal businesses. The procedure also allowed the researcher to select respondents competent enough to express their candid opinion on the various issues to be discussed without any major hindrance.

Data Collection Instruments and Procedure

In view of the time constraints together with other reasons such as confidentiality and bias, the study employed the use of questionnaires and archival documentation to gather both primary and secondary data for the study. Questionnaires provided the researcher the quickest and most reliable responses from the study participants. In some cases where respondents could not respond to a questionnaire, it was converted into an interview schedule which was administered by the researcher.

Data Management

Data collected was sorted according to type of instrument, area of collection and by the themes. Sorting of data allowed the researcher to process only relevant data. This was followed by cleaning and coding of data. Cleaning allowed for the appropriate data to be placed where it belongs while coding was done to ensure that the raw data is meaningful. At this stage qualitative and quantitative ones were separated and prepared for analysis

separately. Data was then processed both manually and electronically. The SPSS version 17 for Microsoft Windows was used to process quantitative aspects of the data, while the qualitative data was processed manually.

Data Analysis

This involves the making of sense out of the processed data gathered from the field. Data analysis involved the synthesis of all processed data to make coherent reading or arguments. This involved interpreting tables and charts obtained from the electronically generated data as well as from the verbatim responses from the respondents, and also from detailed descriptions of observations made on the field. This was done to answer the research questions one at a time.

Ethical Considerations

Individuals sampled for this study were subjected to voluntary participation and they were guaranteed confidentiality and anonymity. Respondents were interviewed after their informed verbal consent was sought.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter gives the analysis of primary data. The analysis was done using data collected from owners of small enterprises. Descriptive statistics such as frequency distributions, measures of central tendency and measures of variability were used. The chapter presents study findings in several sections. The first section summarises the socio-demographic information of the study respondents. The chapter goes on to present cross tabulation analysis of the results. Discussion of the findings follows.

Socio-Demographic Characteristics of Respondents

Table 3 presents data on the socio-demographic characteristics of respondents. The ages of respondents ranges from 20- 69 years with a lot of them aged between 20-49 years, thus 35.3% within the ages of 30-39 years, 27.2% within the ages of 20-29 and 26.6% within the ages of 40-49years. However, only seven (7) respondents representing 3.8% were within the ages of 60 and 69. The age structure indicates that majority of the respondents were in their active working ages. Table 3 again shows that 125 out of 184 respondents were females representing 67.9 percent. On respondents' educational level, three categories were mentioned- basic, secondary and tertiary. Of the 184 respondents, 68(37.0%) were basic school leavers, 63(34.2) were secondary school graduates, while 53(28.8%) have had some tertiary education (Table 3).

Table 3: Respondents' Socio-Demographic Characteristics

Characteristic	Frequency (N =184)	Percentage
<i>Age</i>		
20-29	50	27.2
30-39	65	35.3
40-49	49	26.6
50-59	13	7.1
60-69	7	3.8
<i>Sex</i>		
Male	59	32.1
Female	125	67.9
<i>Educational Status</i>		
Basic	68	37.0
Secondary	63	34.2
Tertiary	53	28.8
<i>Marital Status</i>		
Not married	58	31.5
Married	126	68.5
<i>Occupation type</i>		
Shop owners	101	54.9
Dressmakers/tailors	51	27.7
Drug store owners	6	3.3
Hairdressers/barbers	20	10.9
Land surveyors	3	1.6
Photographers	3	1.6

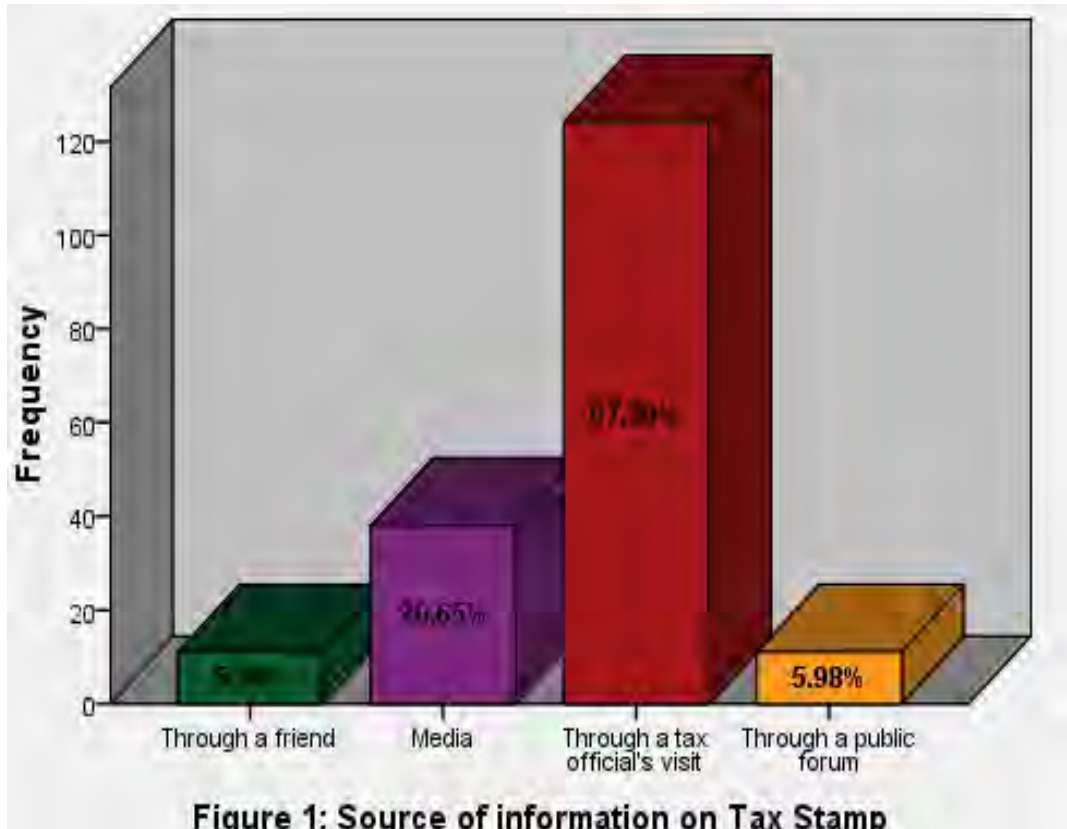
Source: Fieldwork, 2011.

The marital status of the respondents was divided into two categories which were 'not married' and 'married'. From the data in Table 3 it came to light that the majority 126 (68.5%) of the respondents were married. As

mentioned earlier, the respondents interviewed were small business enterprise operators. The Table 3 describes the types of business enterprises the respondents were operating. Out of the 184 respondents 101(54.9%) were shop owners, with 51(27.7%) dressmakers/tailors. Land surveyors and photographers constituted 1.6% of the respondents respectively (Table 3). This therefore gives the indication that the majority of small business enterprises operators in Sekondi are shop owners.

Level of Awareness of Tax Stamp and General Views on Taxation

The study, as one of its main objectives, explored the level of awareness of small business enterprise owners about the Tax Stamp. In this light, several questions were asked. The respondents were asked whether they have heard of the Tax Stamp. All the respondents indicated that they have heard of it. A follow-up question was to determine the respondents' sources of information about the tax stamp. Their responses are indicated in Figure 1.



Source: Fieldwork, 2011.

The majority of respondents (67.39%) reported that their main source of information on the tax stamp has been the frequent visit of tax officials to their enterprises. Approximately 6% of the respondents respectively depended on friends and public forums for information on the tax stamp. Meanwhile, the media served as a source of information on the tax stamp for approximately 21% of the respondents. The responses from Figure 1 portray the enormous role tax officials are playing in Sekondi as their frequent visits promoted knowledge of Tax Stamp among 67.39% of the respondents. The respondents were quick to report that taxation is important. When asked why they think taxation is important, similar responses were gathered. Cardinal among the

responses was that tax is used to develop the nation. Some of their responses are as follows:

I: Explain why you think taxation is necessary

R: I believe when we pay tax, it goes to the government who then uses that money to develop mother Ghana (A, 28 year old female provision store owner).

R: When I pay tax, it is used to provide infrastructure which I benefit in the long run and nation as a whole (A 40year old male tailor).

However, the few who believed taxation is not necessary explained that they have paid taxes for a long time but do not see any improvement in their society. For instance a 33year old barber reported that “I don’t see why I should continue to pay tax because I have paid taxes since I started operating as a barber but I don’t see any improvement around.” From the presentation so far we can say that level of awareness about tax stamp and taxation in general is considerably high.

Level of Compliance and Effectiveness of Measures to Improve Tax

Stamp Collection

The study also found out from respondent their compliance to paying the Tax Stamp and how effective the measures used in Tax stamp collection has been. The Figure 2 therefore portrays how regular the respondents were buying their tax stamp. Out of the 184 respondents, only 32 reported that they buy the tax stamp very regularly. However the majority (59%) buys the tax stamp regularly.

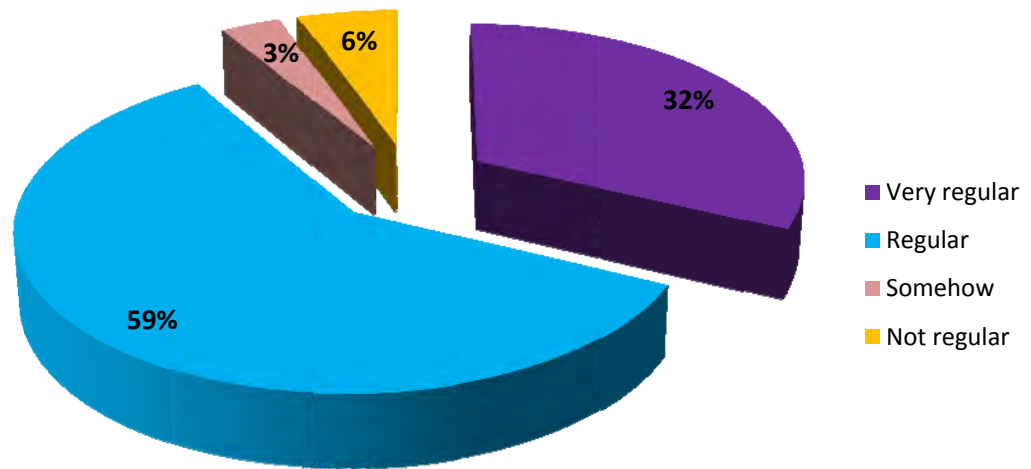


Figure 2: Regularity of Tax Stamp Purchase

Source: Fieldwork, 2011

In looking at how regularity of tax stamp purchase is influenced by source of information on tax stamp, a cross tabulation was done. The results from the Table 4 portray that all the respondents who obtained information from their friends were regular buyers of tax stamp. The majority of those who obtained information from the media and tax officials, 50% and 63.7% respectively were also regular in purchasing tax stamp. None of those who obtained information about tax stamp from the tax officials were regular buyers of tax stamp.

Table 4: Source of Tax Stamp Information by Regularity of Tax Stamp Purchase

Variable		Regularity of tax stamp purchase				Total
		Very regular	Regular	Some-how	Not regular	
Source of tax stamp info	Through a friend	0(0.0)	11(100.0)	0(0.0)	0(0.0)	11(100.0)
	Media	12(31.6)	19(50.0)	0(0.0)	7(18.4)	38(100.0)
	Through a tax official's visit	39(31.5)	79(63.7)	6(4.8)	0(0.0)	124(100.0)
	Through a public forum	8(72.7)	0(0.0)	0(0.0)	3(27.3)	11(100.0)
Total		59(32.1)	109(59.2)	6(3.3)	10(5.4)	184(100.0)

Source: Fieldwork, 2011.

Meanwhile 18.4% of those who received information on tax stamp were not regular in buying tax stamp. Those who had information through a public forum were more likely to purchase tax stamp very regularly as 72.7% of them bought tax stamp very regularly. However, as many as three of the 11 respondents, who obtained information from a public forum, were not regular at buying the tax stamp (Table 4).

Another cross tabulation was done to find out how regular each category of small business enterprise operators purchases the tax stamp. The results as portrayed in Table 5 indicate that the majority of traders (61.4%) were regular buyers of tax stamp. Approximately 33% of the traders bought tax stamp very regularly (Table 5). Dressmakers and Tailors were very regular at purchasing tax stamp as the majority (51%) bought the tax stamp very regularly. However, four (4) of them were not regular tax stamp buyers.

Table 5: Regularity of Tax Stamp Purchase by Type of Enterprise

Variable	Regularity of tax stamp purchase				Total
	Very regular	Regular	Somehow	Not regular	
Type of small enterprise					
Trading	33(32.7)	62(61.4)	6(5.9)	-	101(100)
Dress making/ Tailor	26(51.0)	21(41.2)	-	4(7.8)	51(100)
Pharmacy	-	6(100)	-	-	6(100)
Hair dressing/ barbering	-	20(100)	-	-	20(100)
Land survey	-	-	-	3(100)	3(100)
Photography	-	-	-	3(100)	3(100)

Source: Fieldwork, 2011

All the pharmacists and the hairdressers/barbers interviewed were just regular buyers of the Tax stamp. Meanwhile, the land surveyors and the photographers interviewed were not buying the tax stamp regularly.

The study also enquired from the respondents as to how much tax stamp they buy per quarter. The amount reported ranged between GHS5 and GHS25.

Table 6: Amount of Tax Stamp Purchased per Quarter

Amount GHS	Frequency	Percentage
5	80	43.5
10	65	35.3
15	23	12.5
20	9	4.9
25	7	3.8
Total	184	100.0

Source: Fieldwork, 2011.

Of the total 184 respondents, 43.5% bought GHS5 of worth of Tax stamp quarterly, 35.3% bought GHS10, and only seven (3.8) respondents bought GHS25 worth of tax stamp. Looking at the percentage trend it could be realised that the number of respondents reduces as the amount of tax stamp purchased increases (Table 6). This is an indication that majority of small business enterprise operators buy below GHS20 worth of tax stamp quarterly.

The study again looked at how much tax stamp each category of small business enterprise operators buy quarterly. Only seven out of the 101 traders purchased GHS25 worth of tax stamp per quarter, however, almost 40% of the traders bought GHS5 worth of tax stamp. None of the dressmakers/tailors interviewed bought GHS25 worth of tax stamp per quarter. Meanwhile, as many as 39 out of the 51 dressmakers/tailors interviewed bought GHS5 worth of tax stamp (Table 7).

Table 7: Amount of Tax Stamp Purchased by Type of Enterprise

Variable Type of enterprise	Amount of tax stamp purchased per quarter					Total
	GHS 5	GHS 10	GHS 15	GHS 20	GHS 25	
Trading	40(39.6)	38(37.6)	12(11.9)	4(4.0)	7(6.9)	101(100)
Dress making/ Tailor	39(76.5)	6(11.8)	3(5.9)	3(5.9)	0(0.0)	51(100)
Pharmacists	0(0.0)	1(16.7)	4(66.7)	1(16.7)	0(0.0)	6(100)
Hair dresser/Barbers	0(0.0)	20(100)	0(0.0)	0(0.0)	0(0.0)	20(100)
Land surveyors	1(33.3)	0(0.0)	1(33.3)	1(33.3)	0(0.0)	3(100)
Photographers	0(0.0)	0(0.0)	3(100)	0(0.0)	0(0.0)	3(100)
Total	80(43.5)	65(35.3)	23(12.5)	9(4.9)	7(3.8)	184(100)

Source: Fieldwork, 2011.

The majority of pharmacists (66.7%) bought GHS15 worth of tax stamp. All the photographers and the majority of pharmacists (66.7%) interviewed bought GHS15 worth of tax stamp per quarter. Again all hairdressers/barbers also bought GHS10 worth of tax stamp. The results in the table gives an indication that small business enterprise operators in general were more likely to buy GHS5 worth of tax stamp per every quarter. However, dressmakers/tailors were more likely to buy GHS5, pharmacist and photographers GHS15, and hairdressers/barbers GHS10.

In checking whether respondent comply with the purchase of tax stamp, the study enquired from them if they have ever been confronted by tax officials over the purchase of tax stamp. The majority of them 125(67.9%) reported that they have never been confronted by tax officials. The remaining

however admitted that they have ever been confronted by tax officials over the purchase of tax stamp. The reasons for their confrontation are reported in Table 8. Out of the 59 who reported being confronted, the majority (54.2%) were confronted because of delay in buying tax stamp. As one respondent remarked “...they came here and threatened to close my store all because I did not buy the tax stamp early” (A female, 35year old hairdresser). Demand for tax stamp receipt accounted for 30.5% of those confronted over tax stamp.

Table 8: Reasons for Confrontation Between Tax Officials and Small Business Operators

Reasons	Frequency	Percentage
Demanding for tax stamp receipt	18	30.5
Delay in buying tax stamp	32	54.2
Refusal to buy tax stamp	9	15.3
Total	59	100.0

Source: Fieldwork, 2011.

The remaining nine respondents representing 15.3% refused to buy tax stamp and as a result were confronted by tax officials.

Challenges Small Businesses face in Buying Tax Stamp

The study also as one of its objectives sought from respondents the difficulties they face in buying tax stamp. Though the respondents responded that they all buy the tax stamp, almost all of them reported having difficulties with the purchase of tax stamp. Thus 154 (83.2%) responded yes, when asked whether they face any difficulties in the purchase of tax stamp. The study

went on to enquire from the respondents what kind of difficulties they face in the purchase of the tax stamp. Their responses are summarised in Table 9.

For the 154 respondents who reported of having difficulties in the purchase of tax stamp, two difficulties were readily mentioned. They believe the tax stamp was expensive and they are often pressured by tax officials.

Table 9: Challenges in Buying Tax Stamp

Challenge	Frequency	Percentage
Expensive	101	54.9
Pressure from tax officials	53	28.8
No difficulty	30	16.3
Total	184	100.0

Source: Fieldwork, 2011.

However, as many as 101 respondents representing approximately 55% of the respondents believed that the tax stamp was expensive (Table 9). Those who reported pressure from tax officials as a difficulty constituted 28.8% of the respondents.

In the light of these difficulties, the study asked respondents to suggest ways to help improve the purchase of tax stamp. Measures suggested included intensive tax education, reduction of tax stamp price, training of tax officials and proper use of tax revenue as presented in Table 10.

Table 10: Suggestions to Improve the Patronage of Tax Stamp

Suggestion	Frequency	Percentage
Intensive tax education	86	46.7
Reduction of tax stamp price	49	26.7
Train tax officials	28	15.2
Proper use of tax revenue	21	11.4
Total	184	100

Source: Fieldwork, 2011.

Many of the respondents, though not majority (46.7%) believed that intensification of tax education can improve tax stamp purchase. Forty-nine respondents (26.7%) were arguing for a reduction of tax stamp price as a measure to improve tax stamp collection. Training of tax officials also came up, as 28 respondents believed that when tax officials are properly trained to enforce tax collection, it can improve tax stamp purchase. Some 21 respondents had the impression that proper use of tax revenue can be an avenue to improve tax stamp purchase. This gives an indication that when people are sure that their taxes will be put into proper use, they will be more likely and willing to pay their taxes.

Discussion

A review of literature has shown that taxation has been necessary to nations since time immemorial as it helps in accelerating infrastructural development (Bird, 2003; Ali-Nakyea, 2008). Taxes are used to raise revenues to fund government services, to correct market imperfections, and to

encourage or discourage certain types of behaviour (Bird & Zolt, 2005). The study found out from respondents why they purchase the tax stamp. The respondents were quick to mention that they purchase the tax stamp to help develop the nation. This therefore supports the assertions made by Bird and Zolt (2003) and Ali-Nakyea (2008). It is however not surprising that respondents suggested proper use of tax revenue as a means to ensure payment of taxes among the citizenry.

The study as one of its objectives found out from respondents their awareness of tax stamp. The initial introduction of tax stamp by the Ghana Revenue Authority (GRA) in 2005 was plagued with challenges. As a result it did not gain much awareness until after its re-introduction in 2006 (Ablorh-Quarcoo, 2006). The study therefore confirms this stance that the tax stamp has gain much popularity among operators of small business enterprises as all respondents interviewed were aware of the tax stamp. The crucial role of tax officials was also brought to the fore as they served as the main avenue for information on tax stamp. This emphasise the great effort put in place by the GRA after the re-introduction of the tax stamp in 2006. As Amamoo (2009) puts it "...GRA is committed to establish a small taxpayer bureau in each district office to handle operators of small businesses with particular emphasis on the Tax Stamp system".

The study found out that the majority of respondents were regular tax stamp buyers. This finding contradicts assertions made by Josh & Ayee (2006), which gives the impression that the informal sector in Ghana of which small business operators are the majority, is not regular in paying tax. However the study agrees with Eaton and Dickovick (2004) whose studies

have shown the willingness of those within the informal sector to pay taxes, specifically when these are in exchange for some legitimacy, stability and protection from arbitrary harassment from state agents. The implication therefore is that the informal sector will pay taxes regularly when there are mechanisms to ensure tax compliance.

The literature review brought to light several challenges or difficulties. Among these are capacity constraints on the part of GRA, lack of education for small business operators, the inappropriateness of tax collection mechanisms, the politics in taxing the informal sector, and lack of incentives for tax collectors (Ayee, 2007). The study however confirmed some of these challenges as it came to light that small business operators are bedevilled with the problems of perceived over taxation and pressure from tax officials, as far as purchasing tax stamp is concerned. The majority of respondents were of the impression that they were overtaxed as they see the tax stamp is to be too expensive and as a result serve as a difficulty in purchasing it. Again the respondents mentioned pressure from tax officials as another difficulty. Forms of pressure used by tax officials could therefore serve as a barrier to tax stamp purchase. This confirms what Ayee (2007) talked about as the inappropriateness of tax collection mechanisms. This challenge on the part of the GRA affects the way small business operators purchase the tax stamp.

Respondents were asked to suggest ways to curb these difficulties, minimise them so as to make them more willing to purchase the tax stamp. Some suggestions were made and these include intensive tax education, reduction of tax stamp price, proper raining of tax officials and judicious use of tax revenue. The respondents were of the view that if these measures are

put in place, compliance to tax stamp will improve. It must be noted that several studies have come out with similar suggestions to ensure tax compliance (Ayee, 2007; Friedman, 2003; Bird & Oldman, 1975; Brown & Jackson, 1978). Friedman (2003) suggests for instance that tax official should be trained to use proper tax collecting mechanisms such as the routines and attitudes which underpin the culture to enhance collections (Friedman, 2003). To him, this approach has been very successful in South Africa.

Citizens expect government to provide goods and services, whether public or private goods and their effective provision enable citizens to pay tax in return for the enjoyment of these goods. In other words, when members of society are sure their tax revenue will not be misused, they will be more likely to pay their taxes (Bird & Oldman, 1975; Brown & Jackson, 1978). Proper tax education should also be carried out so as to alert the small business operators on the need to purchase the tax stamp.

Conclusion

The chapter has analysed as discussed data collected from the field with special reference to tax stamp. Among the main findings were that, the respondents were aware of the tax stamp and they buy the tax stamp regularly. The crucial role of tax officials in ensuring compliance to the tax stamp was also highlighted. However, the respondents were of the view that the tax stamp is expensive and they are often been pressured by tax officials. The called for tax education, reduction of tax stamp price and training of tax officials as measures to ensure compliance to the tax stamp.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter concludes this study on the tax stamp and the informal sector in Sekondi in the Western Region of Ghana. It begins with a summary of the research, draws some conclusions and makes some recommendations. The final aspect of the chapter involves suggestions for future research in the area.

Summary

Taxing citizens have always posed problems for many nations especially the developing ones. But the need for money from taxation cannot be understated. Governments of nations, rich and poor, rely on tax revenue to support their respective economies. In the developed countries tax evasion is one of the most grievous of crimes a citizen or a business can ever commit. As such, harsh punitive measures are put in place to ensure maximum tax compliance.

As part of the effort to increase revenue in the country for development, strategies to ensure maximum tax collection have been contemplated and implemented in Ghana. The most ingenious of these measures is the introduction of a sticker or a tax stamp for small and medium sector tax payers. This was seen as prudent because for public sector workers and recognized business, tax collection was relative easy and unproblematic.

However, people felt the informal sector businesses were not been appropriately taxed. That is they were either overtaxed or regularly under

taxed with the latter being the likely case. The tax stamps was therefore introduced to ensure that the allegations of over and under taxation would be solved or reduced.

This study was therefore undertaken to examine the attitudes and perceptions of small business owners towards the Tax Stamp System in the Western Region of Ghana. The study assessed the level of knowledge of the nuances of the Tax Stamp as well as their level of compliance. The study also investigated the problems in the payment and collection of the Tax Stamp.

Using a descriptive survey method, respondents in the informal sector in designated areas of Sekondi were identified and used for the study. A total of 184 respondents out of the estimated 200 were used for the study. They included persons such as shop owners, dress makers and hair dressers. A questionnaire was used to collect their views and opinions; however, in some cases the questionnaires were converted into interview schedules and administered as such.

The data collected was analyzed using the SPSS software as a tool for processing. The analysis involved presenting data in tables, figures and charts, interpreting and discussing the themes according to the research questions posed.

After the discussions the following findings emerged:

1. There was indeed a broad based informal sector including various skilled, semi skilled and unskilled persons with equally varying degrees of educational attainments and ages
2. Women indeed dominated the informal sector

3. There was generally a high awareness of the presence of the Tax Stamp and what it was meant for
4. Tax officials were the major source of information on the Tax Stamp
5. There was a general consensus on the need for taxation
6. Various problems exist to hamper tax collection

Conclusions

The findings above indicate that the Tax Stamp concept was indeed a stroke of a genius for the GRA. Although the study was limited to the opinions and attitudes towards it, it could be inferred that tax revenue through the Tax Stamp method has indeed improved. The concept has made taxation less cumbersome and more transparent to the hitherto illiterate and ignorant tax payer in the informal sector.

The mode of collection seems to be very simplified and quite efficient. The regularity and quarterly nature of it has also resulted in a situation where tax payers have developed tax awareness, which makes it easy to collect taxes from them. In all, it can be concluded that the attitude of informal tax payers toward the tax stamp is generally positive. It can therefore be supposed that this positive attitude has translated into regular payment of their taxes.

It can also be concluded that through the efforts of the tax officials, awareness of the tax stamp is very high. In addition to this, there are some problems in the collection of tax stamps. These include low wages, corruption, inadequate logistics and complaints or the extortion by tax officials. These

problems need urgent attention to improve compliance and make taxation efficient in the country.

Recommendations

Based on the findings of the study, the following recommendations are made:

- The government and the GRA for that matter should maintain a sustained tax education campaign throughout the country.
- The GRA should also provide adequate logistics to tax collectors. Logistics like vehicles, stationery among others. This will enhance their effectiveness. Training of tax officials would be quite appropriate and desirable
- Incentives and punishments schemes should be established together with a strict monitoring mechanism to ensure that collection officers are duly motivated to improve collection. It will also ensure that they are also clearly deterred from engaging in any corrupt acts
- Political leaders in power should be transparent in expending the taxes collected. A major drawback to tax collection is the perceived misapplication and misappropriation of it by politicians to the detriment of the whole nation. For tax collection to improve, politicians must refrain from exhibiting opulent and ostentatious spending and lifestyles.

Further Studies

Future studies could investigate the revenue levels and collection trends before and after the introduction of the Tax Stamp. This will allow for the determination of the role of the tax stamp in improving or worsening tax collection. Other studies could also make a comparison between formal taxation and informal taxation methods with the view of providing a comprehensive tax collection strategy.

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APPENDIX

UNIVERSITY OF CAPE COAST

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE ON CONCERNS OF TAX PAYERS ABOUT TAX STAMP

Dear Respondent,

This instrument is aimed at soliciting your views on the Tax Stamp System of taxing small and medium enterprises. We will be grateful if you could spend a few minutes to answer the questions as candidly as possible. Please note that this is not a commissioned study for the Ghana Revenue Authority (Domestic Tax Revenue Division) but an academic study aimed at writing a dissertation for an MBA degree. Your views and opinions will therefore not be disclosed to any person and your identity will be safe guarded at all times. Thanks for your cooperation.

Please tick in the boxes or write your responses in the spaces provided where necessary.

Section A: Demographic Data

1. What is your Gender?
 - a) Male []
 - b) Female []

2. How old are you?
 - a) 20-29 years []
 - b) 30-39 years []
 - c) 40-49 years []
 - d) 50-59 years []

e) 60-69 years and over []

3. Educational attainment

a) Non []

b) Basic education []

c) Secondary []

d) Tertiary []

4. Occupation.....

5. Marital Status

a) Married []

b) Single []

c) Divorced []

d) Separated []

Section B: Level of awareness of Tax Stamp and general views on taxation

6. a) Have you ever heard of the Tax Stamp?

a) Yes []

b) No []

b) If yes, where did you first hear of it?

a) Through a friend []

b) On radio []

c) Through a tax official's visit []

- d) Public forum []
- e) On television []
- f) Meeting of Association []
- g) Other specify.....

7. a) Do you think taxation is necessary?

a) Yes []

b) No []

b) If yes, please give reasons

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c) If no, please explain why?

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8 What is the most important reason why you pay your taxes?

a) Because it is mandatory by law []

b) For infrastructural development []

c) To contribute to national development []

- d) To be a good citizen []
- e) I don't really know []
- f) For other reasons, specify.....

Section C: Level of compliance and effectiveness of measures to improve tax stamp collection

9 How regular do you buy your tax stamp?

- a) Very regular []
- b) Regular []
- c) Somehow []
- d) Not regular []

10 How much tax stamp do you buy per quarter?

- a) 5 cedis []
- b) 10 cedis []
- c) 15 cedis []
- d) 20 cedis []
- e) 25 cedis []

11 Where do you buy it?

- a) From tax officials who come around []
- b) From tax official in their office []
- c) Other places specify.....

12 Have you ever been confronted by tax officials over tax collection?

- a) Yes []
- b) No []

13 If yes, what were the reasons?

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Section D: Difficulties in Tax Stamp Collection

14 a) Do you have challenges complying with the tax stamp?

i) Yes []

ii) No []

b) If yes, enumerate your challenges

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c) Please suggest ways to overcome the challenges

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15 a) Do you think the operations of the tax stamp can be improved?

i) Yes []

ii) No []

b) If yes, give your recommendations

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