

UNIVERSITY OF CAPE COAST

**TAX POLICY AND GROWTH OF SMALL AND MEDIUM SCALE
BUSINESSES: A STUDY ON BUSINESSES IN THE NEW JUABEN
MUNICIPALITY**

ADDAE-MENSAH FRANK

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TAX POLICY AND GROWTH OF SMALL AND MEDIUM SCALE BUSINESSES: A
STUDY ON BUSINESSES IN THE NEW JUABEN MUNICIPALITY

BY

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SB/DAC/13/0006

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MARCH, 2016

DECLARATION

Candidate's Declaration

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

Name: Addae-Mensah Frank

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

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.

Name: Mr. Samuel Gameli Gadzo

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

ABSTRACT

The main objective of this study is to examine the effect of tax policy on growth of small and medium scale businesses. The study was carried out in the New Juaben municipality of the Eastern region of Ghana. In this study the researcher used questionnaires and interviews to collect data from the sample size of 200 out of 400 owners and managers of small and medium scale businesses. Both quantitative and qualitative methods were adapted to analyse data. The data collected was screened, filtered and recoded. It was then fed into SPSS which measured all the variables in percentages and bar chart. The findings of the study revealed that personal income tax rate has negative effect on all the growth indicators of small and medium scale businesses. It was also revealed that most small and medium scale businesses do not have in place strategies to minimise these effect and also it was revealed that most operators of small and medium scale businesses see payment of personal income tax rate and other levies as a civic duty, but the problem with respondents is that the rate is not business friendly.

It is therefore recommended that the government should reduce the personal income tax rate that are being tax on small and medium scale businesses. The government should provide technical assistance to them example hiring tax experts to educate them on how to minimise the negative effect of personal income tax rate on their growth. Ghana revenue authority should also frequently organise workshops to educate them and finally small and medium scale businesses operators should upgrade themselves in the tax education.

KEY WORDS

Growth

Personal Income Tax

Small and Medium Scale and Medium Scale Businesses

Tax Policy

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TO ALL I SAY GOD RICHLY BLESS YOU.

DEDICATION

To my family,

Gifty, Jairus, Alice, Felicia, Stuart, Jade

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CHAPTER ONE

INTRODUCTION

Background of the Study

Taxation can have important effects on many parts of the economy, including impacts on firm creation and on the development of small and medium-sized enterprises (SMEs). Developing an environment conducive to SME growth whilst ensuring tax compliance is a challenge all countries face. (Organisation For Economic Co-operation and Development, 2007). However, it is through tax revenue that government is able to generate enough funds to undertake developmental activities and payment of salaries and other commitments in the country. According to Holban, (2007) taxation contributes to development and welfare of people in a country through three sources; it must be able to generate sufficient funds for financing public services and social transfers at a high level of quality, it should offer incentive for more employment and for an efficient and lasting use of natural resources, finally it should be able to reallocate income.

Upon this benefit of taxation to a nation, it can also end up collapsing businesses especially the small and medium scale businesses. In United Kingdom 30 per cent of new businesses cease trading by the third year of operations and 50 per cent by fifth year of operation (Cressy & Storey, 2006). Meanwhile taxation is not intended to collapse legitimate businesses in an economy since Small and Medium Scale businesses are the engine of growth in the economy of most

countries in the world. Panitchpakdi (2006) posit that, small and medium scale businesses serve as a source of employment, competition, economic dynamism, and innovation which stimulate the entrepreneurial spirit and the diffusion of skills. The 2005 World Development Report suggests that creating “sustainable jobs and opportunities for micro entrepreneurs are the key pathways out of poverty for poor people” (World Bank, 2004)

In African most researchers have found out that one of the challenges being face by small and medium scale businesses is tax related issues which leads to the collapse of the SMEs. According to the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) Nigeria, 80% of SMEs die before their 5th anniversary. The factors that are responsible to this mortality are high tax rate and tax laws. (Mnewa & Maliti, 2008), the majority of small businesses were less likely to attain or maintain the growing profitability in Dar Es Salaam region in Tanzania. Majority of SME are concentrated in the service and commercial sectors. Therefore sales revenue is the lifeblood of such enterprises. However, such firms can only maintain sales at a high level by minimising their operational costs, Kamar I.K, (2015). Kamar also believe that if a large proportion of SME costs are devoted to paying tax, they will be forced to shift the tax burden onto the consumer, and this will ultimately make their goods and services uncompetitive, which will have a negative impact on sales revenue.

This shows that businesses and tax policies greatly depend on one another for survival. Because when taxes are levied on businesses without considering the theory of ability to pay the tax by the firms it will end up collapsing the

businesses and if the businesses also collapse the aim of the taxation which is to raise enough revenue for the government will not be achieved. In another survey by Ojeka (2011) in a research entitled Tax Policy and Growth of SMEs: implication for the Nigeria Economy. The research tries to establish if any relationship exists between the growth of SMEs and the tax policy environment they operate in Nigeria. The study was undertaken in Zaria North Central, Nigeria. The study indicated that there is a significant negative relationship between taxes and the ability of the business to grow.

Furthermore, in a research by Mwangi (2009), business owners cited that to curb tax effect the most immediate action was to increase the cost of their products as well as reducing the number of workers employed. Furthermore, in Ghana, the problems that SMEs operators face are not different from what their colleagues face from all over the world. Though, tax authorities in Ghana have tried to bring out policies which are to cushion the small and medium scale businesses in Ghana since the government recognises the important role the SMEs play in the development of the country by creating jobs to the citizens of the country.

However study by Aryeetey & Ahene (2004) shows that small and medium scale businesses which also play a major role in Ghana are not achieving their targets which they blame it on taxes authorities have imposed on them. This show that the taxes levied on them affect the ability to pay theory since it is the duty of tax authorities of Ghana to access the strength of the SMEs Operators whether they can afford to pay the taxes levied on them because taxes are not

opposed to collapse businesses since the principles of taxation are equity, certainty, broadness, economy and convenience.

Therefore this study would determine the effect of tax policy on the growth of Small and Medium Scale Businesses, to investigate strategies Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth of the businesses and investigate the reaction of Small and Medium Scale Businesses operators on tax policy.

Statement of the Problem

Taxation policy clearly has a major impact on SME development. Too onerous a tax regime can erode the profitability of enterprises, leading to higher rates of business failure which in turn reduce the total tax yield (United Nations Development Programme, 2003). Similarly in Africa, Mungaya, Mbwambo & Tripathi (2012), posit that tax policy has effect on the growth of small and medium scale businesses and that most managers and executives of SMEs have the belief that the existing tax policies in Tanzania negatively affect the growth of small and medium scale businesses in Tanzania.

In Ghana, tax policy has effect on SMES growth because higher taxes tend to drive out or scare off investors. Corporate income tax reduces the amount of income available to the private firm for re-investment (Norgah 1998: Ahiawordzi & Tsorhe: 2013). Also a research carried out by Affo, Effah & Ibrahim (2011), found out that tax burden was one of the challenges of SMEs in Ghana. A survey by National Board for Small Scale Industries (2002) on taxation and small-scale

business operation, the commonest complaint from these SMEs was the overburden of taxes, which is prohibiting their growth. The growths of businesses are normally measured by the contribution and number of employees, sales, income, profit and capital.

A large number of Ghanaians active labour force is employed in the informal sector. Osei, Baah-Nuakoh & Sowah (1993) classified SMEs into four main categories: micro enterprises are those that employ less than 6 people, very small enterprises constitute those employing 6-9 workers, small enterprises are business units that employ between 10 and 29 workers while medium small enterprises are those that employ between 29 and 50 people. Majority of Ghanaians SMES are in the first category which comprises of tailors, food vendors, chop bar keepers, the market operators, pure water sellers among many (Yankson 1992). Most large companies begin as micro enterprises before expanding. This implies the future of large businesses is the SMES today that should be nurtured to ensure their growth.

Furthermore micro enterprises are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investment which would otherwise not have taken place (Aryeetey & Ahene, 2004). Hence Ghana needs to further the development of its private sector by creating environment favorable to the growth of SMES, strengthen the factors that lead to business success and addressing the problem threatening the existence and advancement of small and medium enterprises (Chu, Kora & Benzy, 2008) such as tax policies, inflation etc.

Based on the above assertion the researcher seeks to investigate tax policy and growth of small and medium scale businesses: a study on businesses in the new Juaben municipality.

Objectives of the Study

The main objective of this study is to examine the effect of tax policy on growth of small and medium scale businesses

The specific objectives are as follow to:

1. Determine the effect of personal income tax rate on the growth of Small and Medium Scale Businesses.
2. Investigate strategies Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth of the businesses.
3. Investigate the reaction of Small and Medium Scale Businesses operators on tax policy.

Research Questions

The Research questions of this work are as follows:

1. How does tax personal income tax rate affect the growth of Small and Medium Scale Businesses?
2. What strategies do Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth businesses?

3. What reaction do small and medium scale businesses operators have on tax policy?

Significance of the Study

The study will provide a comprehensive understanding on tax policy and growth of small and medium scale businesses. The study will provide information that will enable policy makers on tax to know the effect that tax policy have on small and medium scale businesses. To owners or operators of small and medium scale businesses, this study will show the effect tax policy has on their businesses. For stakeholders, such as Ghana Revenue Authority, this study would help enlighten implication of current tax policy on small and medium scale businesses. For the academia and researchers, this research will provide a comprehensive reference on the issue of tax policy and growth of small and medium scale businesses in new Juaben municipality.

Limitation

The problems encountered during the study were :

Lack of time for the study. It was very difficult to combine the dissertation work with office work

Lack of cooperation. Some owners and managers of small and medium scale businesses were unwilling to provide information the study.

Another limitation was lack of finance. The research was sole financed by the researcher.

Scope of Study

This study is limited to the small and medium scale businesses in Ghana. However since small and medium businesses can as well as be a large establishment, the study is further limited to Small and Medium Scale Businesses in the New Juaben Municipality. Also the tax policy that will be considered in this study is personal income tax rate.

Chapter Summary

The study is divided into five chapters. The chapter one is the introductory chapter and it deals with background of the study, statement of the problem, purpose of the study, research questions, significance of the study, delimitation and limitation of the study. Chapter two reviews literatures of the study. The chapter three deals with methodology adopted for the study which entails research design, research setting, population, sample and sampling technique, research instrument, data collection procedure and data analysis. Chapter four deals with the analysis of data collected for the study. Finally chapter five deals with summary, conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviews literature on tax policy and growth of small and medium scale businesses. The chapter begins with theoretical review. Under that, Benefit theory, cost of service theory and ability to pay theory were reviewed. The next section reviewed the definition of taxation followed by the definition of small and medium scale business. The chapter also reviews literature on role of small and medium scale businesses and challenges of small and medium scale business. Next is review of Tax policy in Ghana. Corporate tax, personal income tax and tax stamp were discussed under the tax policy in Ghana. Measuring of firm's growth becomes the next priority. Relevant empirical studies in the area of tax policy and growth of small and medium scale businesses were the next to be reviewed. Finally, the chapter considered conceptual frame work for the study.

Theoretical Review

The theories to be reviewed are the Benefit and Ability to Pay Theory. These are reviewed below.

Benefit Theory

With this theory, it is believed the tax payer should pay tax to the government based on the benefit that tax payer has received. Since the benefit theory requires individuals and enterprises to pay only for those publicly provided

goods and services that they themselves enjoy, without paying for goods and services that governments provide to others, it might seem like an attractive principle to allocate the cost of government expenditures. Where benefit taxes are dedicated or earmarked to public expenditures on the goods and services in respect of which they are raised, moreover, this method of taxation also has expenditures from taxes and user fees premised on the benefit principle. Indeed, considerations of economic efficiency, government accountability, and tax fairness suggest that modern welfare states might make greater use of benefit-related taxes to finance public expenditures in several areas such as higher education, roads and highways, and municipal services such as water and sewage and the collection and disposal of solid waste. (Duff, 2009).

According to Economics concept (2016), the state should levy tax on individuals according to the benefit conferred on them. The more benefit a person derives from the activities of the state, the more the individual should pay to the government. According to Economic Concept (2016) this theory has been subjected to serve criticism on the grounds that the state maintains a certain connection between the benefit conferred and the benefit derived. Then it will be against the basic principles of tax.

Another criticism sited by economic concept (2016), most of the expenditure incurred by the state is for the general benefit of its citizens. And it is impossible to know the benefit engaged by a person on every year. And also another criticism of these theory is that, is the poor who enjoy most from the

services of the state. And when the poor are taxed more, and then it means is against the principles of justice.

On this study it is maintained that small and medium scale businesses will pay taxes based on the benefit that they received from the government.

Ability to pay Theory

As the name suggests, it says that the taxation should be levied according to an individual's ability to pay. It says that public expenditure should come from "him that hath" instead of "him that hath not". The principle originated from the sixteenth century, the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean Baptiste Say (1767-1832) and the English economist John Stuart Mill (1806-1873). This is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount. This principle is indeed the most equitable tax system, and has been widely used in industrialised economics. The usual and most supported justification of ability to pay is on grounds of sacrifice.

The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as

Each taxpayer surrenders the same absolute degree of utility that s/he obtains from her/his income

Each sacrifice the same proportion of utility s/he obtains from her/his income

Each gives up the same utility for the last unit of income; respectively. (Ocheni, 2015)

A fundamental concept underlying the income tax structure is the ability to pay concept. This concept states that the tax levied on a tax payer should be based on the amount that the taxpayer can afford to pay. The first lesson to learn from this concept is that the income tax base is a net income number (Akakpo, 2007). The other aspect of ability to pay theory is the use of a progressive tax rate structure. According to Akakpo (2007), a progressive tax is one in which higher levels of the tax base are subjected to increasingly higher tax rates. That is with progressive tax the higher your income the higher the amount you pay as tax. So any time the income tax of a person goes up the amount of tax the person pays also goes up. However, there are some provisions that do not allow certain types of income to be taxed.

The social purpose of taxation is to achieve a more even distribution of income and to reduce the inequality of wealth. To achieve a vertical equity, taxpayers of different taxable capacities should pay equally. However, taxes should be levied on taxpayers according to their tax paying ability. In other words, on a horizontal equity basis, there should be equal treatment of taxpayers of similar taxable capacity and thus support progressivity of taxation. Progressive tax rate means a larger proportion of tax will be derived from people with higher income, as marginal tax rate rises with income. In the context of corporate profits

tax, this does not necessarily mean that more profitable companies are penalised. Instead, they are those more capable to generate higher profits and thus more able to contribute their income to the Government's coffer. (Chan, 2003)

According to Economic concept (201)6 most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the later. Most countries in the world have adopted the income as best for measuring the ability to pay of a person. Therefore the ability-to-pay theory in taxation on small and medium scale businesses maintains that taxes should be levied according to the ability of the small and medium scale businesses to pay the taxes. With this theory small and medium scale businesses who earn more profit must pay more tax than those SMES whose profit is lower.

In Ghana, whenever government raises the tax rate it brings about reaction among small and medium scale businesses who normally consider the ability to pay the tax. Since it could lead to the collapse of their businesses because when taxes are levied on the income of businesses, especially infant SMES which need some time to be economically viable and expand, such taxes rather collapse the businesses which must grow for the government to get revenue and to generate employment for the citizenry (Aryeetey & Ahene, 2004).

Review of Definition of Taxation

Taxation is an integral part of countries' development policies, interwoven with numerous other areas, from good governance and formalising the economy, to spurring growth through, for example, promoting small and medium sized enterprises (SMEs) and stimulating export activities, (Pfister, 2009) The parliament designates taxes according to its understanding of equity, while following the prevailing constitution, which also prescribes the purpose of taxation and confirms that the rightful ownership of tax receipts ultimately lies with the citizens (Kohonen & Alemayehu, 2011).

According to Asante & Yiadom (2011) in the book entitled Taxation which is for the University of Cape Coast Center for Continues Education defined tax as a compulsory charge imposed by government on either income, expenditure or capital assets in order to raise revenue for which the tax payer receives nothing specific in return. Kohonen&Alemayehu, (2011) defined tax as compulsory levy on privately held assets, work, transactions and other activities and flows as designated by the parliament and enacted by the government. The most common views of the two definitions above are as follows:

Each definition sees taxation as compulsory. That is the willingness of tax payer to pay is immaterial since it is mandatory levied on the taxpayer. So whether the payer is willing to pay the tax or not so far as the tax payer falls within the category of taxpayer he /she has no option than to pay the tax. Another view of the definitions is taxes are levied on income, expenditure or capital assets.

That is the amount of tax to be collected is based on income that a person has got from a transaction. Also the taxes are also levied on expenditure that a person has incurred provided that expenditure falls within the categories of expenditure to be taxed. In terms of capital assets, taxes are levied on the value of capital assets of the taxpayer provided the assets falls on the categories of the assets that the laws mandate to be taxed.

The operational definition for this study is taxation is a compulsory charge imposed by the government of Ghana on the profit of small and medium scale businesses in new Juaben municipality which the taxpayer (small and medium scale businesses) receives nothing specific in return.

Definition of Small and Medium Scale Businesses

The issue of what constitutes a small or medium enterprise is a major concern in a literature. Different authors have usually given different definitions to this category of business. SMEs have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets while others use skill of labour and turnover level. Others define SMEs in terms of their legal status and method of production. (Abor & Quartey 2010).

According to Jousten (2007) various criteria are used in differentiating small and medium scale enterprises namely the number of employee, ownership structure, turn over, balance sheet total capital bail, legal form as well as the type

of activity of the enterprise. According to Storey, (1994) The European Commission (EC) defined SMEs largely in term of the number of employees that are with the firms, with 0 to 9 employees - micro enterprises; 10 to 99 employees - small enterprises; and 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria.

Secondly, the use of 100 employees as the small firm's upper limit is more appropriate, given the increase in productivity over the last two decades. SME in Thailand are defined as either small or medium using the size of SMEs based on the number of employees and the value of total fixed assets excluding land value (Pour, 2006). Hence, an enterprise is categorized as an SME if it has less than 200 employees and fixed capital with less than 200 million baht, excluding land and properties (SME Bank, 2010)

According to Kayanula & Quartey (2000) there have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs.

The National Board for Small Scale Industries (NBSSI) in Ghana applies both the fixed assets and number of employees' criteria. The NBSSI defines a small scale enterprise as one with not more 9 workers, and with plant and machinery (excluding land, building and vehicles) not exceeding GH¢1000 in value. A point of caution is that the process of valuing fixed assets poses a problem as the continues depreciation in the exchange rate makes the definitions untenable. (Osei et al, 1993). For the purpose of this study, the researcher adopted the definition of Ghana Statistical Service (GSS) which considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises.

Role of Small and Medium Scale Businesses

SMEs (small and medium-sized enterprises) account for 60 to 70 per cent of jobs in most Organization for Economic Co-operation and Development countries, with a particularly large share in Italy and Japan, and a relatively smaller share in the United States. Throughout they also account for a disproportionately large share of new jobs, especially in those countries which have displayed a strong employment record, including the United States and the Netherlands. Some evidence points also to the importance of age, rather than size, in job creation: young firms generate more than their share of employment. However, less than one-half of start-ups survive for more than five years and only a fraction develop into the high-growth firms which make important contributions to job creation.

High job turnover poses problems for employment security and small establishments are often exempt from giving notice to their employees. Small firms also tend to invest less in training and rely relatively more on external recruitment for raising competence.(OECD, 1996). The World Bank (2012a) determined that around 200 million people are currently unemployed, and 600 million jobs need to be created by 2020 mainly in developing countries. A number of those jobs are expected to be generated in the small and medium enterprise (SME) sector given its high labor intensity. For instance, Stein, Goland, & Schiff (2010) stated that in developing countries formal small and medium enterprises (SMEs) represent around 45 percent of employment and 33 percent of GDP (the contribution is higher when informal firms are accounted for).

In turn, the Organisation for Economic Cooperation and Development (2004) stated that in their economies, SMEs provide 60-70 percent of employment while accounting 55 percent of the GDP. In general, SMEs are often considered as engines for innovation, economic growth, employment and social mobility as stated by Innovations for Poverty Action [IPA] (2013), and Ayyagari, Demirguc-Kunt, & Maksimovic (2011). Panitchpakdi (2006) posit that, small and medium scale businesses serve as a source of employment, competition, economic dynamism, and innovation which stimulate the entrepreneurial spirit and the diffusion of skills. In addition to the direct economic effects of making new services and products available and creating employment, the SME has several equally important effects on the functioning of transitional societies that move through more indirect channels.

The development of this sector is essential to create the political and social 'environmental conditions' necessary to allow desirable changes to occur elsewhere in the system. The SME sector must simultaneously absorb resources and workers from the large enterprise sector and at the same time help to create a labour market situation in which the process of reorientation and fundamental reorganisation of the large enterprise sector can be carried through without threatening social peace. In addition to slowing down the restructuring process, the failure to develop the SME may increase the volume of required transfer payments for unemployment, early retirement and other programs and under certain fiscal policy assumptions crowd-out investment and other employment creating expenditures (McIntyre, 2001).

In Africa small and medium Scale Businesses play a major role in the development of the continent. According to a survey conducted in 1990 by the National Institute for Statistics and Demography (INSD), there were 90,000 established microenterprises in Burkina Faso. This group comprised mainly informal enterprises, which are generally family -owned without any management structure. As taxpayers, this group accounted for less than 5 million CFA in turnover. Microenterprises employ, on average, one to three persons. Between 1985 and 1992, the informal sector is estimated to have contributed 30 per cent of GNP, compared to agriculture, which contributed 20.45 per cent, and the modern secondary sector, which accounted for 23.86 per cent (INSD, 1993). The sector employs 77 per cent of the non-agricultural population and 8.6 per cent of the total active population. (UNCTAD, 2001)

Furthermore, In Uganda, Small and Medium enterprises (SMEs) are seen as critical for economic growth of the country, contributing 75% of GDP and constituting 90% of the private sector, creating employment estimated at 2.5 million, improving standards of living and ensuring social and political stability (Hatega, 2007). However, SMEs in Ghana provide about 85% of employment in the manufacturing sector in Ghana (Aryeetey, 2001). According to Abor & Quartey (2010), SMEs contribute about 70% to GDP of Ghana and account for about 92% of businesses in Ghana. SMEs in Ghana are found in financial institutions, hotel industries, manufacturing industries, production, petty trading, agricultural sector and transportation. They engage in activities such as retailing, trading, or manufacturing (Fisher & Reuber, 2000). There are SMEs that operate in the rural areas and those that operate in the urban centers. Due to the small size of SMEs, they are able to withstand any shock in the economy

Challenges of Small and Medium Scale Business

There are many challenges that small and medium scales Businesses face which contribute to the failure of small and medium scale businesses worldwide. SMEs face a series of barriers that raise their operating costs and threaten their economic viability. They face higher costs for and more limited access to credit and other inputs have greater difficulties in penetrating export markets and are vulnerable to harassment by criminal gangs (McIntyre, 2001). Regulatory burdens remain a major obstacle for SMEs as these firms tend to be poorly equipped to deal with the problems arising from regulations (OECD 1997).

According to OECD (2004) in 2004 SMEs in Turkey were suffering from the consequences of policy inconsistency, poor access to finance, insufficient know-how and low level of technology among others. Small and medium scale businesses in Africa face more difficulties than their counterparts in the developed countries. SMEs in Sub-Saharan Africa are severely hampered by a weakly developed business environment. The ten business environment constraints for businesses in sub-Saharan Africa are electricity, access to finance, informal sector, tax rates, corruption, political instability, crime (theft and disorder), tax administration, transportation, custom and trade. (Fjose, Grunfeld & Green, 2010).

Uzor (2004) believes that the constraints faced by SMEs in developing countries are not only accentuated with ineffective policy design, but also by market failures in the region. Their lack of information technology and knowledge of automation is gradually being reduced given that they serve as contractors for larger firms particularly the foreign manufacturing firms. Also Mwangi (2014) posit that fees and levies, affect the performance of Small and Medium Enterprises in Kenya .

However, Ghanaian small and medium scale businesses also face the same challenges as their counterparts elsewhere. New and existing SMEs in Ghana are grappling with various constraints such as cost of renting premises, low capital investment, complex land tenure system, high wages, high interest rate, high income and property taxes, limited market information, bureaucratic hurdles and high cost of registering a business (Mabe, Mabe & Codjoe, 2013). Aryeetey & Ahene (2004) also found out that some of the challenges faced by small and

medium scale businesses in Ghana are high tax rate, lack of credit facilities, inflation and high interest rate etc.

Tax Policy in Ghana

Tax policy is the choice by a government as to what taxes to levy, in what amount and on whom (Price Waterhouse Coopers, 2016). In Ghana the taxes that small and medium scale businesses pay are income taxes. When a business is registered as a company it pays corporate tax and when a business is registered as a self-employed business, the tax that it pays is personal income tax and the micro businesses like the hair dressers, barbering salon operators pay tax stamped every three month. The rate of corporate tax is 25%. But with the personal income tax, self-employed person is required to pay income tax at graduated rates in four equal installments. Below is how the personal income tax is calculated

Annual Tax Rates

Chargeable GH¢	Income	Rates	Tax GH¢	Cumulative chargeable income GH¢	Cumulative tax GH¢
First 2592		Free	Nil	2592.00	Nil
Next 1296		5%	64.80	3888.00	64.80
Next 1812		10%	181.20	5700.00	260.00
Next 33180		17.5%	5806.50	38880.00	6052.50

Exceeding 38880 25%

Source: GRA 2016

Monthly Tax Rate

Chargeable Income GH¢	Rate(%)	Tax GH¢	Cumulative chargeable income GH¢	Cumulative tax GH¢
First 216	Free	Nil	216.00	Nil
Next 108	5	5.40	324.00	5.40
Next 151	10	15.10	475.00	20.5
Next 2765	17.5	483.88	3240.00	504.38
Exceeding 2640	25			

Source: GRA 2016

Measuring firm’s Growth

The growths of businesses are normally measured by the contribution and number of employees, sales, income, profit and capital. According to Barkham, Gudgin, Hart & Hanvey (1996), there is no general measurement for firm growth and scholars use various growth indicators when researching the field. Delmar, Davidson & Garther (2003) have identified further growth indicators applied by various scholars such as; assets, market share, physical output and profits. However, these indicators are generally not commonly used as sales and employment, since their applicability is limited; thus, total assets value depends

on industrial capital intensity and is sensitive to change over time, market share and physical output vary within different industries and are therefore difficult to compare and finally, profits are only relevant in order to measure size over a long period of time.

Empirical Review

Almost all empirical evidence shows that increasing business taxation provides disincentives for small businesses to engage in activities that they have particular strengths in: entrepreneurial activity, investment and innovation, and employment. More specifically, taxes on capital and profits, such as corporation tax and business rates reduce incentives for businesses to invest in new equipment, technology and research and development, as they reduce the expected levels of return on such investment. In addition, such taxes reduce the rate of entrepreneurial activity in the economy. Increased taxes on labour, such as employers' national insurance, reduce the ability of small businesses to take on new staff, and can lead to businesses reducing headcount due to higher costs. The empirical evidence linking higher labor taxation to higher unemployment and lower employment is. (Centre for Economics and Business Research, 2009)

According to a study by OECD (2007) entitled survey on the taxation of small and Medium-sized enterprises. The purpose of the project was to compile information on national approaches to the challenge of conducive environment to SME growth whilst ensuring tax compliance among OECD member countries. To achieve this, a questionnaire survey was conducted among OECD member

countries to identify and compare tax policy and tax administrative arrangements in place. The study revealed that taxation of SMEs faces several major policy challenges. Such as compliance costs of taxation, sales or assets, costs of compliance by SMEs. Finally, the study recommended that OECD member countries should simplify tax administration for businesses.

Again, Memon (2013), in a research conducted on the presumptive tax regime of Pakistan. The motive was to analyse the Presumptive Income Tax regime of Pakistan, one of the large informal economies in Asia, for its adequacy to control an informal economy. The findings revealed that being a turnover based Presumptive Income Tax design, the Pakistani Presumptive Income Tax is technically complex and imposes high compliance costs on small businesses. The Pakistani Presumptive Income Tax also does not adhere well with efficiency and equity principles because it does not secure neutral tax treatment for all types of the business sectors. Pakistani Presumptive Income Tax is also reflected in the stagnant taxpayer base, lower tax to GDP ratio and the persistently large informal economy in Pakistan. It was recommended that Presumptive Income Tax regimes should be simplified to facilitate taxpayers' compliance and enforcement by tax administration because it is 'just not possible' to tax the actual small businesses in informal economies.

Also, Brainyiah(2013), on the effect of tax fairness, tax knowledge, and tax complexity on tax compliance: the case of SME entrepreneurs' taxpayers in Malang. The study aimed to determine and ensure the effect of perceived tax fairness, tax knowledge, and tax complexity in tax compliance decisions among

SME entrepreneurs in Malang. To test the model, a questionnaire consisted questions related to the three variables and one dependent variable which is tax compliance was administered among 32 samples of SME entrepreneurs in Malang. The data was then analysed by multiple regression method which was undertaken with SPSS 15.0 software.

The findings revealed that simultaneously, perceived tax fairness, tax knowledge and tax complexity influence taxpayers' compliance decision in order to meet their taxation obligations. While the partial test showed that both tax fairness and tax complexity affect the tax compliance among SMEs taxpayers in Malang while the tax knowledge did not give any significant effect on tax compliance. It was recommended by the researcher that Directorate General of Taxation should be able to reduce the complexity of taxation, whether the tax code complexity, the grammatical complexity in the media information published by the Directorate General of Taxation, and technical complexity of tax return. This can be done by simplifying sentences in the brochure or also in the tax return, and most primarily by doing tax rate simplification for the SME entrepreneurs.

Lyon and Merrill, (2000) posit three effects of tax policy on assets. Firstly Assets value increase or decrease as a result of tax policy depending on the cause recovering schedule and age of the asset at the time of transition, providing the relief for the loss in assets value. Secondly if the policy objective of the tax system were simply to eliminate windfall losses, the appropriate transition rule would generally depend on how the market adjusted to the post reform

equilibrium. If the adjusted process were slow, decline in assets value would generally be small and would thus require less transitional relief and thirdly the provision of transitional relief at the business level could not address effect on wealth that were not borrowing equity owners

In Africa a lot of researchers have done research on the issue of tax policy and SMEs growth. A study by Ocheni & Gemade (2015), on effects of multiple taxation on the performance of small and medium scale business enterprise. The motive of the study was to find the relationship between multiple taxation and SMEs and to ascertain whether the size and ability of SMEs to pay taxes affect their survival. The study employed a survey research method. Findings revealed that multiple taxation has negative effect on SMEs' survival and the relationship between SMEs' size and its ability to pay taxes is significant. It was recommended that government should come up with uniform tax policies that will favour the development of SMEs in Nigeria and government should put into consideration the size of SMEs when formulating tax policies.

Furthermore, Atawodi & Ojeka (2012), on Factors That Affect Tax Compliance among Small and Medium Enterprises in North Central Nigeria. The research aimed at evaluating the factors that encourage non-compliance with tax obligation by SMEs and consequently determine if high tax rates tops the list. Survey method was employed in the research. It was found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of SMEs. Other factors like multiple taxation and lack of proper enlightenment affect tax compliance among the SMEs surveyed only to a lesser extent.

Therefore, it is recommended that SMEs should be levied lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market. The government should also consider increasing tax incentives such as exemptions and tax holidays as these will not only encourage voluntary compliance but also attract investors who are potential viable tax payers in the future. Another study by Jepkogei(2014), entitled impact of taxation on the growth of small micro enterprises case study of selected SMEs in Iten town. The purpose of the study was to establish the effect of tax administration on of small-scale business enterprises in Iten town. The researcher used a cross sectional survey design basing on the use of descriptive and quantitative designs that were used to establish the relationship between income tax administration and the performance of small-scale business enterprises.

The study found that there was a significant correlation between taxation and SMEs sector growth. The study recommends that there should be a friendly tax policy for all start up businesses preferably a tax holiday, or an introduction of a growth limit which can be said to be a level stable enough to sustain tax payment. It also recommends that, Kenya Revenue Authority, should supply tax assessment forms in time, intensify on the sensitisation different tax rates and introduce a scheme that allows taxpayers to pay the tax obligation in installment to better the profitability of small-scale businesses.

Also, Onias, Manyani, Hove, Chiriseri & Mudzura(2014), on The Effectiveness Of Presumptive Tax And Its Impact On Profitability Of SMEs In Zimbabwe. Case of Commuter Transport Operators in Bindura. The major

objectives of the study were to establish the reason(s) why Small and Medium Enterprises (SMEs) are subject to presumptive tax, whether there was any relationship between viability of SMEs and the payment of presumptive tax and the effectiveness of Zimbabwe Revenue Authority's (ZIMRA) tax awareness campaigns. The study adopted a descriptive research design and questionnaires, interviews and observations were used to collect qualitative data. SPSS version 16 was used to analyse the data.

The population consisted of 67 respondents and simple random sampling was used to draw up the sample of 44 respondents for questionnaires and judgmental sampling 5 respondents for interviews. The major results of the study revealed that ZIMRA needs to do more educational campaigns to inform tax payers and that presumptive tax negatively affects the viability of SMEs. Major recommendations included intensification of presumptive tax awareness campaigns by ZIMRA at grassroots level, involvement of transport operators in setting up tax amounts and use of technology to identify presumptive tax defaulters. A study by Mukasa (2011), entitled tax knowledge, perceived tax fairness and tax compliance in Uganda the case of small and medium income taxpayers in Kampala central division. The study examined the relationships between tax knowledge, perceived tax fairness and tax compliance of small and medium enterprises.

It was prompted by the stagnated revenue collection efforts in Uganda amidst a taxpayer environment characterised by the poor tax compliance culture, low levels of tax knowledge with overly complicated and inequitable tax laws.

The study adopted a cross-sectional research design, combined with qualitative (analytical and explanatory) and quantitative (descriptive and inferential) research designs. The study considered tax registered small and medium enterprises within the Central Division of Kampala District who constituted the population of study. The sample size of the study was 330 respondents and self administered questionnaires were used to collect data from the SMEs' owners or managers. The study found out that, tax knowledge and perceived tax fairness had a causal relationship with tax compliance. Tax knowledge was found to have a positive and significant relationship with tax compliance as well as perceived tax fairness did with tax compliance.

However, the relationship between tax knowledge and perceived tax fairness was found to be weak. These findings imply that positive improvement of taxpayers' knowledge and perceptions of fairness about taxes will lead to improved tax compliance. From the findings, it is recommended that much emphasis should be put to dissemination of concrete tax knowledge (technical knowledge) when conducting tax education. Furthermore, government should improve its service provision and accountability for the taxpayers to perceive an equitable exchange with government.

Furthermore, Mnewa & Maliti (2008), on tax System Impact on the Growth of Small and Medium Enterprises (SMEs), With Reference to Shinyanga Municipality, Tanzania. The study aimed to explore the managers/executive officers' perception of tax-system effectiveness in promoting SMEs growth in the Country. The Study was based on the survey of 120 managers/Executive officers

of the selected SMEs in the Shinyanga Municipal region in Tanzania. The survey was administered using questionnaire and interview with the selected respondents. Data was analysed by descriptive analysis method and findings were presented in terms of frequencies and percentage analysis. Findings indicate that majority of the respondents perceive the adverse impact of existing tax policies on the growth of SMEs and suggest for reforming the tax policies in the Country..

In a study conducted by Tsubira & Nkote (2013) entitled income tax compliance among SMEs in Uganda;- tax payer proficiencies perspective. The study was done with the purpose to examine the relationship between income tax proficiencies and income tax compliance among SMEs in Uganda. The methodology that was used in the study was a cross sectional descriptive survey design. This study revealed the need for SMEs to nurture tax competence as critical, encourage Uganda Revenue Authority to sensitise through tax education/capacity building SMEs to acquire such proficiencies that will enhance income tax compliance amongst SMEs. In addition, the government of Uganda should draft a government policy document, including strategies and plan of action for capacity building SMEs, which should be able to outline tax competence issues.

In another study by Mungaya, Mbwambo & Tripathi (2012) entitled the study of tax system impact on the growth of small and medium enterprise. The research was under taken in the Shinyanga Municipality in Tanzania, the study aimed to explore the managers/executive officers' perception of tax-system effectiveness in promoting SMEs growth in the Country. Study is based on the

survey of 120 managers/Executive officers of the selected SMEs in the Shinyanga Municipal region in Tanzania. The survey was administered using questionnaire and interview with the selected respondents. Data was analysed by descriptive analysis method and findings were presented in terms of frequencies and percentage analysis. Findings indicate that majority of the respondents perceive the adverse impact of existing tax policies on the growth of SMEs and suggest for reforming the tax policies in the Country..

According to Ojeka (2011), in a research entitled Tax Policy and Growth of SMEs: implication for the Nigeria Economy. The research tries to establish if any relationship exists between the growth of SMEs and the tax policy environment they operate in Nigeria. The study was undertaken in Zaria North Central, Nigeria. The sampling method that was used non profitability judgmental sampling method. The study indicated that there is a significant negative relationship between taxes and the ability of the business to grow.

Study by Maseko (2014), to determinants of tax compliance in small and medium enterprises in Zimbabwe, The main objectives of the study were to investigate how the unique business conditions of small and medium scale businesses, the perception of small and medium scale businesses operators towards taxation, levels of tax knowledge and compliance cost affect tax compliance of small and medium scale tax payers. It was found out of the study that the absence of a small business tax regime in Zimbabwe causes small and medium scale business tax payers to bear disproportionate tax compliance burdens. It was also recommended that tax authorities in Zimbabwe should use

different forms of communication to timely disseminate tax education and tax law should be amended to give tax incentives like lower tax rates and less stringent filing requirement for small businesses tax payers

In a study carried out in Ghana by Ahiawordzi et al (2013), entitled taxation and private investment in Ghana with the aim of investigating the effect of corporate income tax rate reforms on private investment in Ghana from 1970-2010. The study revealed that the level of corporate income tax rate in Ghana adversely affected the level of private investment during both pretax returns and post tax reform period. Although the parameter estimate, is not statistically significant during the reform period. Their study recommended that the government should further reduce corporate tax rates to encourage the private investment in Ghana.

In another study by Ameyaw, Korang, Twum & Asante (2015) entitled Tax Policy, SMES Compliance, Perception and Growth Relationship in Ghana: An Empirical Analysis. The specific objectives of the study were: to find out if SMES comply with their tax obligations and policies; to examine SMES perception on tax policies; and to identify the effects of tax policies on SMES growth in Ghana. The research was primarily carried out at the Accra Metropolitan Assembly and it covers four markets of Kantamanto market, Makola market, Malata market and Dome Market. Respondents from these markets were small and medium business owners in operation from 2002 to 2015. The survey was administered using questionnaire and a total of 200 respondents were used with 50 respondents from each market. Data was analysed using SPSS version 21.

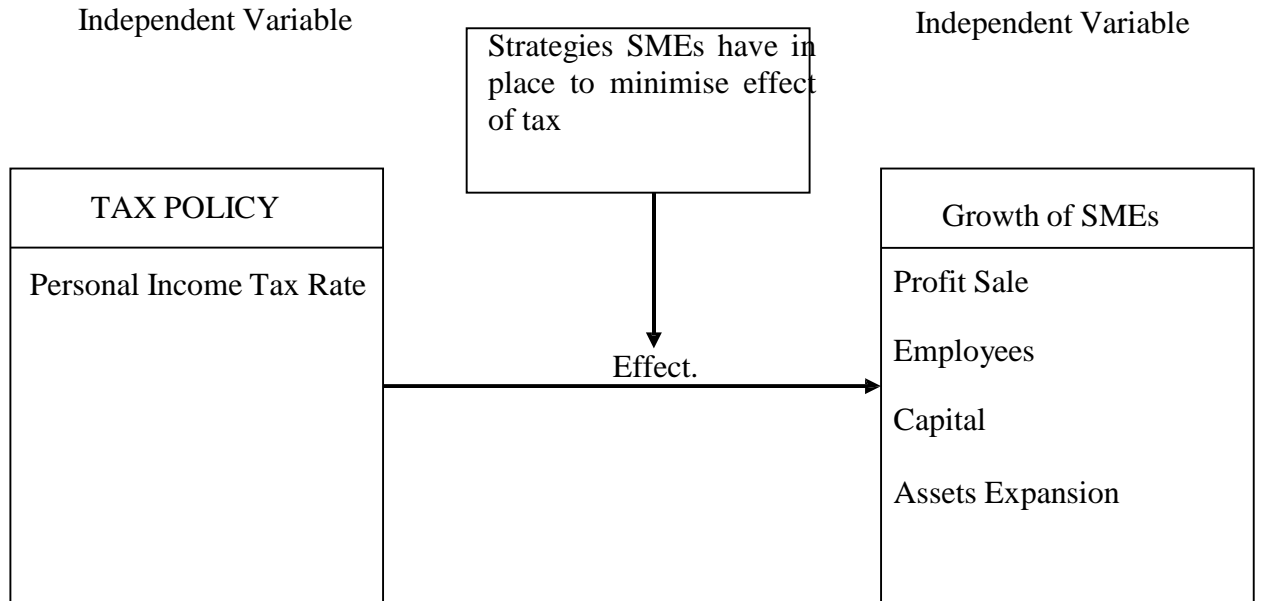
Multiple regression analysis was employed in the study and the findings of this research indicated that majority of the respondent's perceived adverse impact of tax policies on SMES compliance, growth and perception in Ghana.

Therefore, the following recommendations were made in order to improve SMES growth as well as government revenue mobilisation on taxes to an appreciable level. Tax systems governing SMES should be simplified to encourage compliance to taxes. For example technology can be introduced in the filing of taxes to ease the cumbersome processes in the payment of taxes. Also clear and simple tax regulations should be instigated. SMES should be educated on issues concerning taxes such as enlightening their expected tax incentives and tax exemptions that they are liable for. Also tax administrators should improve upon their duties efficiently with integrity in order to help eradicate the issue of multiple taxes.

The government of Ghana should harmonies the payment of taxes by defining sanctions for the non-compliance of taxes by SMES as well as reviewing the cost of legislative compliance which imposes more burdens on SMES. Government should appropriately define in simple and clear sentences the usage of tax revenue in order to eradicate the unappealing perception about SMES on matters relating to taxes. A well-defined strategy should also be adopted by government to aim at the development of SMES as well as increase the mobilisation of tax revenues to help fund government expenditures.

Conceptual Framework

To achieve the objectives of the research, it is important to provide a conceptual frame work for the study



Source: Constructed for the study

From the table above, the study tries to find out whether personal income tax rate has a negative effect of the various growth indicators of small and medium scale businesses. It also tries to find out whether small and medium scale businesses have strategies in place to minimise the negative effect of personal income tax rate on their growth.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter contains the methodology of the study. The study investigates effect of tax policy on the growth of Small and Medium Scale Businesses. The study also to investigate strategies Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth of the businesses and the reaction of Small and Medium Scale Businesses operators on tax policy. To achieve this objective, it is important to design appropriate research methodology for collecting data, processing the data and presenting the information derived. This chapter thus discusses the research design, the study setting, the population, sample and sampling technique. Other issues discussed research instrument, data collection method and data analysis procedure.

Research Design

According to Sarandakos (2005), the purpose of research designs varies according to the nature and purpose of the study, the type of population, the structures of the research, the number of researchers and research assistants and the ideological affiliation of the researchers and among other factors. The research adopted a descriptive survey design because descriptive research involves gathering data that describe events and then organises, tabulates, depicts, and describes the data collection. It often uses visual aids such as graphs and charts to

aid the reader in understanding the data distribution. The researcher adopts this survey to better define an opinion, attitude, or behavior held by the SMEs operators on tax policy and growth of SMEs.

In order to obtain information about the target population, basically, surveys enable researchers to draw sample from small and large population in the most effective and economic way (Opoku, 2006). Mixed method approach was used to answer the research questions. Creswel (2009) mixed method allows various methods of data collection and analysis. The reason for adopting the mixed method approach was that mixed method research gives information from qualitative methodology and quantitative methodology (Creswell, 2009). During the research, interview and open ended questionnaire items were used to obtain qualitative data. Quantitative data was obtained from closed-ended aspect of the questionnaire.

Research Setting

The study was carried within the new Juaben municipality in Koforidua, the capital of eastern region of Ghana. The local government Act (462) of (1993) establishes the new Juaben municipal Assembly. The new Juaben municipal covers about 110 square kilo meters. The municipality shares boundaries with East-Akim municipality to the north east, Akuapim north district to the east and south and suhum kraboa coaltar district to the west. The new Juaben municipal has 52 settlements According population census (2010), the population of the municipal was approximately 799, 3372. And there are several thousand, three

hundred and eighteen (7318) houses in the municipality. The economic activities that the people within the municipality engage are agricultural, industry and service. Most of the people in the municipality operate small and medium scale businesses.

Population

According to Trochim (2006) research population is generally a large group of individual or object to which researchers sometimes generalise their finding. The population consists of all small and medium scale businesses in the new Juaben municipality. According to Cohen at al (2004) a target population is a group of elements or cases that match to specific criteria and to which a researcher intends to generalised a study. The target population was all small and medium scale businesses in the central business district of Koforidua. However, the accessible population for the study comprised 200 small and medium scale businesses in the central business district of Koforidua. There are 400 small and medium scale businesses in new Juaben municipality (NBSSIE/R 2016).

Sample and Sampling Technique

A sample is a small set of cases a researcher selects from a large pool and generalises to the population (Neuman, 2011). According to Allassan (2006) sampling is the process of selecting a portion of the population to represent the entire population. For this study, the sampling techniques were a combination of simple random sampling and purposive sampling.

Purposive sampling technique is a non-probability technique. According to Sarantakos (2005), in this technique the researchers purposely choose subject who in their opinion is relevant to the project. The choice of the respondent is guided by the judgment of the investigator. For this reason is also known as judgmental sampling .Neumann (2011) Simply random sampling is a random sample in which a researcher creates a sampling frame and uses a pure random process to select cases so that each sampling element in the population will have an equal probability of being selected. The researcher adopted purposive technique in this research because the research would be able to get reliable information and the reason for simple random sampling, so that each Small and Medium Scale business will have equal chance of being selected.

The sample size use for the research was 200 owners of small and medium scale business in the new Juaben municipality. The sample size was derived using by using Yaro Yamani formula (Abdullah, 2012) as follow:

$$n = \frac{N}{1 + N(e)^2}$$

Where n= sample size

N= population size

e = margin of error which is equal to 0.05

$$n = \frac{400}{1 + 400(0.05)^2}$$

n= 200

The sample size is a good representative that can be used to draw valid conclusion. The researchers purposively choose the new Juaben municipality basically because of access to information from the managers or operators of small and medium scale businesses.

Data Collection Instrument

The collection of the survey typically involves personal interviews which normally use either a structured or unstructured questionnaire; panel interview and telephone were used to gather data for the research. The reason for the use of the questionnaire since some of them can read, write and understand. Those who cannot read and write the researcher read and explain it to them and based on that they expressed their opinion. Some of the owners were interviewed for their opinion based on the research question.

According to Neumann (2011) a questionnaire is a writing document in survey research that has a set of questions given to participants. A single questionnaire was designed for the study which was made of four sections (A,B,C,D) the purpose of section A was to find out of the demographic of the small and medium scale business which were sampled for the survey. The section B was designed to find out the effect of personal income tax rate on the growth of small and medium scale business. The section C was designed to investigate strategies Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth of the businesses. The section D

was to find out the reaction of Small and Medium Scale Businesses operators on tax policy.

Likert scale use, particularly as a means for studying attitudes. The responsive categories range between two extremes position divided into five points corresponding to a verbal –numerical scale. The closed-ended items on the questionnaire were designed to capture a range of responses in a Likert-type rating scale. The five point type which were considered for the likert scale were: 1 strongly agree, 2 agree,3 neutral,4 disagree, 5 strongly disagree.

An interview is a method used to collect data where an interviewee is being asked question by the interviewer. These methods of collecting can be done through face to face or by the use of telephone. In this study 20 small and medium business owners/operators were interviewed. The interview was semi structured interview. It took the researcher 15 minutes to interview each of the 20 small and medium scale owners.

Data collection procedure

The researcher showed his student ID card issued by College of Distance Education, University of Cape Coast to the respondents. This enabled the researcher to have data from operators of small and medium scale businesses in the new Juaben municipality. It took the researcher four weeks to collect the data for the study.

The researcher constructed a questionnaire in order to ensure all relevant data required for the study have been collected. This questionnaire comprises four

sections. Section A solicits background information. Section B solicits information on effect of personal income tax rate on the growth of Small and Medium Scale Businesses. Data collected in the section provides relevant data for assessing effect of personal income tax rate on small and medium scale businesses. Section C of the questionnaire collects data necessary for investigate strategies Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth of the businesses . Section D of the questionnaire collects data needed for the reaction of Small and Medium Scale Businesses operators on tax policy. The final stage of the data collection was, the researcher checked to ensure all the questionnaire have been filled and submitted to the researcher.

Data Analysis

According to Opoku (2006) data analysis is the process of organising and summarising data using description statistics and/or inferential statistic. In this study the researcher used questionnaires and interviews to collect data to answer the research question. Both quantitative and qualitative methods were adapted to analysis data. The data collected is screened, filtered and recoded. It is then fed into SPSS which measured all the variables in percentages and bar chart to illustrate tax policy and growth of SMEs.

Statistical analysis was use for data that were collected through the close ended aspect of the questionnaire. Description statistics in the form of simple percentage, frequency were investigated in the analysis. Also Pearson's

correlation was also used to analyse in this study to found out whether personal income tax rate has effect on growth of small and medium scale businesses.

The qualitative data; open-ended questionnaire and interview were analysis thematically in order to answer the research question. The responses to the questionnaire item were coded and themes were identified in the process. The results were presented using frequency count and percentage. The interviews analysis was reported using narrative style with embedded direct quotation.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

Introduction

This chapter presents findings on tax policy and growth of small and medium scale businesses: a study on businesses in new Juaben municipality. The findings are presented in accordance with the objectives of the study.

Biographical Findings

The researcher sought to find the characteristics of the respondents of the questionnaires. These results are presented based on position of respondents, Gender of Respondents, Educational background of Respondents, Activities that the businesses engaged, Registration of businesses, and Number of years the businesses had been in operation Legal Status of the businesses

Position of the respondent

Respondents were asked to indicate their positions in the running of the businesses.

From Table 1, 33.3% of the respondents are managers, 20% are owners while 46.7% are managers and owners of the businesses. This indicate that majority of the respondents are managers and at the same time owners of the business. This implies most small and medium scale businesses are being managed by the owners.

Table 1 Showing the Position of Respondents



Source: Survey Study (2016)

Gender of Respondents

Table 2 indicates the gender of the respondents in the study. From Table 2, it was found that 56.5% of the respondents were males and 43.5 % were females. These indicated that the majority of the respondents were males. This means more males are in the small and medium scale businesses than women.

Table 2: showing Gender of respondents

Gender	Number of respondents	Percentage (%)
Male	113	56.5
Female	87	43.5

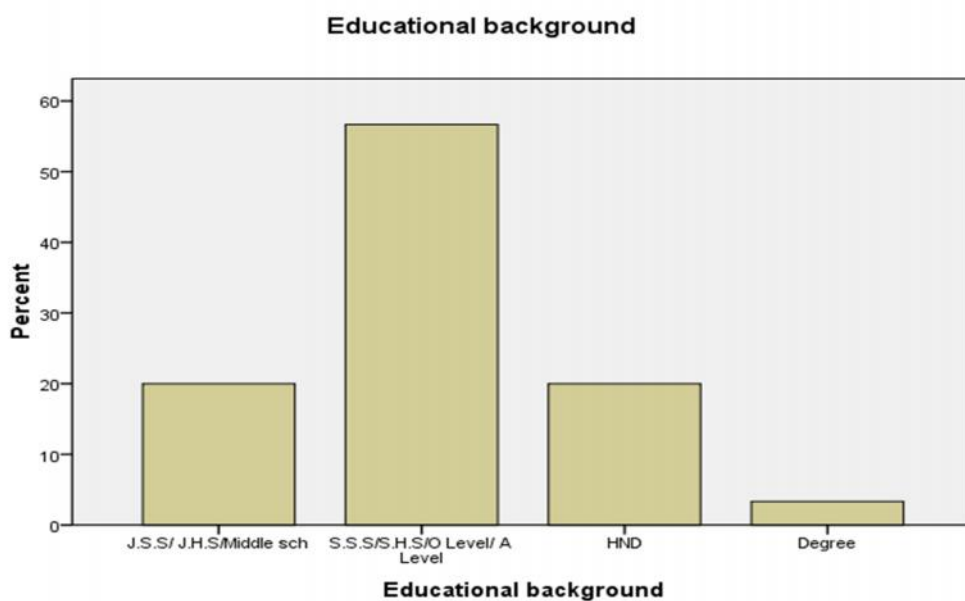
Total	200	100.0
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Source: Survey Study (2016).

Educational background of Respondents

To attest to the credibility of the responses, the respondents were asked to tick their educational background. The responses is indicated in table 3

Table 3 Showing Educational Background of Respondents



Source: Survey Study (2016).

From Table 3, it shows that 20% of the respondents were JSS/JHS/Middle school levers, 56.7% were SSS/SHS/O’level /A’level levers, 20% were HND holders and 3.3% were degree holders. This indicate that majority of the respondents were SSS/SHS/O’level/A’level levers. This means that most small

and medium scale operators have appreciable level of education which can help them manage their businesses.

Activities that the businesses engaged

The respondents were asked about the kinds of activities that their businesses were engaged. The response is indicated in table 4.

Table 4 Showing Activities that the Businesses Engaged

Activities Engaged	Number of respondents	Percentage (%)
Retailing	173	86.5
Wholesaling	27	13.5
Total	200	100.0

Source: Survey Study (2016).

From Table 4, 86.5% of the respondents indicated that their businesses engaged in retailing while 13.5% engaged in wholesaling. This indicate that majority of the respondents engaged in retailing.

Registration of businesses

The respondents were asked to indicate whether their businesses had been registered. The response is indicated table 5

Table 5 Showing Whether the Businesses had been Registered



Source: Survey Study (2016).

From Table 5, it indicated all the Small and Medium Scale Businesses that were considered for the study had been registered. This means that, the businesses that were considered for the study are into legal business that the laws of Ghana recognise.

Number of years the businesses had been in operation

Respondents were asked to show how long their businesses had been in operation. This was to enable the researcher to know the level of understanding of the respondents about the business environment. The response is indicated table 6.

Table 6 Showing Number of Years the Businesses had been in Operation

Years in operation	Number of respondents	Percentage (%)
0-5years	53	26.5
6-10years	73	36.5
11-15years	46	23.0
16-20years	20	10.0
21-25years	8	4.0
Total	200	100.0

Source: Survey Study (2016)

From Table 6, majority of the respondents indicated that their businesses had been in operation between 6- 10 years representing 36.5% of the total respondents. And it implies that most of the businesses that were considered in this study have been in the business for an appreciable period and they have enough experience concern this study..

Legal Status of the businesses

Respondents were asked to indicate the legal status of the businesses. The response is indicated table 7.

From table 7, 63.3% indicated that the legal status of their businesses were sole proprietorship whiles 36.7% indicated the legal status of their businesses were

partnership. This show that majority of the respondents indicated that the legal status of their businesses were sole proprietorship.

Table 7 Showing the Legal Status of the Businesses



Source: Survey Study (2016)

Research Objective 1: To determine effect of personal income tax rate on the growth of Small and Medium Scale Businesses

On the issue of how personal income tax rate affect the growth of Small and medium scale businesses, the following table shows respondents views in percentages as to how personal income tax affect the growth of small and medium scale businesses.

Presentation of results: The bar chart and tables 9, 10,11,12,13 attest to the views and opinions of respondents on personal income tax rate effect.

How does *personal income tax rate* affect the growth of Small and medium scale businesses?

The study sought to find how tax personal income tax rate affect growth of small and medium scale businesses. The respondents reviewed how personal income tax rate affect the level of assets expansion of their businesses, number of employees their businesses employ, target profit needed for the expansion of their businesses, sales of their businesses and capital of their businesses.

Type of tax the businesses pay to Ghana Revenue Authority

The respondents were asked to indicate the Type of tax their businesses pay to Ghana Revenue The response is indicated in table 8.

Table 8 Showing Type of Tax the Businesses Pay to Ghana Revenue Authority.

TYPE OF TAX	No of respondents	Percentage (%)
Personal Income Tax	200	100
Tax stamp	0	0
TOTAL	200	100

Source: Survey Study (2016)

From Table 8, 100% of the respondents indicated that their businesses pay personal income tax rate. This shows majority of the respondents indicated that their businesses pay personal income tax.

Personal income tax rate negatively influence the level of assets expansion of your business.

The respondents were asked to indicate the how personal income tax rate negatively influences the level of assets expansion of their businesses .The response is indicated in table 9.

Table 9 Showing how Personal Income Tax Rate Negatively Influences the Level of Assets Expansion of their Businesses.

Response	Number of respondents	Percentage (%)
Strongly agree	60	30.0
Agree	107	53.5
Neutral	6	3.0
Disagree	27	13.5
Total	200	100.0

Source: Survey Study (2016)

From table 9, 30% of the respondents agreed strongly personal income tax rate negatively influences the level of assets expansion of their businesses, while 53.5% agree that personal income tax rate negatively influence the level of assets expansion. 3.0% were neutral on personal income tax rate negatively influences level of assets expansion while 13.5% disagree. The score of the table revealed

that personal income tax rate negatively influences the level of assets expansion. From Table 9 it can be said that personal income tax rate negatively influences the level of assets expansion. This implies that when the tax rates are high small and medium scale business cannot be able to purchase more assets to run the business because they may have little retain earnings. This attest to the fact made by Lyon & Merril (2000) that assets value increases or decreases as a result of tax rate. This confirms that when personal income tax rate is high it affects the ability to pay of businesses.

Personal income tax rate negatively influences the number of employees the businesses employ

The respondents were asked to indicate how personal income tax rate negatively influences the number of employees the businesses employ .The response is indicated in table 10.

Table 10 Showing how Personal Income Tax Rate Influences the Number of Employees their Businesses Employ

Response	Number of respondents	Percentage (%)
Strongly agree	40	20.0
Agree	73	36.5
Disagree	87	43.5
Total	200	100.0

Source: Survey Study (2016)

From the score of Table 10, it was deduced that personal income tax rate negatively influences the number of employees the businesses employ since 20% strongly agreed that personal income tax rate negatively influences the number of employees the businesses employ while 36.5% agreed to that statement. Also From Table 10, it was realised that personal income tax rate negatively influences the number of employees the businesses employ, meaning when the personal income tax rate is not friendly to small and medium scale businesses owners they decide not to employ more employees and sometimes sack existing employees because the ability to pay the tax has been affected. This confirms what Mwangi (2007) found in his research that, business owners curb the effect of tax by reducing the number of workers employed.

Personal income tax rate negatively influence the targeted profit needed for expansion of the businesses

The respondents were asked to indicate how personal income tax rate negatively influences the targeted profit needed for expansion of their businesses .The response is indicated in table 11.

Table 11 Showing how Personal Income Tax Rate Negatively influences the Targeted Profit needed for Expansion of the Businesses

Response	Number of respondents	Percentage (%)
Strongly agree	47	23.5
Agree	106	53.00

Disagree	40	20.0
Strongly disagree	7	3.5
Total	200	100.0

Source: Survey Study (2016)

From table 11, 47 of the respondents representing 23.5% of the total respondents strongly agreed that personal income tax rate negatively influences the targeted profit needed for expansion of their businesses. 106 respondents representing 53.0% agreed while 40 of the respondents representing 20% disagreed followed by 7 respondent representing 3.5% strongly disagreed. From the result, it implies personal income tax rate negatively influence the targeted profit needed for expansion of businesses.

From Table 11, it was revealed that personal income tax rate negatively influences the targeted profit needed for the expansion of small and medium scale businesses. This shows that when authorities impose tax on businesses without considering the ability to pay of Small and medium scale businesses it ends up reducing their profit margin. This attest to the fact made by UNDP (2003), that too onerous tax regime can erode the profitability of enterprises, leading to higher rate of businesses failure.

Personal income tax rate negatively influences the sales of the businesses.

The respondents were asked to indicate how personal income tax rate negatively affect the sales of their businesses .The response is indicated in table 12.

Table 12 Showing how Personal Income Tax Rate Negatively Influences the Sales of their Businesses

Response	Number of respondents	Percentage (%)
Strongly agree	33	16.5
Agree	73	36.5
Disagree	80	40.0
Strongly disagree	14	7.0
Total	200	100.0

Source: Survey Study (2016)

From Table 12, 33 of the respondents representing 16.5% of the total respondents strongly agreed that personal income tax rate negatively influences the sales of their businesses. 73 respondents representing 36.5% agreed. 80 respondents representing 40% disagreed followed by 14 respondents representing 7% strongly disagreed. From the result, it was revealed personal income tax rate negatively influences the sales of the businesses.

Further more from table 12, it shows that personal income tax rate negatively influences the sales of small and medium scale businesses when this happens, they shift the tax to customers by increasing the prices of their products in order to have the ability to pay the tax and by this it makes customers seek alternative ways of satisfying their needs which ends up reducing sales of small and medium scale businesses. This attest to what Kamar (2015) posit that if a large proportion of small and medium scale businesses cost are devoted to paying

tax , they will be forced to shift the tax burden on to the consumer and this ultimately make their goods and services uncompetitive, which will have a negative impact on sales revenue.

Personal income tax rate negatively affect the capital of the businesses

The respondents were asked to indicate how personal income tax rate negatively affect the capital of their businesses. The response is indicated in table 13.

Table 13 Showing how Personal Income Tax Rate Negatively affect the Capital of their Businesses

Response	Number of respondents	Percentage (%)
Strongly agree	33	16.5
Agree	73	36.5
Neutral	27	13.5
Disagree	47	23.5
Strongly disagree	20	10.0
Total	200	100.0

Source: Survey Study (2016)

From Table 13, 16.5% of the total respondents strongly agreed that personal income tax rate negatively affect the capital of their businesses. 36.5 % agreed while 13.5% were neutral. 23.5% disagreed to the statement while 10% strongly disagreed. From the result, it was deduced that personal income tax rate affect the capital of the businesses.

Furthermore, from Table 13, it can be said that personal income tax rate negatively affect the capital of small and medium scale businesses, this implies that when tax are imposed on small and medium scale businesses it reduces the amount of capital that have been invested by the owners of small and medium scale businesses. This confirms what CEBR (2009) posit that taxes on capital reduces incentives for businesses to invest in new equipment, technology and research and development as they reduce the expected levels of return on investment.

Interviews on Research Objective 1. This was posed to 3 owners and 2 managers of small and medium scale businesses. The question was how does personal income tax rate affect the growth of small and medium scale businesses?

The responses are representation of all owners and managers of small and medium scale businesses. The respondents' views are summarized as follows:

Personal income tax rate has effect on their businesses since it is the same money that we used to run the businesses are the same money that they used to pay the tax, also they are of the view that Personal income tax rate negatively affects their businesses since the tax money is taken from the profit of their businesses. Furthermore, they believed, that personal income tax rate has effect on their business since their businesses are small therefore the effect is strongly felt. Again, they also have the view that personal income tax rate negatively affects their businesses since tax is taken from the small income generated by their businesses, and last but not least, they believe that personal income tax rate has

adverse effect on their businesses since it affects their profits and the number of employees they want to employ to run their businesses.

Correlation Results

From the Pearson's rank correlation in table 14. There is a positive correlation of 0.532 between personal income tax rate negatively influences the level of assets expansion of businesses and personal income tax rate negatively influences the number of employees the businesses employ. This means that the negative effect of personal income tax rate on assets expansion and number of employees the businesses employ is strong. Also there is positive correlation of 0.701 between personal income tax rates negatively influences the level of assets expansion of businesses and personal income tax rates negatively influences the targeted profit needed for the expansion of the businesses.

This implies that the negative effect of personal income tax rate on assets expansion of the businesses and the targeted profit needed for the expansion of the businesses is very strong. Again, there is a positive correlation of 0.434 between personal income tax rate negatively influences the level of assets expansion of the businesses and personal income tax rate negatively affect the sales of the businesses.

Table 14 Correlation matrix

	personal income tax rate negatively influences the level of assets expansion of your business	personal income tax rate negatively influences the number of employees your business employs	personal income tax rate negatively influences the targeted profit needed for the expansion of your business	personal income tax rate negatively affect the sales of your business	personal income tax rate negatively affects the capital of your business
personal income tax rate negatively influences the level of assets expansion of your business	1				
personal income tax rate negatively influences the number of employees your business employs	.532**	1			
personal income tax rate negatively influences the targeted profit needed for the expansion of your business	.701**	.481**	1		
personal income tax rate negatively affect the sales of your business	.434*	.590**	.455*	1	
personal income tax rate negatively affects the capital of your business	.624**	.377*	.825**	.511**	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Also the output shows that the relationship between personal income tax rate negatively influences the level of assets expansion and personal income tax rate negatively affects the capital of the businesses is strong with correlation coefficient of $r=0.624$. Thus the higher the tax rate influences the level of assets expansion of the businesses, the higher the tax rate negatively influences the capital of the businesses.

Furthermore the output of personal income tax rate negatively the number of employees businesses employ and personal income tax rate negatively influences the targeted profit needed for the expansion of the businesses is $r=0.481$. This implies though there is a positive weak correlation between personal income tax rate affecting both number of employees the businesses and the target profit needed for the expansion of the businesses. Also the coefficient of $r=0.590$ between personal income tax rate negatively influences the number of employees the businesses employ and personal income tax rate negatively affect the sales of the businesses shows there is strong correlation. The coefficient of $r=0.377$ between personal income tax negatively influences the number of employees the businesses employs and personal income tax negatively affects the capital of the businesses shows though there is a correlation but is moderate. Also the output shows that the relationship between personal income tax rate negatively influences the targeted profit needed for the expansion of the businesses and sales of the businesses score is moderate with a correlation coefficient of $r=0.455$. Also the output shows that the relationship between

personal income tax rate negatively affects the targeted profit needed for the expansion the business and capital of the businesses score is strong with a correlation of $r=0.63$

Research Objective 2: Investigate strategies Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth of the businesses.

The study sought to find whether small and medium scale businesses have strategies in place so that the effect of tax does not affect the growth of the businesses.

Presentation of results: The bar chart and tables 15, 16 and 17 below attest to the views and opinions of respondents on tax policy effect

Strategies small and medium scale businesses have in place to minimise the effect of personal income tax rate.

The respondents were asked to indicate strategies small and medium scale businesses have strategies in place to minimise the effect of personal income tax rate. The response is indicated below

Table 15 Showing Small and Medium Scale Businesses have Strategies in Place to Minimise the Effect of Personal Income Tax Rate.

Response	Number of respondents	Percentage (%)
yes	10	5

no	180	90
Neutral	10	5
Total	200	100.0

Source: Survey Study (2016)

From Table 15, it was deduced that 90% small and medium scale businesses do not have strategies to minimise the effect of personal income tax rate while 10% have and 10% were neutral. From Table 15, majority of the respondents indicated that they do not have strategies in place to minimise the negative effect of personal income tax rate on their businesses even though Aryeetey & Ahene (2004) posit that tax rate is one of the challenges being faced by small and medium scale businesses. This shows when personal income tax rate are impose on small and medium scale businesses without considering the ability to pay it will end up affecting the growth since most of them do not have strategies in place to minimise the negative effect of personal income tax rate.

Small and medium scale businesses continuously shift personal income tax burden to customers.

The respondents were asked to indicate Small and medium scale businesses continuously shift personal income tax burden to customers. The response is indicated in table 16

Table 16 Showing Small and Medium Scale Businesses Continuously Shift Personal Income Tax Burden to Customers

Response	Number of respondents	Percentage (%)
Strongly agree	33	16.5
Agree	73	36.5
Disagree	80	40.0
Strongly disagree	14	7.0
Total	200	100.0

Source: Survey Study (2016)

From table 16, 16.5% of the respondents strongly agreed small and medium scale businesses continuously shift personal income tax rate burden to the customers .Followed by 36.5% of respondents agree. 40% of the respondents disagree while 7% strongly disagreed. From these results it implies small and medium scale businesses continuously shift personal income tax burden to customers.

Further more from Table 16, it was revealed that small and medium scale businesses continuously shift personal income tax rate burden to customers this attest to what Mwangi (2007) found in his research that, business owners curb the effect of tax by shifting it to the customers. And when tax burden are continuously shifted to the customers it ends up reducing the customer base of the small and medium scale businesses. And by this, the small and medium scale businesses may not be able to pay the personal income tax rate because the ability to pay will be affected because when the customer base is reduced it affects the revenue that the business can generate.

Small and medium scale businesses borrow money to minimise the negative effect of personal income tax rate.

The respondents were asked to indicate small and medium scale businesses borrow money to minimize the negative effect of personal income tax rate. The response is indicated below

Table 17 Showing Small and Medium Scale Businesses Borrow Money to Minimise the Negative Effect of Personal Income Tax Rate

Response	Number of respondents	Percentage (%)
Strongly agree	87	43.5
Agree	33	16.5
Neutral	33	16.5
Disagree	47	23.5
Total	200	100.0

Source: Survey Study (2016)

From Table 17, it was deduced that small and medium scale businesses borrow money to minimise the negative effect of personal income tax rate since 43.5% of the total respondents strongly agreed. 16.5% agreed. 16.5% were neutral while 23.5 disagreed. Also from Table 17, it was deduced that that small and medium scale businesses borrow to minimise the negative effect of personal income tax rate. And borrowing too brings about negative effect on the growth of the businesses as Mabe et al (2013) posit that high interest rates on loans is one

of the challenges faced by small and medium scale businesses. And this affirms that when interest rates on loans are high it affects the ability to pay of tax by the businesses.

Interviews on Research Objective 2. This was posed to 3 owners and 2 managers of small and medium scale businesses. The question was what strategies do small and medium scale businesses have in place to minimise the effect of personal income tax rate on the growth businesses. It can be concluded that all the respondents do not have strategies in place to minimise the effect of personal income tax rate on their businesses except one respondent who said he has a strategy in place.

Research Objective 3: Investigate the reaction of Small and Medium Scale Businesses operators on tax policy.

The study sought to find the reaction of owners of the small and medium scale businesses towards personal income tax rate. Respondents were asked whether they thought Small and Medium Scale Businesses be made to pay tax and other levies, whether the tax policy influence them to evade tax.

Presentation of results: The tables 18, 19, 20 below attest to the views and opinions of respondents on reactions of owners of small and medium scale businesses on personal income tax rate.

Do respondents think Small and Medium Scale Businesses be made to pay tax?

The respondents were asked to indicate whether Small and Medium Scale Businesses be made to personal income tax rate. . The response is indicated below

Table 18 Showing Whether Small and Medium Scale Businesses be Made to Pay Personal Income Tax Rate.

Response	Number of respondents	Percentage (%)
Strongly disagree	13	43.3
Agree	11	36.7
Disagree	1	3.3
Strongly disagree	5	16.7
Total	30	100.0

Source: Survey Study (2016)

From Table 18, 43.3% of the total respondents strongly agreed that small and medium scale businesses be made to pay personal income tax rate, 36.7% agreed, 3.3% disagreed and 16.7% strongly disagreed. From these results, it was deduced that respondents think small and medium scale businesses should be made to pay tax. From Table 18, it shows respondents believed that small and medium scale businesses be made to pay personal income tax rate, because it is a civic duty to pay personal income tax rate for the nation to be able to embark on developmental projects. This confirms what the benefit theory states that small and medium scale businesses will pay tax based on the benefit that they will received. But the problem respondents have is the high personal income tax rate, which rather put pressure on the growth of their businesses. Also high tax rates

scare investors. This attest what Norgah (1998) posit that higher tend to drive out or scare off investors

Small and Medium Scale Businesses be made to pay other levies

The respondents were asked to indicate whether Small and Medium Scale Businesses be made to pay other levies. The response is indicated in table 19.

Table 19 Showing Whether Small and Medium Scale Businesses be Made to Pay other Levies.

Response	Number of respondents	Percentage (%)
Strongly agree	9	30.0
Agree	13	43.3
Neutral	2	6.7
Disagree	2	6.7
Strongly disagree	4	13.3
Total	30	100.0

Source: Survey Study (2016)

From Table 19, 30% of the respondents strongly agreed small and medium scale businesses be made to pay other levies, 43.3% agreed, 6.7% were neutral, 6.7% disagreed and 13.3% strongly disagreed. It was found out respondents agreed that small and medium scale businesses be made to pay other levies. Also, from table 19, respondents agree that small and medium scale businesses should be made to pay other levies, because it is used to carry the developmental activities in their communities such as rehabilitation of roads, construction market among others.

This also affirms the benefit theory of taxation which states tax payers will pay tax based on the benefit that they receive. But the respondent believed that the levies rates are too high and should be reduced.

Does the personal income tax rate influence small and medium scale businesses to evade tax

The respondents were asked to indicate whether personal income tax rate influences small and medium scale businesses to evade tax. The response is indicated in table 20.

Table 20 Showing whether Personal Income Tax Rate influences Small and Medium Scale Businesses to Evade Tax.

Response	Number of respondents	Percentage (%)
Strongly agree	7	23.3
Agree	9	30.0
Disagree	9	30.0
Strongly disagree	5	16.7
Total	30	100.0

Source: Survey Study (2016)

From Table 20, 23.3% of the respondents strongly agreed that personal income tax rate influences them to evade tax, 30% agree, 30% disagreed and 16.7% strongly disagreed. From the table it was found out that personal income tax rate influences small and medium scale businesses to evade tax. From table 20. It shows that personal income tax rate influences small and medium scale

businesses to evade tax , because when the tax is high it may end up collapsing small and medium scale businesses.

This attest to what Atawodi & Ojeka (2012) posit that high tax and complex filling procedures are the most crucial factors causing non-compliance. This means when taxes are imposed on small and medium scale businesses without considering the ability to pay of the businesses, they may end up evading the taxes, which will also end up reducing the revenue needed by government to carry out developmental activities in the country.

Interviews on Research Objective 3. This was posed to 3 owners and 2 managers of small and medium scale businesses. What are the reactions of respondents on tax policy? The respondents came out that they agree that small and medium scale businesses be made to pay personal income tax rate but tax authorities should consider the amount they tax. The personal income tax rate should not be too high, if not it will collapse their businesses. Also SMEs should pay personal income tax rate since it is a national duty but the amount should be paid based on the strength of the businesses. Again, they agreed that SMEs be made to personal income tax rate but it should be based on the willingness of the owners of businesses. It should not be compulsory, as it is not compulsory to pay offering in the church but based on once willingness.

Furthermore, they are of the view that they should pay personal income tax rate but tax collectors should consider the profit of their businesses before they tax them. Because after paying utility bill and interest on loans, profit left is

small and even some times they make losses and finally SMEs must pay tax but the tax rate should not be too high..

CHAPTER FIVE

SUMMARY, RECOMMENDATION AND CONCLUSION

Introduction

This chapter is made up of the summary, recommendations and conclusions of the study.

Summary

The study was conducted to investigate the effect of tax policy on the growth of small and medium scale businesses, what strategies small and medium scale businesses have in place to minimise the effect of personal income tax rate on their businesses and investigate the reaction of small and medium scale businesses operators on personal income tax rates. The study adopted descriptive survey. And also the sampling techniques adopted were a combination of simple random sampling and purposive sampling. The researcher used small and medium scale businesses in new Juaben municipality. Selected owners and managers of small and medium scale businesses in the Koforidua central business district were investigated.

The following research objectives were formulated to guide the study:

To determine the effect of personal income tax rate on the growth of Small and Medium Scale Businesses.

To investigate strategies Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth of the businesses.

To investigate the reaction of Small and Medium Scale Businesses operators on tax policy.

On the research objective 1, it was found out that personal income tax rate has negative effect on all the growth indicators of small and medium scale businesses. This implies that personal income tax rate has negative effect on the level of assets expansion of the small and medium scale businesses, the number of employees the businesses employ, the targeted profit of the small and medium scale businesses, targeted profit of the small and medium scale businesses, sales of the small and medium scale businesses and capital of small and medium scale businesses.

On the research objective 2, it was revealed that most small and medium scale businesses do not have in place strategies to minimise the effect of personal income tax rate on their growth. This is because, majority of the respondents indicated that they do not have tax policy in place to minimise the effect of personal income tax rate. This shows when authorities impose personal income tax rate which are not friendly to small and medium scale businesses it will end up negatively affecting the growth of these businesses.

On the research objective 3 it was revealed that most operators of small and medium scale businesses see payment of personal income tax and other levies as a civic duty, because these enable the government to get enough revenue to carry on with developmental activities in the country. But the problem respondents have with payment of personal income tax rate is that personal

income tax rate is not friendly to their businesses but rather put pressure on the growth of their businesses.

Conclusion

From the study it can be concluded that personal income tax rate is hindering the growth of small and medium scale businesses it implies tax policy is hindering the growth of small and medium scale businesses since it was revealed that personal income tax rate negative effect on the assets expansion of the businesses, also it has negative effect on the number of employees the businesses employ. It was also has negative effect on the targeted profit needed for the expansion of the businesses, sales of the businesses and the capital of the businesses.

On the question of what strategies do Small and Medium Scale Businesses have in place to minimise the effect of personal income tax rate on the growth businesses? It can be concluded that small and medium scale businesses do not have strategies in place to minimise the negative effect of personal income tax rate on their growth.

On the question of what reaction do small and medium scale businesses operators have on personal income tax rate, it was can be concluded that small and medium scale businesses operator see personal income tax rate as a civic duty to pay for the government to carry on with the developmental activities in the country but the problems respondents have is the higher personal income tax rate on their businesses since it can end up collapsing of their businesses.

Recommendations

The following recommendations are made to the government, tax authorities and the operators of small and medium scale businesses:

The government should reduce the personal income tax rate that are being tax on small and medium scale businesses since it has a negative effect on the growth of these businesses.

The government should also provide increase upon the tax incentives by giving more exemption and also tax holidays do small and medium scale businesses that do not have the ability to pay the personal income tax rate. The government should provide technical assistance to the small and medium scale businesses example hiring experts of tax to educate them on how to minimise the negative effect of personal income tax rate on the growth of small and medium businesses.

It also recommended Ghana Revenue Authority should frequently organise workshops to educate operators of small and medium scale businesses so that they will still see tax as a civic duty to pay to enable the government to carry on developmental activities. It is also recommended to operators of small and medium scale businesses to also upgrade themselves in the tax education so that they can acquire knowledge and skills to help them develop strategies to minimise the effect of tax policy on their businesses. Finally it is recommended that small and medium scale businesses should engage audit firms with tax consultancy services in order to help them in the tax issues

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APPENDIX 1

UNIVERSITY OF CAPE COST

COLLEGE OF DISTANCE EDUCATION

MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING OPTION)

Questionnaires

This research is conducted to look at tax policy and growth of small and medium scale business. A study on businesses in the new juaben municipality. It would be appreciated if you respond to this questionnaire. This is an academic exercise and your confidentiality is assured.

Instructions

You are kindly requested to fill the space provided with the necessary information or please tick () or write in the space provided below.

Section A

Biographical data

Name of the business?

Position of the respondent?

Manager []

Owner []

Manager and Owner []

Sex of respondent?

Male []

Female []

1. What is your educational background?

a. Junior High School (JHS) []

b. Senior Secondary School (SHS) []

c. HND graduate []

d. Graduate []

e. Post graduate []

f. Not educated []

What kinds of activities does the business engage?

Retailing []

Whole sales []

Manufacturing []

Is the business registered?

No []

Yes []

How long has the business being in operation?

.....

What is the legal status of the business?

Private []

Public limited []

Partnership. []

Section B

How does Tax Policy affect the growth of Small and medium scale businesses?

Which type of tax does your business pay to Ghana Revenue Authority?

Corporate tax []

Personal Income Tax []

Withholding tax []

Tax stamp []

Indicate if it is different from above

The following questions demands that the respondent grade the questions. 1 represents strongly agreed, 2 represents agree, 3 represents neutral, 4 represents disagree and 5 represents strongly disagree

	1	2	3	4	5
Personal income tax rate negatively influences the level of assets expansion of your business					
Personal income tax rate negatively influences the number of employees your business employs					
Personal income tax rate negatively influences the targeted profit needed for expansion of your business					

Personal income tax rate negatively affects the sales of your business.					
Personal income tax rate negative affects the capital of your business					

Section C

Policy Small and Medium Scale Businesses have in place to minimise the effect of tax policy on the growth businesses

The following questions demand that the respondent grade the questions. 1 represents strongly agreed, 2 represents agree, 3 represents neutral, 4 represents disagree and 5 represents strongly disagree

	1	2	3	4	5
You have strategies in place to minimise the effect of personal income tax rate.					
You continuously shift personal income tax rate burden to customers					
You borrow to minimise the negative effect of personal income tax rate.					

Section D

The Reaction of owners of small and medium scale businesses on personal income tax rate.

The following questions demands that the respondent grade the questions. 1 represents strongly agreed 2 represents agree 3 represents neutral 4 represents disagree and 5 represents strongly disagree

	1	2	3	4	5
Do you think Small and Medium Scale Businesses be made to pay tax?					
Should Small and Medium Scale Businesses be made to pay other levies?					
Does the tax policies influence you to evade tax					