UNIVERSITY OF CAPE COAST

EFFECTS OF TAXATION ON FINANCCING DECISIONS OF SMALL AND MEDUIM-SZED ENTERPRISES IN KUMASI METROPOLIS

BY

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DECLARATION

Candidate's Declaration

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

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

Name: ………………………………………………………………….

Supervisor's Declaration

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

Supervisor's signature …………………… Date …………………

Name: ……………………………………………………………….....

ABSTRACT

The study assessed the effects of taxation on financing decisions of SMEs in Kumasi Metropolis, Ghana. Kumasi is mostly dominated by SMEs in various economic sectors of the Ghanaian economy. The study targeted registered SMEs, with a sampling frame of 153 businesses. A sample size of 115 was determined and were selected (stratified sampling technique). A 100 percent return rate was recorded. Descriptive research survey design was adopted and through structured questionnaire, primary data were gathered for data analysis purposes. The study employed the quantitative research approach. Statistical Package for Social Science (SPSS Version 22.0) was used to analyze the primary data. An internal consistency reliability of 0.763 was obtained for the instrument. Inferential statistics (Standard multiple regression, Pearson product-moment correlation) and descriptive statistics (Mean, standard deviation, frequency, percentage) were employed to obtain the needed insights from the processed primary data. It was discovered that majority of the SMEs duly pay taxes to Ghana Revenue Authority and are registered tax payers. However, 41.7% of SMEs delay in tax payment. SMEs do enjoy tax incentives. Again it was discovered that taxation negatively affect financing decisions in the areas of number of workers to employ, working/operational capital, investment funding and profitability. The results of the study showed that corporate taxation causes a statistically significant positive variance in SMEs' growth (R^2=0.368; p=000, p<0.05) and there was a very strong positive correlation between corporate tax and SMEs' growth (R=0.67). SMEs are however challenged especially regarding higher tax rates, multiple taxes and corruptions among tax officials.

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DEDICATION

To my family, Nhyeraba Kumi-Lamptey, Madam Agnes Ampah and siblings

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CHAPTER ONE

INTRODUCTION

Small and Medium-Sized Enterprises [SMEs] have been recognized as partners for economic development, in both developed and developing countries. They create jobs, provide income, produce varieties of goods and services for consumption, provide inputs for industrial usage, pay taxes for national development and so forth. However, SMEs are challenged especially regarding excessive tax payment in unfriendly tax regimes in developing countries including Ghana. This study therefore seeks to assess how taxation affect the financing decisions of SMEs in Ghana, with particular attention to SEMs in Kumasi Metropolis, Ashanti Regional Capital.

Background of the Study

It is evident that companies have two primary objectives to meet in their operations. These are profitability and solvency. Businesses operate to gain profits. Profits gained are used to position the company on the financial market. Taxes are however imposed on the profits of companies (Ali-Nakyea, 2008). This has made the issue of taxes gain prominence in the field of research. Some companies complain of paying double taxes along the value chain (Ali-Nakyea, 2008; Egyin, 2011). An effective and efficient tax administration system is integral to any country's well-being (Amanamah & Owusu, 2016). It is as a result of this that Baurer (2005) stated that the tax administration must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements

Marine, Obstfeld and Kramer, (2002) and Holban, (2007) argue that, taxation is the only known practical manner for collecting resources in order to finance public expenditure for goods and services consumed by citizens. Taxation has been identified as a major threat to the growth of Small and Medium-Sized Enterprises (SMEs) not only in developing countries but also in developed countries (Ian Burke & Jarrat, 2004). Since taxation affects incomes and prices of goods and services, individuals and businesses react differently in response to changes in income and in relative prices, emanating from taxation (Kinyua, 2013). However, it is evident that many high-tax rate firms pursue policies that provide tax benefits (Graham, 2006). SMEs are characterized with low tax compliance in developing countries (Masinde, 2010) because most developing countries are cash-based economies with inadequate accounting records and audit trails in practice. Tax compliance is low among SMEs also because compliance costs for the SMEs are much higher relative to larger business operations they are competing against, coupled with limited resources and technical capacity among SMEs (Kinyua, 2013).

In Ghana, readily available data on SMEs is scarce but statistics from the Registrar General's Department suggests that 92 per cent of companies registered are micro, small and medium enterprises (Amanamah & Owusu, 2016). Kayanula and Quartey, (2000) found that there have been issues on what constitutes a small or medium enterprise in literature. Different authors have usually given different definitions to this category of business. According to Weston and Copeland (1998) the definitions of size of enterprises suffer from a lack of universal applicability.

The European Commission (EC) defined SMEs largely in term of the number of employees they have: firms with 0 to 9 employees - micro enterprises; 10 to 99 employees - small enterprises; and 100 to 499 employees - medium enterprises (Amanamah & Owusu, 2016). In Ghana, the National Board for Small-Scale Industries (as cited in Oppong, Owiredu & Churchill, 2014) classifies all businesses with workforce size 6-29 as small-sized enterprises. Furthermore, all businesses employing 30-99 workforce are classified as medium-sized enterprises. This is the operational definition of SMEs in this study.

SMEs have been recognized as an important tool for local development, as they create opportunities for income generation and distribution, and empower people (Aryeetey & Ahene 2004). Literature indicates that the growth of SMEs has attracted attention from both researchers and government in developing countries, because of their potential to address unemployment, stimulate innovation and contribute to local development to promote economic growth (Musamali & Tarus, 2013, Ojo, 2003). Amoako, (2013) found that growing SMEs leads to the widening of tax revenue of government. SMEs are generally perceived to be the seedbed for indigenous entrepreneurship and generates all the many small investments, which would otherwise not have taken place (Aryeetey & Ahene 2004).

Research made in different countries has shown that the countries where the level of tax rates, the costs of fulfilling taxation requirements as well as costs of auditing are high, the sector of small and medium enterprises is comparatively small (Semikolenova, 1999). This underscores the need for governments and international organisations in developing countries to create supportive working climate for SMEs (Hussain & Planning, 2000). According to Barnett and Grown (2004), governments need to develop tax policies and tax systems that are guided by certain tenets such as fairness, mutuality, proportionality and so forth. To widen the tax net, policy makers must never forget the urgency to provide infrastructure, expand the productive sectors of the economy and substantially raise public revenues (Awunyo-Vitor, Osae & Donani, 2015).

Statement of the Problem

According to Kinyua (2013), some countries have tax systems that are structured purely towards revenue generation and that has negative effect on the economy including SMEs. Is it the case of the tax system of Ghana? Research on SMEs in developing countries has overly focused on the contributions of SMEs, in relation to poverty reduction and economic growth, and development challenges such inadequate access to credit (Anane, Cobbinah & Manu, 2013; Afrane & Ahiable, 2016) without adequate consideration of their formation, development and sustainability. Similarly, there exist little literature on the factors that account for enterprises to comply with their tax obligations voluntarily (Kuug, 2016).

Widespread challenge inadequate access to credit characterizes SMEs in Kumasi, (Awunyo-Vitor, et al., 2015) so any tax system that does not enhance corporate sustainability would further deepen the troubles of these SMEs. An overly complex regulatory system and tax regime, or one opaque in its administration and enforcement, makes tax compliance unduly burdensome and often has a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009). They rather encourage corporations to move from decisions which are socially efficient (Sankaran, Hanan, Scholes, Ratnam, Augustine, Cade, & Ardo, 2005). More so, companies struggle with investment, financing and dividend decisions on a daily basis. It is worthy to acknowledge that these financial decisions are also challenged by assets, liabilities, expenditure and the capital structure of the organisation (Akaba, 2016). Some studies failed to find any association between taxes and capital structure (Schulman, Thomas, Sellers, & Kennedy, 1996). Some companies complain of paying double taxes along the value chain (Ali-Nakyea, 2008; Egyin, 2011). Furthermore, tax has been described as a necessary evil (Adams, 1993). It is important to analyse the effects corporate taxation has on the financing decisions of firms (Gordon & Lee, 2001).

Almost every company in Ghana pays tax from the profit they make for each year. In the year that a company cannot pay all its tax, it would be paid the following year as accrued tax (Hopkins, 2016). Tax affects companies' profit directly and has become one of the greatest challenges to companies (Lewis & Churchill, 1983). Huge taxes imposed on companies affect their profitability ratio, dividend policies, growth and survival (Gravelle, 2012). Therefore, companies, through any possible and legal mean do their best to avoid taxes (Kraus, 2002). According to Brealey and Myers (2000), entities such as sole proprietorships, partnerships, and large corporations would avoid tax by passing all profits and losses onto their shareholders. The present study therefore seeks to find the effects of taxes on the operations of companies.

Research Objectives

The general purpose of this study is to examine the effects of taxation on financing decisions of SMEs in Kumasi Metropolis. The study specifically seeks to:

1. assess the factors that affect tax compliance among SMEs in Kumasi Metropolis.
2. examine the impact of taxes on the financing decisions of SMEs in Kumasi Metropolis.
3. assess the influence of taxation on SMEs' growth in Kumasi Metropolis.
4. assess the challenges of SMEs in Kumasi Metropolis regarding tax compliance.

Research Questions

In order to achieve the overall purpose of this study, the following specific research questions have been formulated to guide the study:

1. What factors influence tax compliance among SMEs in Kumasi Metropolis?
2. How does taxation affect the financing decisions of SMEs in Kumasi Metropolis?
3. Does taxation influence the SMEs' growth in Kumasi Metropolis?
4. What challenges do SMEs face regarding tax compliance in Kumasi Metropolis?

Significance of the Study

From the range of evidence in the business literature, it is very clear that huge taxes are imposed on companies in Ghana. The taxes that companies face have impacts on their business operations and decisions. The study would also serve as a guide to managements of SMEs in making strategic financial decisions. The study would give managers of these SMEs insights on issues they would encounter with regards to tax and the decisions they can take to benefit. It will also create a wakeup call for corporate boards and individual directors who have overlooked tax in their quest to take corporate financial and investment decisions. It would also guide corporate governance principles for the benefit of all stakeholders and the public at large.

The findings of this study will positively contribute to the knowledge base concerning the main underlying constructs of this study and students and researchers alike can use such knowledge for further studies. The study sought to fill gaps not covered by earlier studies and contribute to knowledge regarding corporate tax and company decisions that are affected by tax. Areas for further studies will be recommended and this could serve as a research gap for academicians to exploit for more insights.

It is expected that policy makers on taxation in Ghana, especially the Ghana Revenue Authority, will find this work useful as it will detail the challenges that imposition of taxes on corporate profits affects the general stability and solvency of these SMEs. This will help the authority to come up with tax policies that will promote the growth agenda of the Ghana Revenue Authority as well as positioning companies in Ghana favourably on solid financial foundations. Investors and the general public will be able to know how taxes influence the financing decisions of businesses in Ghana and could provide more insights that could guide their financing and investment decision making.

Delimitations

The main objective of the study is to evaluate the effects of taxation on financial decisions of SMEs in the Kumasi Metropolis. The Kumasi Metropolis is one of the thirty (30) districts in Ashanti Region. About 86% of the active population in Kumasi is economically active (Population Census Report, 2010). The economic activities sustaining the livelihood of the residents in the Metropolis can be categorized into Service, Industry and Agriculture (Kumasi Metropolitan Assembly Composite Budget Report, 2014). The report further shows that Kumasi is the second largest city in Ghana with cluster of businesses, especially those in SMEs bracket. SMEs located in Kumasi Central Market, Bantama market, Kejetia Terminal, Adum Shopping Centre, Suame and Asafo Magazine, Kaase /Asokwa Industrial Enclave and Sokoban Wood Village would be targeted. It is estimated that there are 153 registered SMEs in Kumasi Metropolis (Kumasi Metropolitan Assembly, 2017).

The study adopts the descriptive survey design and it is primarily quantitative by approach. Therefore, 115 owners/managers of these SMEs will be surveyed for the primary data collection through questionnaire administration. The determination of the sample size was based on the proposed formula by Pallant (2005) for determination of sample size in social science researches. Simple random sampling technique will be used for the selection of the qualified respondents. Data analysis will be done through the use of Statistical Package for Social Sciences (SPSS version 22.0). Findings will be presented on Tables and Figures as may seem appropriate.

Organisation of the Study

This study was organised into five chapters. The study starts with Chapter One which presents the introduction and provides a background to the study and then discusses key research issues such as statement of the problem, research objectives, research questions, significance of the study and the profile of the study area as well as the organisation of the study chapters.

Chapter Two deals with the literature review. It also looks at existing and relevant literature on taxation and its effects on SMEs. Chapter three will cover the methodology employed to undertake the study. In this Chapter, the research methods were outlined including the research design, sampling techniques and procedures, population definition and instrumentation. It also described the data sources and methods of data collection, ethical concerns and data handling procedures. Chapter four presented research findings, analysis and discussion of findings, and finally in the last Chapter, thus chapter 5, a summary of research finding, conclusions and recommendations will be covered.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviews related and relevant literature on taxation by scholars and other researchers and how it can affect the financing decisions of SMEs in Ghana. It reviews relevant previous work including relevant theoretical reviews. It explains some of the theories that frame the present study; and the empirical reviews and document the results of other studies that are closely related to the research work.

The Concept of Taxation

Corporate taxation is an important source of government revenue around the world and a major consideration in planning business activities (Hines, 2001). There exist different taxes and different tax system marshalled within different or legal context (Kiprotich, 2016). Kiprotich, further defined tax as a compulsory unrequited payments to general government. According to Ameyaw, Korang, Twum and Asante (2016) tax is any compulsory transfer of money from citizens of a country to the government as a source of revenue. It has also been held as the process whereby a state or government exacts contributions from its citizens or from the residents of its territory for the maintenance of the state machinery (Muhika, Njeru & Waiganjo, 2017). Taxes are also imposed on corporate entities (Plehn, 1924; Ameyaw, et al., 2016) and cannot be avoided without attracting punishment. Measurement of taxation goes beyond tax amount paid either by persons or artificial entities. It was acknowledged that corporate revenues are taxed first on the corporate level and then, when distributed as dividends or when capital gains are realized, taxed a second time on the individual level.

The source from which tax is collected represents the source of the tax system. From this statement it follows that such a source may be: a) household income from employment; b) income arising from the corporate activity of individual economic entities; c) the assets of households and corporate entities in the national economy. Taxation within these three groups may be direct or indirect. Direct taxation of income means its direct reduction (the taxing of a part of monetary income). Indirect taxation means the reduction of real income by the taxing of individual consumer operations, as a result of which the household consumer purchases less on the market with the same income (Kay, Kay, & King, 1980). In most countries, the jurisdiction to tax is based on the domestic legislative process, which is an expression of national sovereignty.

The Concept Tax Compliance

Andreoni, Erard, and Feinstein (1998) define tax compliance as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) had it that it refers to taxpayers' willingness to pay their taxes. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (James & Alley, 2004). Alm (1991) and Jackson and Milliron (1986) explained that tax compliance covers the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Singh (2003), extended this and opined that tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003).

Tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns (Chow, 2004; Harris, 1989). Compliance in pure administrational terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames (Ohene, 2011). In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Singh & Bhupalan, 2001). McBarnet (2001) suggested tax compliance should be perceived in three ways, namely committed compliance (taxpayers' willingness to pay taxes without complaint), capitulative compliance (reluctantly giving in and paying taxes) and creative compliance (engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the bracket of tax laws).

Factors that Affect Compliance Behaviour of SMEs

According to Organisation for Economic co-operation and Development [OECD] (as cited in Woodward, 2009), influencing taxpayer behaviour is not a new concept in tax administration as evidenced by the vast array of programmes in place to assist taxpayers comply as well as to deter taxpayers from non-compliance. However, what is relatively new is the extent of research being undertaken to better understand what motivates tax compliance. The factors classified as impacting on tax compliance behavior of businesses include deterrence, norms, opportunity, fairness and trust, economic factors and interactions (Woodward, 2009).

Deterrence

Deterrence resulting from audits, the risk of detection and/or severity of punishment is the primary response that comes to mind when the general public is asked about how a revenue body promotes compliance. Accordingly, it has been claimed that for the habitual non-complier, a deterrence strategy involving recurring audit activity may be required. The success of deterrence strategies is also linked to a taxpayer's norms. Of particular interest is the finding that deterrence is more effective where strong social norms exist (Batrancea, Nichita & Batrancea, 2014). Therefore, revenue bodies may wish to consider the use of non-monetary penalties that attach a social cost form of response to non-compliant behavior.

Norms

Norms, both personal and social, are considered by revenue bodies to be the most important drivers of compliance. Most revenue bodies now recognise the need to adopt a longer-term approach based on outcomes (compliance levels). Aside from attempting to influence norms, revenue bodies should consider incorporating normative messages in their dealings with taxpayers. For instance, messaging that others have acted in a certain manner (thus taxpayers have changed their behaviour or have complied) can influence those that are yet to do so (Woodward, 2009; Lederman, 2003). It is also important for revenue bodies to be alert to, and promptly address, public misconceptions or inaccuracies that may impact social norms.

Opportunities

Revenue collection agencies have traditionally sought to limit the opportunities for non-compliance and have expended much less effort on making it easier for taxpayers to comply. For example, third party reporting, withholding regimes, and regular legislative amendments have been used and are seen as effective in minimising non-compliant behaviour. However, revenue bodies have tended to overlook the lazy-non-complier, the taxpayer who would have complied if only it had been easy (Walsh, 2012). Further research could also be undertaken to better understand why taxpayers unintentionally non-comply, such as by making errors in completing forms. Suggestions to make it easier to comply as well as to reduce unintentional non-compliance include the use of plain language in communications and simplifying forms and tax laws where possible.

Fairness

Research suggests that fairness, as exhibited by the revenue body or government, can play a role in taxpayer behaviour. Three types of fairness are considered. Distributive fairness is the perception that the government acts as a good custodian and wise spender of tax revenues. Procedural fairness is the perception that the revenue body adheres to procedures that are fair in dealing with taxpayers (Woodward, 2009). Retributive fairness is the perception that the revenue body is fair in the application of punishment when the rules are broken. Studies show that a lack of fairness is linked to a taxpayer‘s inclination (or justification) to not comply.

Economic factors

In general, a lack of research to link economic factors to taxpayer compliance behavior (Woodward, 2009). The general conclusion is that factors that promote economic growth also tend to promote tax compliance. economic factors such as income level, tax rate, tax audit, audit probabilities, fines, penalties and the benefits of various forms of taxation of legal entities and individuals (Trang, Nga & Quang, 2015).

Interactions

Not to be overlooked from the research is the need to better understand how the various drivers of compliance behaviour interact with each other. In particular, a revenue collection body must be cautious when using controlling and supportive approaches to influence behaviour. For example, if a revenue body‘s approach is perceived as very controlling, it can cause taxpayers to feel distrusted (Woodward, 2009). Research implies that when taxpayers feel distrusted, they may adopt the same attitude towards the revenue body, and this may reduce compliance. A revenue body should send a clear signal to the general public that non-compliant behaviour is seen by society as wrong. By suggesting that society (and not just the revenue body) view this behaviour as wrong existing personal norms are reinforced.

The Concept of Small and Medium Enterprises (SMEs)

Predominantly there are various definitions for classifying businesses but there exist no universally acceptable or consistent definition for the term SMEs (Berger, 2006). This means that several definitions have been churned out for academic purposes when it comes to the concept of SMEs. Some researchers classify firms by size based on number of employees, monetary value of firm, fixed asset and a mixture of number of employee. Ayyagari, Beck, and Demirgüç-Kunt (2007), report that countries use different definitions for a variety of reasons, including the need to scale the terms "small" and "medium" to meaningful levels, given the typical size of firms and level of economic activity in the country. Despite the variance, a large number of sources define an SME to have a cut-off range of 0 – 250 employees. In the United States and Canada, SMEs generally include firms with less than 500 employees (Berger, Rosen, & Udell, 2007). The European Union (EU) defines a medium-sized enterprise as one with 250 employees and a small enterprise as one with less than 50 employees.

At the same time, to qualify as an SME in the EU, a firm must have an annual turnover of Euro 40 million or less and/or a balance sheet valuation not exceeding Euro 27 million (Berger et al., 2007). The SME department of the World Bank defines small enterprise up to 50 employees with total assets and total sales of up to 3 million Dollars; medium enterprise up to 300 employees with total assets and total sales of up to 15 million Dollars (Ayyagari et al., 2007). Canada also defines a small business as one that has fewer than 100 employees (if the business is goods-producing business) or fewer than 50 employees (if the business is a service-based business), and a medium-sized business as fewer than 500 (Carsamer, 2009).

The Ghana Statistical Service (2000) considers firms with less than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Osei, Baah-Nuakoh, Tutu and Sowa (1993) classifies firm size based on the number of employees and classifies them as follows: Micro-enterprises (employing less than 6 people); Very small-enterprises (employing 6-9 people); Small-enterprises (employing 10-29 people). The National Board for Small Scale Industries [NBSSI] (as cited in Obeng & Blundel, 2015) also defined small enterprises as firms employing between 6 and 29 workforce, medium enterprises as firms with between 30 and 99 workforce and large enterprises as firms employing more 100 workforce and above.

In lieu of the different definitions proposed by different authors and institutions, this research will use this operational definition in the context of Ghanaian situation. Micro enterprises include firms employing less than 6 employees (Osei, et al., 1993), small enterprises as firms employing between 6 and 29 workforce, medium enterprises as firms with between 30 and 99 workforce and large enterprises as firms employing more 100 workforce and above (Antwi, Inusah & Hamza, 2015). The choice of this definition emanates from the fact that it is easy to measure comparative to other versions that rely on other criteria apart from number of workforce.

Taxation and Small and Medium Enterprises (SMEs) Development

Prasad, Ramamurthy and Naidu, (2001) argued that growing presence of SMEs contributes to expanding the size of the directly productive sector in the economy and this helps in generating and increasing the tax revenue for the government. Jousten (2007) asserts that the characteristics of a good tax system for SMEs should include simplicity, proportionality, certainty, tax neutrality, fairness, and trade-offs. Growth of SMEs is disturbed by high tax rates and tax complicity (Fuseini, 2015). Taxes increase the cost of production of goods and services which eventually cause prices of goods to surge thus affecting the final consumers.

However, revenue mobilized from taxes represent major funding for government expenditure. 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. Corporate tax rates can influence investment and financing decisions, as well as the choice of organizational form.

Corporate tax rates which are below top marginal personal income tax along with provisions for deferral of personal taxation through reinvestment of profits can provide incentives for the self-employed to incorporate their businesses (Agbenyo, 2016). A decrease in the rate of corporate tax increases the incentives for incorporation, ceteris paribus, and results in a lower level of self-employment than might otherwise have been the case (Allotey, 2010). This type of tax induced changes in the form of organization may trigger income shifting in the form of compensation without affecting the real activity. Ignoring the presence of market failures and externalities, such a tax system distorts the allocation of resources and reduces economic efficiency (Gordon, 1998).

At the same time, there are advantages associated with reduced tax rates on SMEs: increased after-tax earnings and thus a lower cost of equity funds, increased equity investment and reduced tax distortion in favour of debt. Many countries have lower tax rates for SMEs to foster their competitiveness. They impose several types of taxes to protect infant industries and ensure fair competition among SMEs (Agbenyo, 2016). These measures are often motivated by both efficiency and equity objectives. The efficiency objectives are based on the notion that small businesses are prone to market failure. For example, due to higher compliance costs with regulations associated with diseconomies of scale and reduced access to financing, necessitating government policy. The equity objectives are in part motivated by the lower profits earned by SMEs.

However, favourable corporate tax treatment of SMEs may encourage underreporting of income or lead entrepreneurs to divide businesses into separate corporations for tax purposes. Lower corporate tax rates which can help address market failures in the availability of SME finance, should perhaps be accompanied by anti-fragmentation rules to prevent larger firms from artificial tax-induced divisions. Tax systems may encourage debt financing and this discriminates against SMEs which depend on equity financing. In the absence of taxes and transaction costs, the firm will be indifferent to the method in which it finances investment, since the value of the firm is independent of its financing choice retaining profits, issuing new shares or borrowing (Bandopadhyay & Roy, 2016). However, with the existence of taxes, the value of the firm is generally not independent of the choice of financing method.

In Ghana most owners of SMEs have negative perception towards taxation (Kuug, 2016). Although, they may be aware of the use of taxes as major source of government revenue as well as the funding of public expenditures, they also have a perception that taxes paid to government are not used for their intended purposes (Fuseini, 2015). SMEs in Ghana see no reason to comply with payment of taxes because the government is not able to align the payment of taxes to the socioeconomic development of the country. SMEs in Ghana may perceive tax obligations favourably when the government acts in a trust worthy manner. There may be existence of high levels of trust and tax morale if government makes good use of tax revenues. Tax compliance is mostly assessed through structured surveys conducted by researchers (Long & Swingen, 1991).

Financing Decisions

When a company needs to raise money, it can invite investors to put up cash in exchange for a share of future profits, or it can promise to pay back the investors' cash plus a fixed rate of interest. In the first case, the investors receive shares of stock and become shareholders, part owners of the corporation. The investors in this case are referred to as equity investors, who contribute equity financing. In the second case, the investors are lenders, that is, debt investors, who would be repaid. The choice between debt and equity financing is often called the capital structure decision (Adrian, & Shin, 2011). Here "capital" refers to the firm's sources of long-term financing. A firm that is seeking to raise long-term financing is said to be "raising capital".

Corporate financing decision is a crucial component of strategies that firms adopt to access funds in the external capital market to undertake new investment, for dividend payments, to maintain capital structure, for acquisition purposes, cash savings as precaution, among others (Malmendier, Tate, & Yan, 2011). At its most basic level, corporate finance concerns the choice of new investments and decisions about how to finance those investments. Each of these decisions has been studied extensively, but usually in isolation from the other. However, it may be inappropriate to study financing and investment decisions separately. New investments must be financed, and the financing decision may itself affect firm value by changing investors' expectations. The connections between capital structure and investment decisions should be most apparent when a firm undertakes a large investment (Mayer & Sussman, 2004).

Taxes and Financing Decisions of SMEs

Firms choose optimal capital structure by balancing benefits of debt finance with expected costs of financial distress (Bradley, Jarrell & Kim, 1984). This is also known as the trade-off theory of financing choice. It is believed that the tax deductibility of interest payments provides one of the primary benefits of debt issuance. This implies that debt usage should increase with tax rates. Although much time was taken in finding empirical evidence consistent with this belief, Myers' (1984) research shows that taxes affect financing decisions in the manner predicted by the trade-off theory.

Works by Mackie-Mason and Gordon, (1997), Trezevant (1992), Graham (1996), and Shum (1996) have confirmed that incremental financing choices involve little debt for firms with effectively low corporate tax rates. Work by other authors including MacKie-Mason and Gordon (1997), and Rajan and Zingales (1995) conclude that with changes in tax rates that make debt more attractive, firms are likely to increase the portion of capital structure that is comprised by debt. Hines (2001) also opined that tax systems encourage firms to use debt rather than equity finance and more generally to economize on dividend payments to shareholders, reduces corporate investment and directs investment to assets receiving favorable tax treatment and also influence particularly strongly the operations of multinational corporations, due in part to their ability to choose between jurisdictions with different tax features.

Graham, Lemmon, and Schallheim (1998) also used before-financing tax rates to make the assertion that firms with high tax rates have high levels of debt. Graham (1999), found debt levels to be positively correlated to tax rates in countries such as Canada and New Zealand. Gordon and MacKie-Mason (1997) also found a positive cross-sectional correlation between debt usage and taxes across 51 countries. Dhaliwal, Trezevant, and Wang (1992) in their work also found a positive relation between taxes and both debt levels and tax shielding ratios.

All the papers discussed are of the assertion that a principal benefit of debt finance is the interest deducted. They find a net of the personal tax to be a disadvantage. With the exception of Gordon and MacKie-Mason and Desai, papers on capital structure do not emphasize the personal tax. Gordon and MacKie-Mason (1997) explored how personal taxes affected costs and benefits of incorporation and the decision about whether or not to incorporate. They investigated the effect of personal taxes on corporate financing decisions and found it to be relevant. This is because researchers like Miller (1977) argued that personal tax penalty completely negates the corporate tax advantage to debt. This implies that tax induced as well as firm-specific optimal capital structures should not exist in equilibrium.

Conceptualizing SMEs' Growth

Gartner (1990) opines that business growth is a major theme of entrepreneurship. However, it is deemed that growth is characterized with mixed results in literature (Fitzsimmons, Steffens & Douglas, 2005) partly because different measures are used for measurement of it (Delmer, Davidsson & Gartner, 2003). The use of growth as a measure of firm performance is generally based on the belief that growth is a precursor to the attainment of sustainable competitive advantages and profitability (Markman, & Gartner, 2002).

Several factors can be used for measurement of business growth. Factors such as capital base/finance, number of workers, quality of labour skills, business expansion/branches, extension of product lines, business innovation, search for improvement, market development, increased sales revenue, enhanced productivity, high integration of IT in business processes and profitability. This means growth is multidimensional by nature. It must be recognized that growth also connotes some element of sustainability (Fitzsimmons, Steffens & Douglas, 2005), although not static (Delmer, et al., 2003). Firm growth patterns are in relation to firm size, age and industry.

Tax Practices Favourable for SMEs' Growth

Growing presence of SMEs contributes to expanding the size of the directly productive sector in the Ghanaian economy. This expands the avenue for generating revenue for the government (Prasad et al., 2001). According to Pfister, (2009), African governments are challenged as to how to find optimal balance between tax regime that is business and investment friendly and leverage enough revenue for public service delivery. Pfister further claims tax evasion and the siphoning of funds to tax havens deprive African countries of the fiscal benefits of growth. Tax evasion among SMEs shows how the tax system impede the growth and sustainability of SMEs in Ghana. This calls for concerted efforts aimed at creating favorable tax environment for SMEs by Government of Ghana, tax authorities and tax agencies. Taxes influence businesses in their key decision areas, especially cost of production and investment decisions (Agbenyo, 2016).

Reducing the tax burden on companies is key to improving the investment and business climate (Pfister, 2009). Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises (Atawodi & Ojeka, 2012). Ponorîcă, and Al-Saedi, (2015) and Jousten (2007) assert that the characteristics of a good tax system for SMEs should include simplicity, proportionality, certainty, tax neutrality, fairness, and trade-offs. Corporate tax rates which are below top marginal personal income tax along with provisions for deferral of personal taxation through reinvestment of profits can provide incentives for the self-employed to incorporate their businesses (Agbenyo, 2016). A decrease in the rate of corporate tax increases the incentives for incorporation (Allotey, 2010) and thereby increases after-tax earnings

There have been several tax reforms in Ghana, all aimed at providing friendly business environment for investors and entrepreneurs in the country (Armah-Attoh & Awai, 2013). Armah-Atto and Awai further made it emphatically known that Ghana recently (2009) integrated all the three major tax revenue institutions Internal Revenue Service (IRS), the VAT Service and the Customs, Excise and Preventive Service (CEPS), into a single agency, Ghana Revenue Authority (GRA) to enhance effective tax administration system in Ghana. The tax system in Ghana has embedded incentives to make the business and investment climate business friendly. Numerous incentives have been incorporated into the Ghanaian tax system over the years. Notable among such incentives as claimed by tax authorities include but not limited to tax rebates, reduced tax rates, tax holidays, incomes exempted, capital allowances, fresh graduate incentives, free-zone incentives, double tax treaties, capital gains exempted, import duty exemptions and exempted export duties. The creation of some special incentives are based on industry type, number of years of operating, nature of transactions, business size and origin of businesses and so forth.

Empirical Review

A study conducted by Mabururu (2012) on '*The Impact of Taxation on Corporate Financing Decisions and Firm Value for Companies Quoted at the NSE'* sought to determine the impact of taxes on financing decisions and firm value for companies quoted at the Nigerian Stock Exchange. The study was guided by the research objective which was to establish the impact of taxation (both corporate and individual) on corporate financing decisions and firm value for firms quoted at the NSE. The study entailed the usage of secondary data obtained from the NSE and a causal research design. The data collected were analysed with linear regression and correlation analysis to test the relationship among the variables.

The study found out that the relationship between dividend and value is positive conveying the message that future dividends have an impact on the value of a firm. The study did not provide any negative results between tax and dividends. This implies that taxes play no role in making decisions regarding the financing of a firm. The conclusion that was drawn from the study was that there are no tax advantages in the pricing of dividends in Kenya. The relationships between values and debt were mixed although leaning towards the negative. Where the relationship was positive, it was insignificant. This observation is consistent with Miller (1977) hypothesis that debt has no positive tax benefits. The tax effects on the financing decisions of a firm are therefore negligible.

Furthermore, Adelegan (2006) conducted a study in Nigeria which sought to assess the effects of taxes on financing decisions and firm value in Nigeria. The study sought to measure how the taxation of dividend and debt affects firm value. Tax hypothesis predicted that firm value is negatively related to dividends and positively related to debt. The study covered 1197 manufacturing firms in Nigeria from 1984 to 2000. To achieve the objective, the study estimated the model on the average values for each firm and tested for industry effects using the ordinary least square (OLS) method. It was found that the opposite of tax hypotheses predictions from the regression results. It was hypothesized that the relationship between dividends, debt and firm value will be affected by the size of the firm. The firms were therefore partitioned into two on the basis of size measured as market capitalization. Separate equations were estimated for each sub-sample and found positive relationship between dividend and firm value and negative relationship between debt and firm value in both small-sized firms and big firms sub-sample. The study concluded taxes affected both dividend and debt decisions firms.

Conceptual Framework

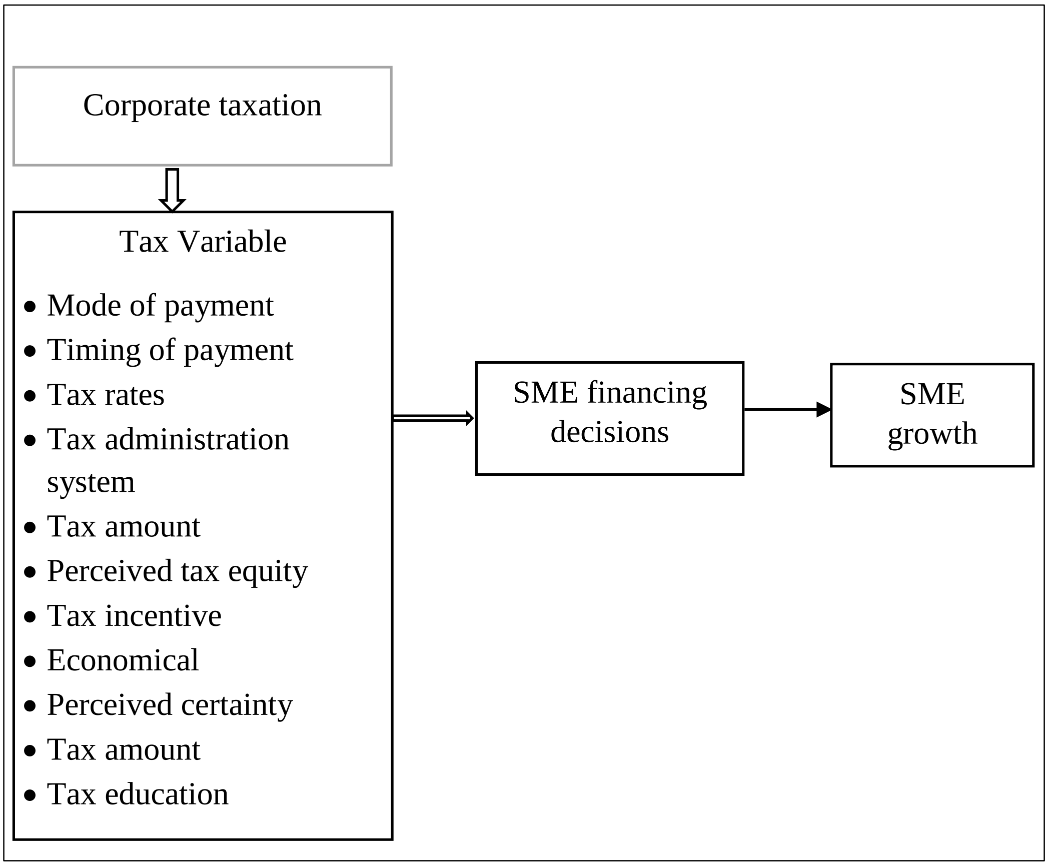

Figure 1-*Conceptual Framework*

Source: Author's Construct, (2017)

Conceptually this study seeks to establish that government through the tax authority implements its fiscal policy to generate revenue through the imposition of taxes on corporate bodies (SMEs). The tax system includes variables such as "mode of payment, timing of payment, tax administration system, tax amount, perceived tax equity, tax incentive, economical and perceived certainty" affects the financial decisions of the SMEs. The ability of SMEs to comply with tax payments is influenced with some factors. The combined influence of these factor affect tax compliance and subsequent financial decisions of SMEs. Such financial decisions include financing, investment and capital structure decisions. If the tax system is friendly, then it could enhance the growth of SMEs but if the tax system is prohibitive, then it would endanger the growth of SMEs in the Kumasi Metropolis.

Chapter Summary

This chapter provide relevant literature supporting the context and central theme of this study. Specially, the chapter concentrated on key issues such as the concept of taxation, factors that affect tax compliance among SMEs, the concept of SMEs, the concept of financing decisions, taxation and financing decision, favourable tax practices that promote SMEs' growth, empirical review and conceptual framework. These aspects of the literature review provided grounds for empirically-oriented discussions to be made in subsequent sections.

CHAPTER THREE

RESEARCH METHODS

Introduction

The study focused on the impact of taxation on financing decisions of SMEs in Kumasi Metropolis in the Asanti Region of Ghana. This chapter presents information on how primary data was collected, analysed and presented. Appropriate subheadings of this chapter include research design, research approach, study area, population, sample and sampling procedure, instrument, data collection procedure and data processing and data analysis.

Research Design

The study employed a descriptive research design. According to Fraenkel and Wallen (2008) descriptive study design involves gathering data on an issue and describing it in a way that do not include the researcher's opinion and values. Kerlinger (1973) also defined survey research as a study on large and small populations by selecting samples chosen from the desired population and to discover relative incidence, distribution and interrelations. According to Saunders, Lewis, and Thornhill (2007) this research design or approach is normally used in the business and social sciences because it is free of judgement of the researcher and it is more useful where a single research study may use quantitative and qualitative techniques and procedures in combination as well as use primary and secondary data (Zikmund, 2000).

Descriptive design affords good control over the measurement or ascertainment process and has greater control over precision of estimates in sub-groups. However, it must be recognized that surveys do not intervene in naturally occurring events, nor does it control those events (Randall &

Nielsen, 2010). Also survey is relatively laborious and time consuming method (Ary, Jacobs, Razavieh, & Sorensen, 2006).

Research Approach

The research approach used was the quantitative approach. It is applicable to phenomena that can be expressed in terms of quantity (Kothari, 2004). Quantitative method typically begins with data collection based on a hypothesis or theory and it is followed with application of descriptive or inferential statistics (Kumar, 2014). Quantitative research methods are characterized by the collection of information which can be analyzed numerically, the results of which are typically presented using statistics, tables and graphs. Curran and Blackburn, (2001) acknowledged that this choice is increasingly advocated within business and management research. The quantitative approach is considered apt because it enables the researcher to generate data through the standardized collection procedures based on highly structured research instrument(s) and well-defined study concepts and related variables (Zickmund, 2000). It makes data analysis easy and simple (Malhotra, 2007).

Area of Study

The Kumasi Metropolis is one of the thirty (30) districts in Ashanti Region. It is located between Latitude 6.35oN and 6.40oS and Longitude 1.30oW and 1.35oE and elevated 250 to 300 meters above sea level. The Metropolis shares boundaries with Kwabre East and Afigya Kwabre Districts to the north, Atwima Kwanwoma and Atwima Nwabiagya Districts to the west, Asokore Mampong and Ejisu-Juaben Municipality to the east and

Bosomtwe District to the south. The population of Kumasi Metropolis is 1,730,249 represents 36.2 percent of the total population of Ashanti Region (Boamah, 2010).

About 86% of the active population in Kumasi is economically active. The economic activities sustaining the livelihood of the residents in the Metropolis can be categorized into Service, Industry and Agriculture (Kumasi Metropolitan Assembly, 2017). Available statistics shows that, out of 638, 234 establishments in Ghana, about 126,662 (19.8%) operate as SMEs while majority operate as micro enterprise (Dubbeling, Carey, & Hochberg, 2016). Other studies have found that about 90 percent of companies registered are SMEs (Mensah, 2004; Asamoah, 2014).

The study therefore focuses on SMEs in all of these subsectors of the economy. It was disclosed in composite budget report (2017) Kumasi Metropolitan Assembly that Kumasi is the second largest city in Ghana with cluster of businesses, especially those in SMEs bracket. SMEs located in Kumasi Central Market, Bantama market, Kejetia Terminal, Adum Shopping Centre, Suame and Asafo Magazine, Kaase /Asokwa Industrial Enclave and Sokoban Wood Village would be targeted. Some of these SMEs are registered whilst others are not registered with the Ghana Revenue Authority.

Population

According to Leedy and Ormrod, (2010) population can be seen as the target group about which the researcher is interested in gaining information and drawing conclusion. Robson (2002) also disclosed that population refers to all the cases being under study. Robson further cautioned that population does not only mean people but may also refer to situations in which someone might be interviewed, as well as times and locations.

The population consisted SME operators in the Kumasi Metropolis in the Asante Region of Ghana. An estimated number of 153 SMEs were targeted for the study (Kumasi Metropolitan Assembly, 2017). The study covered SMEs in certain sectors of the economy especially SMEs in manufacturing, service, agricultural and commerce. The SMEs targeted were those employing between 6-29 workers and 30-99 workers. Micro enterprises (Businesses employing less than 6 workers) and large enterprises (Businesses employing more than 99 workers).

Sample and Sampling Procedure

As it is not generally feasible to deal with the whole of a population in a survey, sampling is undertaken to choose a smaller set of cases to investigate in a study (Robson, 2002). Creswell and Maietta, (2002) defines stratified sampling as a process of organising a population into definite strata from which respondents are randomly drawn from. Based on the population size of 153 SMEs in the Kumasi Metropolis, a sample size of 115 was targeted for the study. The sample size was determined based on the population-sample determination formula provided by Pallant, (2005). The formula was provided as follows:

$$N > 50 + 8(m)$$

Where: m=number of independent variables

N=Total population

This formula is useful where there this the need for some causal predictive relationship is to be established among the constructs of the study

(Pallant, 2005). Again, this sample size was representative of the target population which provided the grounds for the generalization of the research findings. A sample size is sub set of the population drawn to represent the entire population or any combination of sampling units that does not include the entire set of sampling units that has been defined as the population (Garson, 2012).

Stratified sampling technique was used for the selection of the respondents. Creswell and Maietta, (2002) defined stratified sampling as a process of organizing a population into definite strata from which respondents are randomly drawn from. With a sampling frame given, the respondents were grouped into strata and then through the lotto strategy, the individual respondents were randomly selected based on the unique identification numbering system until the required sample size was obtained.

Research Instrument

Surveys using questionnaires are perhaps the most widely-used data-gathering technique in research and can be used to measure issues that are crucial to the management and development of businesses (Malhotra & Birks, 2007). The research instrument that was used for data collection was questionnaires. Questionnaire is a formalized set of questions for obtaining information from respondents (Malhotra & Birks, 2007). Both the open and close ended questions were included in the questionnaires.

The open-ended questions allowed the respondents to answer the questions using their words as well as allowing the researcher to explore ideas that would not otherwise be heard. They are also useful where additional insights are sought and the researcher is less familiar with the subject area and cannot offer specific response options (Salant, Dillman, & Don, 1994). However, the disadvantages are that open ended questions are a bit difficult to answer and also more difficult to analyse. It is therefore not advisable to use it when data is needed from a large sample size since analysis could be a problem (Hoepfl, 1997).

The closed ended questions require respondents to choose from among a given set of responses and require the respondents to examine each possible response independent of the other choice. The close-ended items employed checklist – a list of behavior, characteristics or other entities that the researcher is investigating – and Likert scale – which is more useful when behaviour, attitude or other phenomenon of interest needs to be evaluated in a continuum (Leedy & Ormrod, 2010). Generally, McColl (2005) posits that there are distinct advantages in using questionnaires rather than interview methodology. One of such advantage is that questionnaires are less expensive and easier to administer than personal interview.

The questionnaire was made up of four subdivisions. These subdivisions were in line with the specific objectives of this study. Section "A" covered the demographic data of the respondents. Section "B" also assessed perceptions of respondents about the tax system in Ghana especially those pertaining to corporate tax. it also covered the extent to which respondent are satisfied with the corporate tax system in Ghana whilst section "C" assessed the factors that influence tax compliance among SMEs in Kumasi Metropolis. Section "D" examined the impact of taxes on the financing decisions of SMEs in Kumasi Metropolis. Section "E" also assessed the perceived challenges of SMEs regarding tax compliance in Kumasi Metropolis.

Research instrument must be reliable and valid before the right data needed could be obtained. Reliability, according to Bless and Higson-Smith (2000) is concerned with consistency of the instrument, and an instrument is said to have high reliability if it can be trusted to give an accurate and consistent measurement of an unchanging value. The level of the reliability of an instrument is measured by Cronbach's Alpha value. A Cronbach's Alpha of 0.763 was recorded for the internal consistency of the research instrument and since it is above the standard 0.7, the scale can be considered as being reliable with the sample size (Pallant, 2005). Saunders, Lewis and Thornhill, (2009) explained that internal consistency involves correlating the responses to each question in the questionnaire to other questions in the questionnaire. Table 1 summarises the reliability result of the individual constructs in the overall scale.

Table 1-*Reliability Results*

Constructs	Cronbach's Alpha	No of Items
Perception about corporate taxes system in Ghana	0.823	19
Corporate tax construct	0.828	8
Tax compliance factors	0.717	9
SMS growth	0.959	15
Overall scale	0.873	132

Source: Field survey, Awotwe (2018)

A close observation of the reliability results shows that all the constructs of this study (Perception about corporate taxes system in Ghana –

Cronbach's alpha=0.823; Corporate tax-Cronbach's alpha=0.828; Tax compliance-Cronbach's alpha, SME growth-Cronbach' alpha=0.959 and Overall scale-Cronbach's alpha=0.873) were deemed reliable since all the constructs had Cronbach's Alpha value greater than the minimum threshold of 0.7 proposed by Pallant, (2005).

The validity of an instrument, on the other hand, refers to how well an instrument measures the particular concept it is supposed to measure (Khalid, Abdullah & Kumar, 2012). They further argue that an instrument must be reliable before it can be valid, implying that an instrument must be consistently reproducible; and that once this has been achieved, the instrument can then be scrutinized to assess whether it is what it purports to be. To ensure validity of questionnaires, the researcher reviewed other relevant but related literature that served as evidence and supported the answers found using the questionnaire, relevance being determined by the nature of their research question and their own judgement (Saunders, et al., 2009). Further, the designed questionnaire was submitted to the project supervisor for vetting, correction and approval before distributing it to the respondents.

Data Collection Procedure

The purpose of the study was explained to the respondents and this paved way for the issuance and retrieval of the questionnaires from respondent without difficulty after management of each of the SMEs have granted formal permission for the data collection. This also helped the researcher to get responses to the questions. The questionnaires were self-administered in order to explain some technicalities which may be associated with the completion of the questions, hence resulting to establishing rapport with the respondents' and ensuring higher recovery rate (Leedy & Ormrod, 2010). The survey was administered on 1st June 2017 and collected 14th July, 2017. Each participant was provided with a questionnaire and a brief background to the study. 100% response rate was recorded.

Data Processing and Data Analysis

Analysis of data is a process of editing, cleaning, transforming, and modelling data with the goal of highlighting useful information, suggestion, conclusions, and supporting decision making (Adèr, 2008). The responses from the questionnaires were then edited, coded and entered into Statistical Package for Social Science (SPSS) version 22.0 for the analysis. This statistical software is recommended in studies in social sciences (Zickmund, 2000).

The data were analyzed and interpreted with descriptive statistical technique such as the use of mean, standard deviation, frequency and percentage (Leedy & Ormrod, 2010). Standard multiple regression was conducted to find out how much variance in the dependent variable is explained by the independent variable as was proposed by Pallant, (2005). Pearson Product-Moment Correlation was further computed to describe the strength and direction of the relationship between the dependent and independent variables.

Chapter Summary

This chapter provided the methodological approach to colleting, processing and analyzing of the primary data. The section provided information concerning the research design, research approach, area of study, target population, sampling technique, sample size, research instrument, data collection instrument, data processing, analysis and presentation of findings.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter provides information regarding the findings generated after the primary data had been subjected to statistical analysis. The study sought to assess the effect of tax system on the financing decision of SMEs in Kumasi Metropolis, the capital city of the Ashanti Region of Ghana. Specifically, the study sought to find out the tax practices among SMEs, assess the factors that influence tax compliance among SMEs, type of tax incentives enjoyed by SMEs, overall perception of SMEs about the tax system in Ghana, effect of tax system on financing decisions of SMEs, the impact of taxation on SME growth as well as the challenges SMEs facing regarding tax payment in Kumasi Metropolis. The findings are chronologically presented either in Tables or Figures as and when necessary.

Demographic Information

This section provides information about the demographic information of the respondents of this survey. The demographic data of the respondents provides grounds for the researcher to appreciate the insights provided by the respondents. Descriptive statistics such as mean, standard deviation, frequency, percentage and cross tabulation were used to measure the demographic information of the respondents. The findings are presented on this section below.

Table 2-*Demographic Information*

Item	Options	Frequency	Percentage
Sex	Male	87	75.7%
	Female	28	24.3%
Job position	Manager	80	69.6%
	CEO	35	30.4%
Educational level	SHS/Equivalent	11	9.6%
	HND/Equivalent	37	32.2%
	First Degree	54	47%
	Masters	13	11.3%
Nature of Size Business	Small-sized Enterprise	91	79.1%
	Medium-sized Enterprise	24	20.9%
Number of Permanent Employees	6-29 workers	103	89.6%
	30-99 workers	12	10.4%
Legal status	Sole proprietorship	72	62.6%
	Partnership	7	6.08%
	Private Company	36	31.3%
Nature of Business	Manufacturing	35	30.4%
	Service	57	49.6%
	Agricultural	13	11.3%
	Commerce	10	8.7%
Number years business has been in operation	1-5 years	35	30.4%
	6-10 years	37	32.2%
	11-15 years	26	22.6%
	16 years and above	17	14.8%
Sources of finance	Equity	49	42.6%
	Debt (bank loans)	12	10.4%
	Leasing	1	0.9%
	Equity and debt	46	40%
	Equity, debt and Leasing	7	6.1%

Source: Field survey, Awotwe (2018)

A close observation of Table 2 reveals that, out of 115 respondents surveyed, 87 were male, constituting 75.7% and 28 were female representing 24.3%. This partly showed that SMEs in Kumasi Metropolis is male-dominated sector. More studies could be conducted to assess why males are more into private SME businesses than their counterparts-female. It was also found out that, majority (80) of the respondent were managers representing 69.6% and 35 of the respondents were chief executive officers representing 30.4%. This provides the ground for the collection of the right information needed for the validation of the claims of the study since these respondents are in better position to provide the right information.

Another demographic information acquired was on educational level and it was found out that most (54) of the respondents were first degree holders representing 47%, 37 of the respondents have attained HND/Equivalent certificate and minority (13) of them have obtained their masters representing 11.3%. With all the respondents having higher education, more managerial skills could be brought to bare in managing these SMEs. The respondents also possess the right knowledge to truly understand the tax system since they all can read and write, asked questions when doubt and seek clarifications where needed. This also supports the adoption of structured questionnaire for the primary data collection exercise.

Regarding the nature or size of business of the respondents it was found that majority (91) of the respondents surveyed has small-sized enterprise representing 79.1% and 24 of the respondents representing 20.9% had medium-sized enterprise. This confirms that assertion by Amanamah and Owusu, (2016) when it was found that 92% of companies registered at the Registrar General's Department are SMEs. This also attest to the fact that more user-friendly business atmosphere should be provided for these SMEs to be able to compete healthily with large firms as well as multinational companies around the globe. This is being called for because SMEs have to address unemployment, stimulate innovation and contribute to local development to promote economic growth, widens tax revenue of government (Musamali & Tarus, 2013; Amoako, 2013; Ojo, 2003).

Also, the study surveyed the permanent employees of the respondents and it was deduced that majority of the businesses (103) employ 6-29 workers representing 89.6% and also 30-99 workers were employed by 12 respondents representing 10.4%. The legal status of the business of the respondent surveyed revealed that majority (72) of the business were sole proprietorship representing 62.6%, there were 36 private company with a percentage of 31.3%, and the minority (37) of the businesses were partnership representing 6.08%. This means that most of the registered SMEs are solely one-man business. This does contradicts the claim that most SMEs are registered as companies (Amanamah & Owusu, 2016).

Similarly, majority (57) of the respondents surveyed were into service, 35 out of 115 respondents representing 30.4% were into manufacturing, 13 of the respondents were into the agricultural sector representing 11.3 % and only 10 were into commerce with a percentage of 8.7 representing the least area engaged in. This provides the insight that support the structure of the Ghanaian economy-dominated by service. Also it shows that little attention is being provided for agriculture and therefore government, policy makers, investors and other key stakeholders must relook at this sector so as to promote its growth and survival.

Moreover, after the assessment of the number of years that the business has been in operation, it was deduced that most (37) of the businesses have operated for 6-10 years representing 32.2%, 26 of the businesses have operated for 11-15 years representing 22.6% of the total percentage and only 17 businesses with a percentage of 14.8% have operated for 16 years and above. The working experience of the respondents prove they are in touch with state of affairs regarding taxation in Ghana, and therefore have the capacity to provide the right information. The relatively longer experience also indicate that these businesses have survived the complexities in the business environment in the Kumasi Metropolis. This also means these SMEs have survived that tax system of Ghana thereby defying the claim that 80% of SMEs die before their 5th anniversary (Onwuka, Ugwu, Itoya, & Okeke, 2015).

Furthermore, a close observation of the sources of finance for the SMEs indicated that their sources of finance were mainly equity (42.6%), equity and debt (40%), debts (10.4%), debt and leasing (6.1%) and finally, leasing (0.9%). Having majority of the SMEs being financed through equity and debt financing shows how these SMEs are relying of financial resources of other investors to support and grow their businesses. It is a good for such SMEs to approach their financing practices with this blend because it reduces financial risk in business.

This confirms the notions that firms choose optimal capital structure by balancing benefits of debt finance with expected costs of financial distress (Bradley, Jarrell & Kim, 1984) by focusing on incremental financing choices which involves little debt for firms with effectively low corporate tax rates (MacKie-Mason, 1990; Trezevant 1992; Graham, 1996). This strategy of debt-equity financing was also stressed by Givoly, Hayn, Ofer and Sarig (1992) and

Rajan and Zingales (1995) when they concluded that with changes in tax rates that make debt more attractive, firms are likely to increase the portion of capital structure that comprised debt.

Tax Practices of SMEs in Kumasi Metropolis

This section provides findings obtained regarding the tax practices exhibited by the respondents of the study. It seeks to uncover how SMEs in the Kumasi Metropolis respond to tax obligations imposed to them by the Government of Ghana and her mandated tax agencies.

Table 3-*Tax Registration Status*

Response	Frequency	Percent
Yes	105	91.3
No	10	8.7
Total	115	100.0

Source: Field survey, Awotwe (2018)

The study sought to find out if the respondents were registered tax payers. It was discovered that most (105) of the respondents representing 91.3% were registered with the appropriate tax payment authorities whilst the remaining 10 respondents representing 8.7% have not registered with any tax authority. Having more of the SMEs registered as taxpayers is a good sign for their quest to contributing to development of Ghana. This is also a good indication that these SMEs are willing to pay their taxes since non-compliance would lead to some consequences from tax authorities in Ghana.

Table 4 – *Respondents Who Believe It Is Mandatory To Pay Taxes*

Responses	Frequency	Percent
Yes	110	95.7
No	5	4.3
Total	115	100.0

Source: Field survey, Awotwe (2018)

From Table 4, it can be observed that majority (110) of the respondents representing 95.7% believed that they are mandated to pay their tax and only 5 respondents representing 4.3% thought they are not obliged to pay their taxes representing 4.3%. This is a good signal since most of the respondents agreed that it is mandatory for their businesses to pay taxes to the government of Ghana. However, the very few respondents who indicated otherwise prove that there is the possibility that some SMEs do not believe in payment of taxes and therefore are not paying taxes for their SME businesses. More proactive strategy should be carried out by inspecting the tax registration certificate of all SMEs to as to identify those SMEs that are not paying taxes for the developmental agenda of the government of Ghana. This would help GRA to marshal the tactics that would enforce these SMEs to pay the appropriate taxes.

Table 5-*Respondents Who Pay Taxes On Time*

Responses	Frequency	Percent
Yes	67	58.3
No	48	41.7
Total	115	100.0

Source: Field survey, Awotwe (2018)

The study sought to find out if the SMEs in the Kumasi Metropolis pay their taxes within the right time frame as required by law. Majority (67) of the SMEs as illustrated in Table 5 pay their taxes on time whilst 48 of the SMEs in the Kumasi Metropolis representing 41.7% pay their taxes at their own time. This finding shows that even though the SMEs pay taxes, they are unable to pay the taxes on time. More studies should be carried out to assess why these SMEs are unable to pay taxes on time. This would help GRA to fashion strategies that would facilitate the payment of taxes by SMEs on timely basis so as to avoid the possible charges that accompanies delayed tax payments and provide reliable revenue source for the government of Ghana.

Table 6-*Respondents who Pay Taxes for their Business*

Response	Frequency	Percent
Yes	113	98.3
No	2	1.7
Total	115	100.0

Source: Field survey, Awotwe (2018)

The survey found out that most of the SMEs in the Kumasi Metropolis are tax obedient. Out of 115 respondents, 113 of them representing 98.3% as illustrated in Table 6 pay taxes for their businesses whilst 2 of them evade taxes. This proves that most of the SMEs are honouring their tax obligation. This contradicts the claim by Kinyua (2013) when it was held that SMEs are characterized with low tax compliance in developing countries. This prove that these SMEs are willing to promote the developmental agenda of the government of Ghana and they must be commended for this initiative.

Table 7-*Cross Tabulation*

		respondent is a registered tax payer		
		Yes	no	Total
Firm size	small-sized enterprise	82	9	91
	medium-sized enterprise	23	1	24
Total		105	10	115

Source: Field survey, Awotwe (2018)

The researcher made efforts to determine the number of the SMEs which are registered tax payers. It can be seen from Table 7 that, out of 105 business which are registered tax payers, 82 of them were small-sized enterprise and 23 were medium-sized enterprise. However out of the 10 SMEs who are not registered taxpayers, 9 were small sized enterprise and 1 was medium-sized enterprise. This provides the insight that more emphasis should be placed on targeting small-size enterprises for tax registration purposes.

Table 8-*SMEs That Are Given Assessment before Tax Liability Fulfilment*

Response	Frequency	Percent
Yes	60	52.2
No	55	47.8
Total	115	100.0

Source: Field survey, Awotwe (2018)

The tax authorities who are mandated to collect taxes are supposed to assess the SMEs for the appropriate tax payment. The study sought to find out whether or not SMEs are assessed by the tax authorities before tax payment. 60 out of 115 representing 52.2 respondents are given assessment before tax liability fulfillment whilst 55 of the SMEs representing 47.8% are not assessed before they fulfill their tax duties. The question that needs to be answered is "On what basis do those SMEs that are not given tax assessment before tax liability fulfilment calculate their tax amount? This shows that tax paid by these SMEs are not solidly based on proper assessment and it could therefore be inferred that there is the possibility that these SMEs either understate their profit in order to invade tax or they connive with tax collectors so as to reduce their tax burden.

Table 8-*SMEs whose Taxes Are Deducted from Financial Statement*

Responses	Frequency	Percent
Yes	36	31.3
No	79	68.7
Total	115	100.0

Source: Field survey, Awotwe (2018)

As illustrated in Table 8, it can be deduced that majority of the SMEs pay their taxes directly instead of deduction from their financial statement whilst 36 of the respondents pay their taxes through the deductions from their financial statements. It is inferred that most of these SMEs might not prepare financial reports that tax authorities could rely on to deduct taxes from such firms. Putting in policy that would force SMEs to prepare financial statements could be of help. However, this situation could be attributed to some deficiencies in some of Acts that regulate businesses in Ghana since these Acts to not require some businesses to disclose their financial standing through financial reporting.

Table 9-*Frequency of Tax Payment by SMEs*

Responses	Frequency	Percent
Monthly	17	14.8
Quarterly	61	53.0
Annually	37	32.2
Total	115	100.0

Source: Field survey, Awotwe (2018)

The study sought to find out the rate at which the respondents pay taxes in a year. Out of 115 SMEs, 61 representing 53% pay taxes quarterly, 37 SMEs pay taxes annually representing 32.2 % and minority (17) of them pay their taxes monthly 14.8%. The frequency of tax payment among SMEs shows that most of these SMEs pay taxes quarterly. This have the capacity to delay government revenue mobilization effort. This also confirms the findings that revealed that among the major problems faced by SMEs in tax payment was delay in tax payment. It must be noted that although all the respondents stated that pay taxes for the SME businesses at the earmarked intervals, this contradicts the findings that was earlier on discussed which showed that some SMEs do not pay taxes for their businesses.

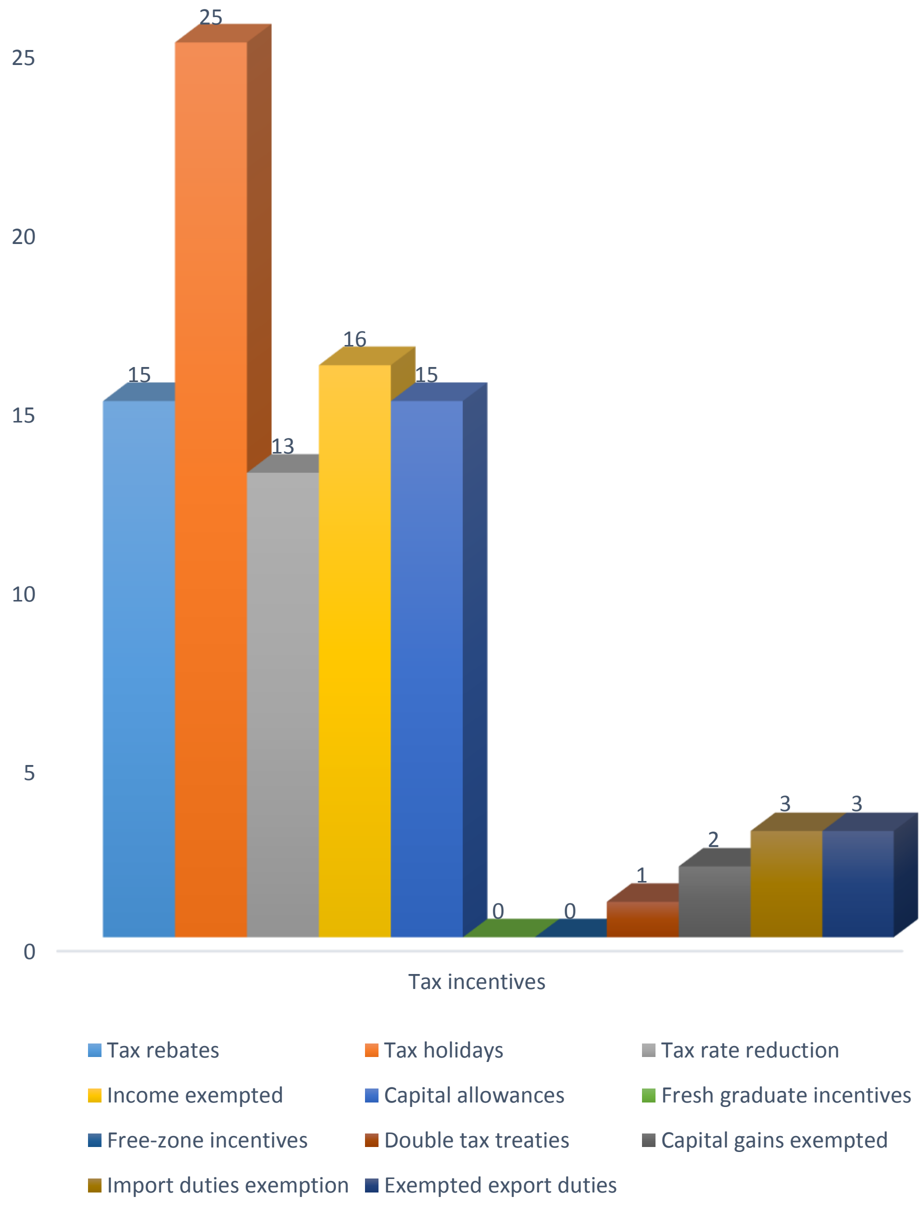

Figure 2-*Types of Tax Incentives Enjoyed by SMEs in Kumasi Metropolis*

Source: Field survey, Awotwe (2018)

The study as illustrated in Figure 2 sought to find out the tax incentives enjoyed by the SMEs in the Kumasi Metropolis. Out of 11 tax incentives considered for the study, 25 of the respondents enjoy tax holidays, 16 SMEs are given income tax exemptions, 15 of the respondents enjoy capital allowances and 15 are also given free-zone incentives, 13 of the SMEs pay their taxes at a reduced rate, 3 of the respondents are exempted from export duties,3 of the SMEs pay no import duties, 2 are exempted from the payment of capital gains tax and none of the respondents is given capital allowance and fresh graduates incentives.

This proves that the tax regime in Ghana does not only put tax obligations on SMEs businesses, but also provide incentives for these locally based SMEs to be able to compete successfully with larger firms in Ghana. This of course supports that claim that any good tax regime provides user-friendly investment climate for all businesses in order to promote their growth and development (Jousten, 2007; Fuseini, 2015). Atawodi and Ojeka, (2012) confirming this notion, stressed emphatically that, tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises

Table 10-*Recording Keeping Practices of SMEs*

Book Keeping Practice Variables	Mean	Std. Deviation
Using all receipts as financial record keeping means	3.8087	1.31720
Practicing proper bookkeeping as financial record keeping means	3.6783	1.28109
Using special software as financial record keeping means	2.0783	1.42132

Source: Field survey, Awotwe (2018)

The study sought to assess the record keeping practices among SMEs in the Kumasi Metropolis. The attitudes of the respondents were measured on a 5-point Likert scale. The respondents were asked to indicate the appropriate response that reflect the attitude (degree of agreement) to each of the scale items. The scale was rated as follows

1-Very unsatisfactory; 2-unsatisfactory; 3-indifferent; 4-satisfactory; 5-Very satisfactory. The interpretation of the findings was assigned with artificial range of precision of response as follows: *0-1.4=Very dissatisfied; 1.5-2.4= dissatisfied; 2.5-3.4=indifferent; 3.5-4.4=highly satisfied and 4.5-5=very highly satisfied.* This finding was measured with descriptive statistical tools such as mean and standard deviation scores. The findings are presented on Table 9. The respondents are highly satisfied with using all receipts as financial record keeping means (*M*=3.8087; *SD*=1.31720) and proper book keeping (*M*=3.6783; *SD*=1.28109). However, the respondents were dissatisfied with using special software for their record keeping (*M*=2.0783; *SD*=1.42132).

The result shows that SMEs in Kumasi Metropolis are able to keep proper books of accounts that could be relied on by Ghana Revenue Authority for corporate tax assessment purposes since the respondents rated their preparedness in using all business receipts as financial record keeping mean as highly satisfactory. Apart from this, these SMEs engage in proper book keeping practices manually since this practice was also rated highly satisfactory. It is really good business practice that must be commended. This supports the claim that adequate record keeping is pre-requisite for tax assessment and documentation purposes (Singh & Bhupalan, 2001). However, a call for integration of special accounting software in record keeping and accounting practices among SMEs is eminently called for.

Additionally, the research sought to assess the factors that affect tax compliance among SMEs in the Kumasi Metropolis. The attitudes of the respondents were measured on a 5-point Likert scale. The respondents were asked to indicate the appropriate response that reflect the degree of agreement to each of the scale items. The scale was rated as follows

1-Very low; 2-low; 3-fairly highly; 4-highly; 5-Very highly. The interpretation of the findings was assigned with artificial range of precision of response as follows: *0-1.4=Very low; 1.5-2.4=Low extent; 2.5-3.4=Fairly high; 3.5-4.4=Highly and 4.5-5=very highly.* This finding was measured with descriptive statistical tools such as mean and standard deviation scores.

Table 11-*Factors That Affect Tax Compliance*

Compliance Variables	Mean	Std. Deviation
Tax training/knowledge	3.5826	1.20658
Tax compliance costs	2.9739	1.15820
Business Size	3.2522	2.26276
Type of industry	3.1391	1.26967
Penalties	4.0087	1.28073
Capital structure	2.9739	1.28733
Tax rates	3.3913	1.39985
Tax audits	3.8000	1.20816
Morale reasons	3.6261	1.15060

Source: Field survey, Awotwe (2018)

It was discovered that penalties (*M*=4.0087; *SD*=1.28073), the respondents believed that the influence of morale reasons (*M*=3.6261; *SD*=1.15060), tax audits (*M*=3.8; *SD*=1.20816), and tax training/knowledge (*M*=3.5826, *SD*=1.20658) highly influence the tax compliance of respondents. Moreover, tax compliance cost (*M*=2.9739; *SD*=1.15820), size of business (*M*=3.2522; *SD*=2.26276), type of industry (*M*=3.1391; *SD*=1.26967), capital structure (*M*=2.9739; *SD*=1.28733) and tax rates (*M*=3.3913; *SD*=1.39985) on their tax compliance is fairly high.

These findings prove that there is the need for SMEs to be educated about the tax system of Ghana since the training /knowledge in taxation enhances their level of compliance. Similarly, it is deduced from the findings that capital structure, morale reasons, favorable tax rates, tax auditing practices by GRA, as well as industry type highly influence respondents to pay their business taxes. It must however be noted that these SMEs are mostly influenced to comply with tax payment for the fear of consequences of default-penalties, reflecting the assertion held by Ameyaw et al., (2016) that avoiding taxes usually goes with attracting punishment and therefore people pay taxes in order to avoid punishment.

This further signal that these SMEs are not willingly influenced to pay taxes unless they are coerced with penalty charges. The onus now lies of GRA and other tax collection agencies to consider how they can re-strategize to converts SMEs into a state that they will willingly or intentionally pay their corporate taxes for the government of Ghana. If this goal is achieved, tax administration, in particular, tax collection would be made easier for Ghana Revenue Authority and its affiliate tax agencies because they would not have to chase SMEs to pay their taxes to the support the revenue mobilization effort of the government.

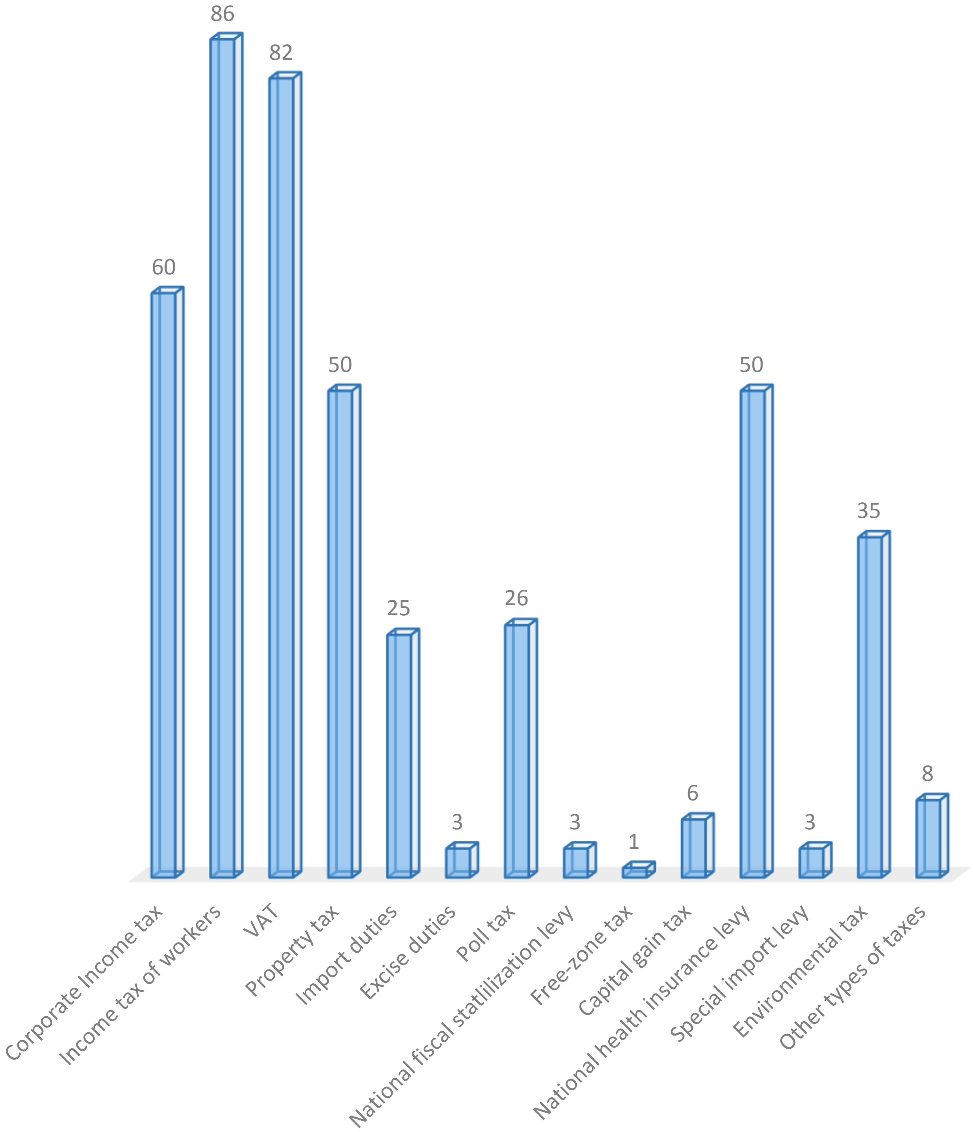

Figure 3- *Types of Taxes Paid by Respondents*

Source: Field survey, Awotwe (2018)

The study sought to uncover the type of taxes paid by the SMEs in the Kumasi Metropolis. It was found out that the respondents pay different taxes simultaneously. A critical observation of the bar chart (Figure 3) depicts that out of the 14 taxes considered for the study, majority (86) of the respondents pay income tax, 82 of the respondents pay VAT, 60 the respondent pays corporate income tax, 50 of the respondents pay property tax, 50 of the respondents pay national health insurance levy. Similarly, 35 of the respondents pay environmental tax, 26 of the respondents pay poll tax, 25 of the respondents import duties, 8 of the respondents pay other types of taxes, 6 of them pay capital gain tax, 3 respondents pay excise duties, 3 respondents pay national fiscal stabilization levy, 3 of the respondents pay special import levy and only a respondent pays free-zone tax.

Table 12-*SMEs That Always Pay Taxes*

Response	Frequency	Percent
Yes	94	81.7
No	21	18.3
Total	115	100.0

Source: Field survey, Awotwe (2018)

The study sought to discover the SMEs who pays taxes frequently and those who do that intermittently. Out of 155 respondents as illustrated in Table 12, 94 representing 81.7% always pay their taxes whilst only 21 respondents representing 18.3% pay their taxes intermittently. This insight proves that some of the SMEs evade tax as it was found that some of the respondents do not always pay taxes. This confirms the findings of Hofmann, Hoelzl, and Kirchler, (2008) when it was found that tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though 'tax laws are not always precise'. This non-compliance is evidentially classified as intentional since these SMEs know that they are mandated by law to pay taxes for their businesses.

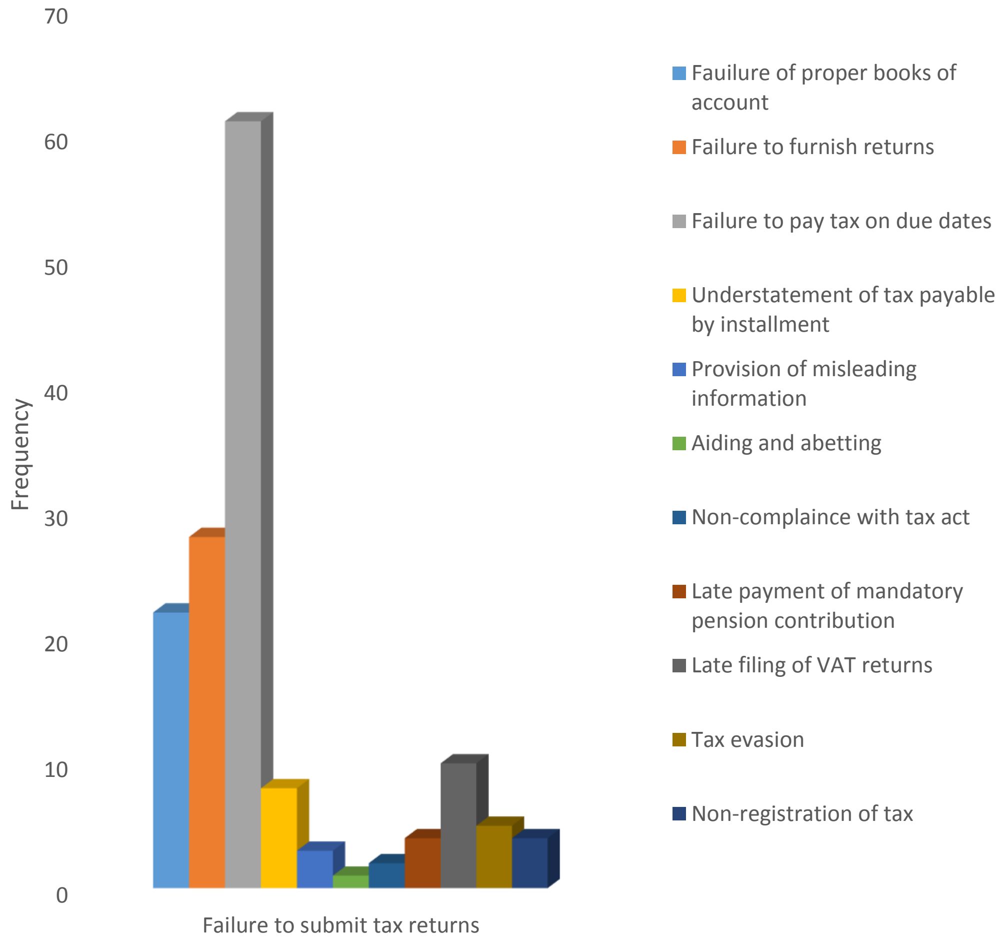

Figure 4-*Mostly Committed Offences Regarding Submission of Tax Returns*

Source: Field survey, Awotwe (2018)

The study sought to identify the tax offences committed by the SMEs in the Kumasi metropolis considered for the study. The findings are presented on Figure 4. Out of the 14 offences considered for this study, most (60) of the respondents conceded that they do not pay their taxes on due dates. Further other offenses such as failure of proper book keeping, failure of filling tax returns, late filing of tax returns and understatement of tax payable by instalment. These offenses prove the existence of failures in the efficiency of tax administration in Ghana, especially taxation in the corporate world.

Overall Perception of Respondents about the Tax System in Ghana

The study also sought to assess the perception of the respondents concerning the corporate tax system in Ghana in general. It had earlier on been alleged that most owners of SMEs in Ghana have negative perception towards the taxes collected by the government (Kuug, 2016). The respondents were asked to rate the extent to which they agree to each of the items on the perception scale. The perception of the respondent was measured on a 5-point Likert scale rated as follows:

1=Very low extent; 2=Low extent; 3=Fairly high extent; 4=high extent; 5=Very high extent

This finding was measured with descriptive statistical tools such as mean and standard deviation scores. The interpretation of the findings was assigned with artificial range of precision of response as follows. *0-1.4=Very low; 1.5-2.4=Low extent; 2.5-3.4=Fairly high; 3.5-4.4=Highly and 4.5-5=very highly*. The findings are presented on Table 13.

Table 13-*Perception of Respondents about Tax System in Ghana*

Perception Variables	Mean	Std. Deviation
Corporate taxes are relevant for corporate financing decisions	3.4435	1.30580
There are incentives in the Ghanaian tax system	2.4000	1.17578
Proper tax education is provided by the tax authority (GRA)	2.6696	1.06558
Corporate tax amounts are predictive for corporate decision -making purposes	3.0435	1.10335
Corporate tax amounts are not prohibitive	2.7913	1.29436
Time for corporate tax payment is reasonable	3.0435	1.01213
There is value in paying corporate taxes to government of Ghana	2.8348	1.14655
There are no multiple corporate tax payments in the Ghanaian tax system	2.2174	1.10646
Tax changes are timely communicated to business	2.6348	.89178
There are frequent updates on changes in the tax system of Ghana to businesses	2.6522	.96467
There are no transactional charges to payment of corporate tax in Ghana	2.2609	.97411
Flexible mode of corporate tax payments is promoted in the Ghanaian tax system	2.6696	1.10598
There is no reasonable enforcement in promoting tax compliance among businesses	3.2435	.90410
Filed tax returns are honored by the Ghana revenue authority	3.1391	1.06694
Relational tax officers are at post to handle challenges relating to corporate tax	2.6522	.92758
Contact methods of Ghana revenue authority are reliable	2.5130	.96759
there is no multiple tax syndromes in the Ghanaian tax system	2.2000	1.05298
Corporate tax rates are reasonable (lower) comparably	2.0609	1.07839
Business enjoys tax reliefs	2.1043	1.09524

Source: Field survey, Awotwe (2018)

It was discovered that, the respondents agree that the extent to which corporate taxes are relevant for corporate financing (*M*=3.4435; *SD*=1.30580), corporate tax amounts are predictive for corporate decision making purposes

(*M*=3.0435; *SD*=1.10335), proper tax education provided by tax authority (GRA) (*M*=2.6696; *SD*=1.06558),corporate tax amounts are predictive for corporate decision making purposes(*M*=3.0435; *SD*=1.10335),corporate tax amounts are not prohibitive (*M*=2.7913; *SD*=1.29436),time for corporate tax payment is reasonable (*M*=3.0435; *SD*=1.01213), there is value in corporate tax payment to government of Ghana (*M*=2.8348; *SD*=1.14655), tax changes are timely communicated to business (*M*=2.6348; *SD*=0.89178), there is frequent updates on changes in the tax system of Ghana business (*M*=2.6522; *SD*=0.96467), flexible mode of corporate tax payments is promoted in the Ghanaian tax system (*M*=2.6696; *SD*=1.10598), there is no reasonable enforcement in promoting tax compliance among businesses (*M*=3.2435; *SD*=0.90410), filed tax returns are honored by the Ghana revenue authority(*M*=3.1391; *SD*=1.06694), relational tax officers are at post to handle challenges relating to corporate tax (*M*=2.6522; *SD*=0.92758) and contact methods of Ghana revenue authority are reliable (*M*=2.5130; *SD*=0.96759) is fairly high.

Similarly, the respondents agree that the extent to which there is no multiple corporate tax payments in the Ghanaian tax system (*M*=2.2174; *SD*=1.10646), there is no transactional charges to payment of corporate tax in Ghana (*M*=2.2609; *SD*=0.97411), there is no multiple tax syndromes in the Ghanaian tax system (*M*=2.2000; *SD*=1.05298), corporate tax rates are reasonable (lower) comparably (*M*=2.0609; *SD*=1.07839) and business enjoy tax reliefs (*M*=2.1043; *SD*=1.09524) is low.

This confirms that findings of Ali-Nakyea (2008), Egyin, (2011) and Akaba (2016) when the collectively claimed that some businesses in Ghana complain of double/multiple tax deductions along the value chain, high transaction cost on tax repayment initiative/higher compliance costs among SMEs (Kinyua, 2013). This also reflects the views of Kuug, (2016) when it was stated that some SMEs have negative perception about taxes collected by the government of Ghana. Besides it has been proven that ignoring market failures and externalities in tax policy changes distorts the allocation of resources and reduces economic efficiency (Gordon, 1998).

Table 14- *Impact of Taxes on the Financing Decisions of SMEs in Kumasi*

Statement	Mean	Std. Deviation
The extent to which respondent agree that:		
corporate tax negatively affects asset acquisition	3.4957	1.37888
corporate tax negatively affects number of employees to employ	3.5739	1.23587
corporate tax negatively affects retain profit	3.8174	.98749
corporate tax negatively affects net profit	3.6522	1.13202
corporate tax negatively affects pricing	3.4696	1.10280
corporate tax negatively affects number of branches to be opened	3.4174	1.18457
corporate tax negatively affects investment funds	3.5478	1.20119
corporate tax negatively affects compliance costs	3.1652	1.17675
corporate tax negatively affects capital structure	3.3509	1.13654
corporate tax negatively affects debt capital	3.4609	1.16444
corporate tax negatively affects interest on loan	3.3478	1.18502
corporate tax negatively affects firm size	3.3391	1.22035
corporate tax negatively affects operating capital	3.5478	1.14894

Source: Field survey, Awotwe (2018)

The study seeks to assess the perception of the respondent's impact of taxes on the financing decisions of SMEs in Kumasi. The respondents were asked to rate the extent to which they agree to each of the items on the perception scale. The perception of the respondent was measured on a 5-point Likert scale rated as follows:

1=Very low extent; 2=Low extent; 3=Fairly high extent; 4=high extent; 5=Very high extent

This finding was measured with descriptive statistical tools such as mean and standard deviation scores. The interpretation of the findings was assigned with artificial range of precision of response as follows: *0-1.4=Very low; 1.5-2.4=Low extent; 2.5-3.4=Fairly high; 3.5-4.4=Highly and 4.5-5=very highly*. The findings are presented on Table 14. It was discovered that the extent to which respondents agree that corporate tax negatively affects number of employees to employ (*M*=3.5739; *SD*=1.23587), corporate tax negatively affects retention of profit (*M*=3.8174; *SD*=0.98749), corporate tax negatively affects net profit (*M*=3.6522; *SD*=1.13202), corporate tax negatively affects investment funds (*M*=3.5478; *SD*=1.20119) and corporate tax negatively affects operating capital (*M*=3.5478; *SD*=1.14894) was rated as high.

A critical observation of the trend of the findings shows that SMEs in Kumasi Metropolis are not able to employ more workers, are unable to retain enough profit for re-investment purposes, experiences dwindling operating capital and limit net profit of SMEs all because of the multiple taxes that they are obliged to pay for the government through its tax administration system. Overall picture illustrated by these findings is that the financial strength of SMEs is weaken by inefficient tax regime in Ghana. It further reflects the claim by Kinyua (2013) that some countries have tax system that are structured purely towards revenue generation and that has negative effect on the economy including SMEs.

Again, corporate tax negatively affects asset acquisition (*M*=3.4957; *SD*=1.37888), pricing (*M*=3.4696; *SD*=1.10280), number of branches to be opened (*M*=3.4174; *SD*=1.18457), compliance costs(*M*=3.1652; *SD*=1.17675), capital structure (*M*=3.3509; *SD*=1.13654), debt capital (*M*=3.46909; *SD*=1.16444), interest on loan (*M*=3.3478; *SD*=1.18502) and firm size (*M*=3.3391; *SD*=1.14894) fairly high. The insights provided from this discovery are that SMEs are unable to massively invest funds for asset acquisition because of unfavorable tax regime, are not able to open up new branches for the fear of multiple tax obligations that are to be concurrently be met alongside operational expenses, incur high compliance costs in their bid to escape tax default situations, causes them to go for more debt capital in order to insulate themselves from paying more taxes on equity capital and are unable to expand their firm size all, owing to unfavorable tax administration system in Ghana. Since the respondents are also obliged to pay multiple taxes, it makes it difficult for them to be able get sufficient funds for payment of interest on debt capital (Interest on loan). The totality of these findings is that taxation challenges SMEs in Kumasi Metropolis.

The Influence of Taxation on Financing Decisions of SMEs in Kumasi Metropolis

The study sought to assess the perception of the respondent's impact of taxes on the financing decisions of SMEs in Kumasi. The respondents were asked to rate the extent to which they agree to each of the items on the perception scale. The perception of the respondent was measured on a 5-point Likert scale rated as follows:

1=Very low extent; 2=Low extent; 3=Fairly high extent; 4=high extent; 5=Very high extent

This finding was measured with descriptive statistical tools such as mean and standard deviation scores. The interpretation of the findings was assigned with artificial range of precision of response as follows. 0-1.4=Very low; 1.5-2.4=Low extent; 2.5-3.4=Fairly high; 3.5-4.4=Highly and 4.5-5=very highly. The findings are presented on Table 15.

Table 15-*Descriptive Statistics*

Statement	Mean	Std. Deviation
The extent to which respondent agree that:		
asset acquisition have been improved through corporate tax payment	2.0261	1.12749
number of employees to employ have been improved through corporate tax payment	1.9913	1.01303
retention of profit have been improved through corporate tax payment	2.0609	1.08650
net profit have been improved through corporate tax payment	2.1739	1.21584
the extent to which respondent agree that pricing have been improved through corporate tax payment	2.4261	1.09273
number of branches to be opened have been improved through corporate tax payment	2.1652	1.12336
investment funds have been improved through corporate tax payment	2.2000	1.16378
compliance costs have been improved through corporate tax payment	2.2261	1.17772
market sustainability have been improved through corporate tax payment	2.1739	1.01964
capital structure have been improved through corporate tax payment	2.3130	1.04601

Table 15 continued

obtaining debt capital have been improved through corporate tax payment	2.2696	1.08678
interest on loan have been improved through corporate tax payment	2.2348	1.10287
firm size have been improved through corporate tax payment	2.2348	1.11866
operating capital have been improved through corporate tax payment	2.1043	1.06272
Sales turnover have been improved through corporate tax payment	2.0696	1.04899

Source: Field survey, Awotwe (2018)

The overall mean of means (*M*=2.1780) shows that, holistically, the respondents agreed that tax system has to a low extent improved their financing decisions regarding their businesses. Regarding the individual indicators of SME growth, it was found that the extent to which the respondents agreed that asset acquisition have been improved through corporate tax payment (*M*=2.0261; *SD*=1.12749), number of employees to employ have been improved through corporate tax payment (*M*=1.9913; *SD*=1.01303), retention of profit have been improved through corporate tax payment (*M*=2.0609; *SD*=1.08650), net profit have been improved through corporate tax payment (*M*=2.1739; *SD*=1.21584), pricing have been improved through corporate tax payment (*M*=2.4261; *SD*=1.09273), number of branches to be opened have been improved through corporate tax payment(*M*=2.1652; *SD*=1.12336), investment funds have been improved through corporate tax payment (*M*=2.200; *SD*=1.16378) and compliance costs have been improved through corporate tax payment (*M*=2.2261; *SD*=1.17772) was low.

Further, it was discovered that the respondents agreed that the extent to which market sustainability have been improved through corporate tax payment (*M*=2.1739; *SD*=1.01964), capital structure have been improved through corporate tax payment(*M*=2.3230; *SD*=1.04601), obtaining debt capital have been improved through corporate tax payment (*M*=2.2696; *SD*=1.08678), interest on loan have been improved through corporate tax payment (*M*=2.2348; *SD*=1.10287), firm size have been improved through corporate tax payment (*M*=2.2348; *SD*=1.11866), operating capital have been improved through corporate tax payment (*M*=2.1043; *SD*=1.06272) and turnover have been improved through corporate tax payment (*M*=2.0696; *SD*=1.04899) was low.

The overall mean score indicated that, on the average, the respondents agreed that financing decisions have not improved because of the corporate tax system in Kumasi Metropolis and Ghana at large. On that individual indicators of financing decisions, it can be inferred from the findings that the SMEs have not increased the employment of workers because of the taxes they pay, sales have reduced because of the taxes they pay and there was reduction in operating capital because of taxes. Similarly, there was reductions in firm size, high incidence of compliance cost, low sales turnover, high cost of loan because of taxes paid on such loans, limited capacity of asset acquisition, poor profitability, unfavorable pricing strategies-pursuit of passing tax burden on customers, limited capacity of opening new branches as well as limited funds for investment purposes. Indeed, it was found that taxes have crippled the financing efforts of SMEs in areas that need financial commitment to promote the growth of these SMEs.

Impact of Corporate Tax System on SME Growth

The study sought to assess the effect of tax system on SME growth. A multiple regression analysis was conducted. The findings are presented on Table 16.

Table 16-*Model Summary*[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.607[a]	.368	.321	10.84824

Source: Field survey, Awotwe (2018)

A close observation of the R indicates that there was a strong positive correlation between the predictor variables (tax education by Ghana revenue authority, timing of corporate tax payment, perceived certainty in corporate tax, corporate tax rates, tax incentives for corporate bodies, mode of corporate tax payment, tax administration system efficiency, corporate tax amounts) and the dependent variable-SME growth. This was relation is established from this (R=0.607; n=115). In order words, high levels of corporate tax system was associated with higher level of SME growth. Also the findings indicated that the predictor variables (tax education by Ghana revenue authority, timing of corporate tax payment, perceived certainty in corporate tax, corporate tax rates, tax incentives for corporate bodies, mode of corporate tax payment, tax administration system efficiency, corporate tax amounts) accounted for 36.8% variance in the dependent variable-SME growth (R^2=0.368).

This is a good indication for tax administrators in Ghana as the model proved that corporate tax system in the Kumasi Metropolis enhances the growth of SMEs. This additionally calls for the need for putting in business-friendly tax system that provides incentives for businesses, especially those businesses struggling for survival whilst providing the needed revenue for the central governments developmental agenda. This finding echoes the assertion that a good tax regime for small firms is a key policy tool to pave their way out of the "informality trap" of low growth, limited access to markets, and exclusion from formal financial services (Kapaz & Kenyon, 2005). This finding also contradicts the claim that taxation is a major threat to the growth of Small and Medium-Sized Enterprises [SMEs] in developing countries (Ian Burke & Jarrat, 2004) and that taxes impede the growth of SMEs (Atawodi & Ojeka, 2012).

Table 17-*ANOVA*[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7274.907	8	909.363	7.727	.000[b]
	Residual	12474.536	106	117.684		
	Total	19749.443	114			

Source: Field survey, Awotwe (2018)

The ANOVA result indicated that the predictor variables made a statistically significant prediction for the positive variance in SME growth (R^2=0.368) owing to the fact that a Sig. value of 0.000 was obtained to that effect (p<0.05). This means growth in SMEs in Kumasi Metropolis could be enhanced if the predictor variables are manipulated as proposed in this study.

Table 18-*Coefficient*

Model		Standardized Coefficients Beta	T	Sig.
1	(Constant)		3.538	.001
	mode of corporate tax payment	.048	.412	.681
	timing of corporate tax payment	-.144	-1.402	.164
	corporate tax rates	-.303	-1.912	.059
	corporate tax amounts	.140	.834	.406
	tax administration system efficiency	.331	2.700	.008
	tax incentives for corporate bodies	.272	2.290	.024
	perceived certainty in corporate tax	-.010	-.114	.909
	tax education by Ghana revenue authority	.244	2.458	.016

Source: Field survey, Awotwe (2018)

On the individual contribution of the independent variables on the 36.8% variance in SME growth, it was discovered that tax administration system efficiency made a statistically significant but strongest contribution to the variance in SME growth (*Beta*=0.331; p=0.008, p<0.05) when the effect of other predictor variables in the model were statistically controlled for. It can be inferred that among the tax variables (predictor variables), tax administration efficiency contributes immensely to the growth of SMEs. Therefore, more emphasis should be placed on if tax system is to promote growth of SMEs. Similarly, corporate tax rates made a statistically significant but strong contribution to the variance in SME growth (*Beta*=-0.303; p=0.05) when the effect of other predictor variables in the model were statistically controlled for. If taxation is to promote SMEs, then a more realistic tax rates should be given to SMEs so as to make it economically appetizing for the tax payers and invariably help these businesses to grow. Also, it was found that tax incentives for corporate bodies made a statistically significant but strong contribution to the variance in SME growth (*Beta*=-0.272; p=0.024, $p<0.05$) when the effect of other predictor variables in the model were statistically controlled for. More tax incentives should be given to SMEs so as to promote their survival and growth in the long run. Again the results indicated that tax education by Ghana revenue authority made a statistically significant but strong contribution to the variance in SME growth (*Beta*=-0.244; p=0.016, $p<0.05$) when the effect of other predictor variables in the model were statistically controlled for. It is therefore advocated for more educational/training programmes to be organized to well inform SMEs of their tax obligation and create the atmosphere for the growth of these SMEs.

However, perceived certainty in corporate tax did not make any statistically significant contribution to the prediction of variance in SME growth (*Beta*=-0.010; p=0.909, $p>0.05$) when the effects of other variables in the model are statistically controlled for. Additionally, it discovered that corporate tax amounts did not make any statistically significant contribution to the prediction of variance in SME growth (*Beta*=0.140; p=0.406, $p>0.05$) when the effects of other variables in the model are statistically controlled for. Similarly timing of corporate tax payment did not make any statistically significant contribution to the prediction of variance in SME growth (*Beta*=-0.144; p=0.164, $p>0.05$) when the effects of other variables in the model are statistically controlled for. More so, the study showed that mode of corporate tax payment did not make any statistically significant contribution to the prediction of variance in SME growth (*Beta*=0.048; *p*=0.681, *p*>0.05) when the effects of other variables in the model are statistically controlled for. Holistically, it is concluded that even though these predictors made some contribution to the prediction of the variance in SME growth, it could be inferred that this could be attributed to either the statistical manipulation of these variables or simply by chance and therefore could not be 100% relied on in this model in order to promote SME growth.

Table 19-*Correlation between Corporate Tax and SME Growth*

		SME growth
Pearson	SME growth	1.000
Correlation	mode of corporate tax payment	.095
	timing of corporate tax payment	.062
	corporate tax rates	.128
	corporate tax amounts	.152
	tax administration system efficiency	.478
	tax incentives for corporate bodies	.491
	perceived certainty in corporate tax	.144
	tax education by Ghana revenue authority	.411

Source: Field survey, Awotwe (2018)

The relationship between the predictor variables and the dependent variable-SME growth was explored with a Pearson product-moment correlation coefficient. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. The findings are presented on Table 19. It was found that there was positive moderate correlation between satisfaction with tax incentives and SME growth (*r*=0.491), a moderate positive correlation between satisfaction with tax administration system efficiency and SME growth (*r*=0.478), and a moderate positive correlation between satisfaction with tax education by GRA and SME growth (*r*=0.478). This means that a high level of satisfaction with tax incentives was associated with higher SME growth potential. A call for more tax incentives would obviously catapult these SMEs into successful business and business-friendly atmosphere for their growth and survival. Also high level of satisfaction with tax administration system efficiency was associated with higher levels of SME growth. Similarly, it is clear that high levels of satisfaction with tax education by GRA was associated with higher levels of SME growth. Therefore, more educational programmes targeted at SMEs most be rolled out to better inform tax payers in general and SMEs in particular of their tax obligations to as to promote compliance among these SMEs.

The relationship between the predictor variables and the dependent variable-SME growth was explored with a Pearson product-moment correlation coefficient. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. The findings are presented on Table 19. It was found that there was positive but weak correlation between satisfaction with corporate tax rates and SME growth (*r*=0.152), a weak positive correlation between satisfaction with perceived certainty in corporate tax and SME growth (*r*=0.144), and a positive but weak correlation between satisfaction with corporate tax rates and SME growth (*r*=0.128), a positive but weak correlation between timing of corporate tax payment and SME growth (*r*=0.062), and a weak but positive correlation between mode of corporate tax payment and SME growth (*r*=0.095).

This attest to the fact that for taxation to play its pivotal role in promoting the growth of SMEs, there is the need for Ghana Revenue Authority to set favorable corporate tax rates for SMEs, rates that do not erode the profits and available investment funds of these SMEs since it was found that the more satisfied SMEs are with tax rate, the more their businesses grow. Similarly, the findings that the more SMEs are certain of their tax obligation (certainty), there higher their businesses grow signals that Ghana Revenue Authority must consistently provide reliable information through their education and liaison role so that these tax payers would know with certainty their tax obligation. This would promote prompt response for tax demands as needed by the Ghana Revenue Authority.

Also, there was a positive relation between satisfaction with timing for tax payments and SME growths which signifies that it favorable tax payment schedules are designed and followed, it would not on encourage SMEs to pay taxes but also cushion the working capital these SMEs that would support the growth agenda of these businesses. Again, high level of satisfaction with mode of corporate tax payment was associated with high business growth potential which proves that there more efficient mode of tax payment system is instituted and practiced, the more it would propel the growth of SMEs in Kumasi Metropolis.

Challenges Confronting SMEs Regarding Taxation in Ghana

The study sought to assess the challenges that SMEs in Kumasi Metropolis encounter regarding the recent tax regime in Ghana. The respondents were asked to mention peculiar challenges through an open-ended question. It was discovered that among the key challenges were high Value Added Tax on general goods and services, bigger tax rates for SMEs- comparative to operating capital, corruption among tax officials, inefficiencies in Ghanaian tax laws, unaccountability regarding tax expenditure by Government of Ghana and its agencies, lack of certainty regarding tax amount, irregular/untimely updates on changes in tax laws in Ghana, multiple tax rates for SMEs, lack of integrity on the part of tax officials, improper education on tax policies and unfair corporate tax laws. These problems make it extremely difficult for these SMEs to be able to comply with their tax obligation, interfere with the efficient running of their businesses and sometime depletes their capital. This assertion supports the claim by Pfister, (2009).

Chapter Summary

This chapter provided information relating to the findings of the study as guided by the specific research objectives considered in the study. Detailed discussions were held after the findings had been presented. The discussions were done in lieu of the literature review findings.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

Introduction

The study sought to assess the effects of taxation on financing decisions of SMEs in Kumasi Metropolis, in the Ashanti Region in Ghana. In order to achieve the overall purpose of this study, specific research objectives such as examining the tax practices among SMEs in Kumasi Metropolis, assessing the the factors that affect tax compliance among SMEs in Kumasi Metropolis, examining the impact of taxes on the financing decisions of SMEs in Kumasi Metropolis, assessing the influence of taxation on SMEs' growth in Kumasi Metropolis as well as determining the challenges of SMEs regarding tax compliance in Kumasi Metropolis were meticulously pursued. Through the adoption of descriptive survey designed, a target population of 153 SMEs registered with the Kumasi Metropolitan Assembly were considered and out of this figure, a sample size of 115 was targeted for the primary data collection. The respondents were selected through the stratified sampling technique. Questionnaire was used as a primary data collection instrument. Data analysis was done with SPSS (Version 22.0). The findings were presented on Tables and Figures.

Summary

Regarding the SMEs' tax practices in Kumasi Metropolis, it was discovered that majority of the SMEs are registered tax payers and also believe they are mandated to pay corporate taxes for their businesses. Majority of SMEs pay taxes for their businesses (98.3%). However, almost 50%

(41.7%) delay in tax payment to Ghana Revenue Authority and its allied agencies. It was discovered that for most of these SMEs, their taxes are not deducted from their financial statements which brings the approach to tax assessment. Regarding the frequency of tax payment, it was discovered that most of the SMEs pay their taxes quarterly and annually. The tax regime presently provides some tax incentives for SMEs and among the notable incentives enjoyed by SMEs are tax holidays, tax rebates, income exempted, capital allowances and tax rate reduction.

However, it was discovered that most of the SMEs do not enjoy fresh graduate incentives, free-zone incentives, double tax treaties, capital gains exempted, import duties exemption and exempted export duties. Further, it was found that the SMEs keep proper books of accounts that could be relied on for tax assessment purposes although such accounting and record keeping is manual by design instead of computer applications. Regarding the factors that influence tax compliance among SMEs in Kumasi Metropolis, it study revealed that fear of penalties payment is the most influential factor of compliance. Other equally compelling factor of tax compliance include morale reasons, tax auditing, training/knowledge on taxation, fear of tax compliance costs, business size, industry type, tax rates and capital structure.

Most of the SMEs pay income tax for workers, VAT, national health insurance levy, environmental tax, import duties, capital gain tax and special import levy. This shows that most of SMEs pay multiple taxes that makes it cumbersome for them. No wonder some of the SMEs are unable to pay taxes always. Among the tax offenses committed by the SMEs are failure to pay taxes on due dates, failure of filling tax returns, late filing of tax returns and understatement of tax payable by instalment. The study sought to assess the perception of respondents about tax system in Ghana. The findings indicated that the tax regime is characterized with multiple tax regime, low tax relief, unreasonable tax rates and high transactional charges on tax compliance. On the favourable the tax regime is also characterized with fair honouring of tax return, reliable contact methods/procedure, timely handling of complaints by tax officials, reasonable time for tax payment, non-prohibitive tax amount, and flexible mode of corporate tax payment.

Again the study sought to examine the effects of taxation on the financing decisions of SMEs and it was found that taxation negatively affect financing decision concerning the number of workers to employ, negatively affects profit retention capacity, negatively affects the working/operating capital, reduces investment capacity by reducing funds for such purposes and reduces corporate profit. Further, the was discovered that SMEs are unable to massively invest funds for asset acquisition because of unfavorable tax regime, are not able to open up new branches for the fear of multiple tax obligations that are to be concurrently be met alongside operational expenses, incur high compliance costs in their bid to escape tax default situations, causes them to go for more debt capital in order to insulate themselves from paying more taxes on equity capital and are unable to expand their firm size all, owing to unfavorable tax administration system in Ghana.

Regarding the impact of taxation on the growth of SMEs, the model indicated that that the predictor variables (tax education by Ghana revenue authority, timing of corporate tax payment, perceived certainty in corporate tax, corporate tax rates, tax incentives for corporate bodies, mode of corporate tax payment, tax administration system efficiency, corporate tax amounts) accounted for 36.8% variance in the dependent variable-SME growth (R^2=0.368). The model had a statistically significant predictive power (*ANOVA; p*=000, *p*<0.05). Regarding the relationship between the predictor variables and SMEs growth, it was discovered that there was a statistically significant positive correlation (*R*=0.67). Regarding the contribution of the predictor variables to the positive variance in SME growth, it was found that tax administration system efficiency made a statistically significant but strongest contribution to the variance in SME growth (*Beta*=0.331; *p*=0.008,*p*<0.05) when the effect of other predictor variables in the model were statistically controlled for. Other variables that made a statistically significant contribution include corporate tax rate (*Beta*=-0.303; *p*=0.05), tax incentives (*Beta*=-0.272; *p*=0.024, *p*<0.05) and tax education by Ghana Revenue Authority (*Beta*=-0.244; *p*=0.016, *p*<0.05). Other predictor variables that did not make a statistically significant contribution to the prediction of the positive variance in SME growth include perceived certainty (*Beta*=-0.010; *p*=0.909, *p*>0.05), corporate tax amount (*Beta*=0.140; *p*=0.406, *p*>0.05), timing for corporate tax payment (*Beta*=-0.144; *p*=0.164, *p*>0.05) and mode of corporate tax payment (*Beta*=0.048; *p*=0.681, *p*>0.05).

The study sought to assess the challenges that SMEs in Kumasi Metropolis are encountering regarding the recent tax regime in Ghana. It was discovered that among the key challenges were high Value Added Tax on general goods and services, bigger tax rates for SMEs-comparative to operating capital, corruption among tax officials, inefficiencies in Ghanaian tax laws, unaccountability regarding tax expenditure by Government of Ghana and its agencies, lack of certainty regarding tax amount, irregular/untimely updates on changes in tax laws in Ghana, multiple tax rates for SMEs, lack of integrity on the part of tax officials, improper education on tax policies and unfair corporate tax laws.

Conclusion

Conclusively, it is evidentially clear that, SMEs pay taxes to the government of Ghana through Ghana Revenue Authority and its allied agencies but fear of penalty is the most influential factor that induce such tax compliance behavior. Also, it is clear that Ghana tax regime presently provides some tax incentives for SMEs notable include tax holidays, tax rebates, income exempted, capital allowances and tax rate reduction.

Further it is concluded that tax regime in Ghana sometimes is not favorable for the development of SMEs as it negatively affect their financing decisions in the areas such as the number of workers to employ, profit retention capacity, working/operating capital, investment capacity and corporate profit. Because of taxation, most of these SMEs are going for a balance of equity and debt capital structure. However, it was discovered that a business-friendly tax regime contributes to the growth of SMEs in Kumasi Metropolis. Finally, the current corporate tax regime in Ghana is saddled with some problems that impede the successful operations of SMEs.

Recommendation

Based on the findings of this study some key practical recommendations are being offered so as to create business-friendly tax environment for SMEs in Kumasi in particular and Ghana at large. First of all, to tax policy makers such as government of Ghana, Ghana Revenue Authority and Kumasi Metropolitan Assembly, there is the need for reduction in the number of tax obligations that are levied on SMEs. This multiple tax syndrome dwindles the will for tax compliance among SMEs, siphons the capital of SME businesses and places these SMEs in a competitively disadvantaged side, comparative to their counterparts, larger firms, especially those larger firms that are by origin foreign in Ghana. The study showed that on the average, every SMEs pays about eight different taxes with a given accounting period. Notable among such taxes were income tax for workers, Value Added Tax, National Health Insurance Levy, corporate income tax, property tax, poll tax, import duties and environmental tax. By reducing the number of taxes for SMEs, more capital could be generated for the financing of expansion projects among these SMEs which would improve their competitiveness.

Equally, reducing tax rates for SMEs could be of same effect as the reduction in the number of taxes charged among these SMEs. Some of the participants indicated that sometimes, the tax rates that are imposed on SMEs are prohibitive which makes it difficult for them to full comply to payments of such rates on due dates. No wonder the study showed delay in tax payment as the mostly occurred tax offense among SMEs. It was also found that, sometimes the relative tax rates for SMEs per se may not be bigger than larger enterprises, however, the relative amount of Ghana Cedis that are captured from the coffers of these SMEs are outrageously higher comparatively. Reduction in some of the tax rates could provide more incentives for SMEs in

Ghana at large and Kumasi in particular which would in turn promote growth of SMEs.

Generally, creating business-friendly tax environment would promote the growth SMEs. Therefore, tax authorities should manipulate the predictor variables in the model favourably to SMEs and would in effect produce a potential growth among these SMEs since the model summary of the regression analysis indicated that variations in the predictor variables causes a statistically significant positive variance (36.8%) in SME growth. By ensuring that SMEs are satisfied with the predictor variables especially those that made a statistically significant contribution to the variance in SME growth. Notable among the predictor variables include tax administration system efficiency, favourable tax rates, tax incentives and tax education by Ghana Revenue Authority and its allied agencies.

There is the need for government of Ghana through Ghana Revenue Authority to promulgate a tax law that would compel all registered tax payers (SMEs) in Ghana to keep proper books of accounts so as to aid tax authorities in tax assessment procedures and practices. It should be mandatory for tax official to assess tax based on approved business statement of accounts. This would also provide the platform where reliable source of information could be retrieve so as to make taxation more efficient in its administration. Strategic education programmes should be mounted by Ghana Revenue Authority in order to educate the SMEs about the need for keeping proper books of accounts relevant for reliable business information and tax assessment purposes. SMEs must be willing to keep proper books of account so as to champion the realization of this proposed project. This would help eliminate the situation whereby tax officials connive with tax payers to steal revenue that is due government of Ghana for her developmental agenda.

Suggestions for Further Studies

Further studies should be carried out to assess the extent to which tax incentives motivate SMEs in honouring their tax obligations. Also further studies should be carried to see if firm size moderates the predictive relation between taxation and SME growth in Kumasi Metropolis. Again, more studies should be carried to assess how taxation influences capital of SMEs in Ghana.

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APPENDIX A

QUESTIONNAIRE

This study is being conducted by Emelia Awotwe, a postgraduate student of School of Business, University of Cape Coast, to assess the effects of taxation on financing decisions of SMEs in Kumasi Metropolis in the Ashanti Region. Your opinion concerning this subject matter would be extremely useful. Therefore, I would be extremely grateful if you could provide the right information as requested. The study is meant for academic purpose only and your privacy and confidentiality is highly secured.

Thank you.

Instruction

Kindly write and tick (√) where applicable

Section A: Demographic Information of Respondents

1. Sex a. Male[ ] b. Female [ ]
2. Job position of respondents
    a. Manager [ ]
    b. Chief Executive Officer [ ]
    c. Others
       (Specify)……………………………………………………
3. Educational level of respondents
    a. SHS/Equivalent [ ]
    b. HND/Equivalent [ ]
    c. First degree [ ]

d. Masters [ ]

e. Doctorate [ ]

f. Others (Specify) ……………………………………………

4. Nature of size of business

a. Small-sized enterprise [ ]

b. Medium-sized enterprise [ ]

5. Number of permanent employees

a. 6-29 workers [ ]

b. 30-99 workers [ ]

6. Legal status of business

a. Sole proprietorship [ ]

b. Partnership [ ]

c. Private company [ ]

7. Nature of business

Type

a. Manufacturing [ ] …………………………………

b. Service [ ] ………………………………..

c. Agricultural [ ] …………………………………

d. Commerce [ ] …………………………………

8. How long has your business been in operations?

a. 1-5 years [ ]

b. 6-10 years [ ]

c. 11-15 years [ ]

d. 16 years and above [ ]

9. How do you finance your business?
    a. Equity [ ]
    b. Debt (Bank loans) [ ]
    c. Leasing [ ]
    d. Equity and debt [ ]
    e. Equity and Leasing [ ]
    f. Debt and Leasing [ ]
    g. Equity, Debt and Leasing [ ]

Section B: State of Tax Compliance among SMES in Kumasi Metropolis

10. Are you a registered tax payers? a. Yes [ ] b. No [ ]
11. Do you pay taxes for your business? a. Yes [ ] b. No [ ]
12. Which of these institutions do you mostly pay your taxes to?
    a. Internal Revenue Service [ ]
    b. Value Added Tax Service [ ]
    c. Custom, Excise and Preventive service [ ]
    d. Trade Association [ ]
    e. MMDAs [ ]
    f. Others (Specify) …………………………………………………
13. Are you given an assessment before tax liabilities are fulfilled?
    a. Yes [ ]
    b. No [ ]
14. Which of these taxes do you pay?
    a. Corporate income tax [ ]
    b. Income tax of workers [ ]

c. Value Added Tax [VAT] [ ]

d. Property Tax [ ]

e. Import duties [ ]

f. Excise duties [ ]

g. Poll tax [ ]

h. National Fiscal Stabilisation Levy [ ]

i. Free-zone tax [ ]

j. Branch profit tax (International firm) [ ]

k. Capital gain tax [ ]

l. National Health Insurance Levy [NHIL] [ ]

m. Special import levy [ ]

n. Environmental tax [ ]

o. Others (Specify) ……………………………………………………

15. Do you always pay taxes for your business? a. Yes [ ] b. No [ ]

16. If your response to question 15 is "Yes" then briefly tell me why you always pay tax.

a. ………………………………………………………………………….

b. …………………………………………………………………………

17. If your response to question 15 is "No" then briefly tell me why you do not always pay tax.

a. ……………………………………………………………………………

b. ……………………………………………………………………………

18. Are taxes deducted from financial statements of your business?

a. Yes [ ]

b. No [ ]

19. How do you rate the following means of financial recording keeping in your business?

No	Record keeping variable	1	2	3	4	5
1	All receipts					
2	Practicing proper bookkeeping					
3	Use of special software					

20. It is mandatory to comply with tax payments? a. Yes [ ] b. No [ ]

21. Do you sometimes shift tax burden to your customers?

    a. Yes [ ] b. No [ ]

22. Do you pay tax on time? a. Yes [ ] b. No [ ]

23. How often do you pay corporate tax?

    a. Monthly [ ]
    b. Quarterly [ ]
    c. Biannual [ ]
    d. Annually [ ]

24. Do you pay tax amount fully? a. Yes [ ] b. No [ ]

25. Have you ever filed tax returns for your business? a. Yes [ ] b. No [ ]

26. Which of these tax incentives do you enjoy? (Tick as many as applicable)

    a. Tax rebates [ ]
    b. Reduced tax rates [ ]
    c. Tax holidays [ ]
    d. Incomes exempted [ ]
    e. Capital allowances [ ]

f. Fresh graduate incentives [ ]

g. Free-zone incentive [ ]

h. Double tax treaties [ ]

i. Capital gains exempted [ ]

j. Import duty exemptions [ ]

k. Exempted export duties [ ]

27. Which of the following offenses do you mostly commit regarding the submission of tax returns?

a. Failure to keep books of account [ ]

b. Failure to furnish a return [ ]

c. Failure to pay tax on due date [ ]

d. Understating estimated tax payable by installment [ ]

e. Making false or misleading statements [ ]

f. Aiding and abetting [ ]

g. Failure to comply with tax Act [ ]

h. Failure to withhold tax [ ]

i. Late payment of mandatory pension contribution [ ]

j. Late filling of VAT returns [ ]

k. Evasion of tax payment [ ]

l. Making claims for funds not entitled to [ ]

m. Failure to register at GRA [ ]

28. To what extent are you satisfied corporate tax variables in the Ghanaian tax system?

Where: 1=Extremely dissatisfied; 2=Dissatisfied; 3=Indifferent; 4=Satisfied; 5=Very satisfied

No	Tax variables	1	2	3	4	5
1	Mode of corporate tax payment					
2	Timing of corporate tax payment					
3	Corporate tax rates					
4	Corporate tax amounts					
5	Tax administration system efficiency					
6	Tax incentives for corporate bodies					
7	Perceived certainty in corporate tax					
8	Tax education by Ghana Revenue Authority					

Section C: Factors that affect tax compliance

29. To what extent do you the following factors influence tax compliance?

Where 5-Very highly, 4-Highly, 3-Fairly highly, 2-Low, 3-Very low

No	Tax compliance variables	1	2	3	4	5
1	Tax training/knowledge					
2	Tax compliance costs					
3	Size of business					
4	Type of industry					
5	Penalties					
6	Capital structure					
7	Tax rates					
8	Tax audits					
9	Moral reasons					

Section D: Examine the Impact of Taxes on the Financing Decisions of SMEs in Kumasi Metropolis

30. To what extent do you agree that corporate tax negatively affects the following aspects of your financing decision?

Where: 1=*Not at all; 2=Slightly extent; 3=Moderately extent; 4=Great extent; 5=Very great extent*

No	Financing decision variables	1	2	3	4	5
1	Asset acquisition					
2	Number of employees to employ					
3	Retain profit					
4	Pricing					
5	Number of branches					
6	Investment funds					
7	Compliance cost					
8	Capital structure					
9	Debt capital (Bank loans)					
10	Interest on loan					
11	Firm size					
12	Operating capital					

31. To what extent to which do you agree that the following areas of your business have been improved through corporate tax reforms in Ghana?
32. Where: 1=*Not at all; 2=Slightly extent; 3=Moderately extent; 4=Great extent; 5=Very great extent*

No	Financing variables	1	2	3	4	5
1	Asset acquisition					
2	Number of employees to employ					
3	Retain profit					
4	Net Profit					
5	Pricing					
6	Number of branches					
7	Investment funds					
8	Compliance cost					
9	Market sustainability					
10	Capital structure					
11	Obtaining debt capital (Bank loans)					
12	Interest on loan					
13	Firm size					
14	Operating capital					
15	Turnover					

Section E: Perceived Challenges of SMEs Regarding Tax Compliance

33. Do you face challenges pertaining to corporate tax compliance?

a. Yes [ ] b. No [ ]

34. If your response to question 33 is “Yes”, enumerate the peculiar challenges you face.

a. ………………………………………………………………………

b. ………………………………………………………………………

c. ………………………………………………………………………

d. ………………………………………………………………………

e. ………………………………………………………………………