

UNIVERSITY OF CAPE COAST

**EFFECTS OF TAXATION ON THE GROWTH OF SMALL AND
MEDIUM-SIZED ENTERPRISES IN THE CENTRAL REGION,
GHANA**

MAVIS DESIREE BENTUM

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GHANA**

BY

MAVIS DESIREE BENTUM

Dissertation submitted to the Department of Accounting of the School of Business, College of Humanities and Legal Studies, the University of Cape Coast in partial fulfilment of the requirements for the award of Master of Business Administration degree in Accounting

JANUARY, 2020

DECLARATION

Candidate's Declaration

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

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

Name: Mavis Desiree Bentum

Supervisors' Declaration

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

Supervisor's Signature: Date:

Name: Mr. Stephen Asante

ABSTRACT

Small and Medium-sized Enterprises constitute the majority of business ventures and significantly contribute to the employment and economic liberation of both developed and developing economies. Notwithstanding the huge contribution of SMEs to countries' economic development, they are faced with challenges of high tax rates, unfavourable tax policies that tend to affect their profits adversely and high tax compliance costs that accompany the filing of tax returns to revenue authorities. The study seeks to examine the impact of taxation on the growth of small and medium- sized enterprises in the Central region of Ghana. A descriptive survey design was employed to study 310 SMEs within the Central region. Structured questionnaires were used to collect data from SME respondents. The study adopted multiple linear regression to examine the relative importance of each of the five explanatory variables: the tax rate and complexities, tax compliance cost, tax policy, size of business and business experience concerning the growth of SMEs. The study found that tax compliance costs and business experience have a significant positive relationship with the growth of SMEs. Tax rate and complexities, and tax policy have a statistically significant negative effect on SMEs' growth. The study recommends that the government should endeavour to reduce the rate of tax charged businesses especially SMEs. Also, it is recommended that tax policies targeted at the private sector should be sensitive towards SMEs.

KEYWORDS

Ghana Revenue Authority

Small Tax Office

Taxation

Small and Medium- Sized Enterprises

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DEDICATION

To my husband and children

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LIST OF ABBREVIATIONS

GDP	Gross Domestic Product
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
MTO	Medium Tax Office
NBSSI	National Board for Small Scale Industries
OECD	Organization for Economic Co-operation and Development
SMEs	Small and Medium- sized Enterprises
SPSS	Statistical Product for Service Solutions
STO	Small Tax Office
TPB	Theory of Planned Behaviour
TRA	Theory of Reasoned Action
VAT	Value Added Tax

CHAPTER ONE

INTRODUCTION

Background to the Study

Every country, including Ghana, wants to construct a civilized nation with a powerful and sound economy. Tax payment is the proof of this desire, even though some income earners see it as a means of public exploitation (Drake, Lusch & Stekelberg, 2019). A tax is a compulsory financial charge or some other type of levy imposed upon a taxpayer (an individual or legal entity) by a governmental organization to fund various public expenditures. Revenue from taxation is a major source of income for Ghana's government, and as such is an important tool used in Ghana and its economy's development. The tax policies and schemes of a nation are closely linked to the country's business enterprises (Drake et al., 2019).

Globally, small and medium-sized enterprises (SMEs) play a crucial role in the economic development of the world's economies. SMEs form the majority of the businesses registered in both developed and developing countries (Cusmano & Koreen, 2017). In the United States of America, small and medium-sized businesses make up 99.7 percent of all firms registered (Flores, Andrés-Rosales, & Villarreal, 2016). A study conducted by the Oladipupo and Obazee (2016) in Nigeria revealed that SMEs make 97 percent of the businesses in the Nigerian economy.

The situation is not different in the Ghanaian context as Ghana Statistical Service (GSS) surveys showed that SMEs constitute about 92 percent of firms registered in Ghana (Ghana Statistical Service, 2017). Though SMEs are smaller in size as compare to the larger firms, they are the

most important undertakings in the economy given that when all their individual effects are aggregated, they surpass that of larger firms. Šeba (2016) observed that SMEs are a source of employment, competition, economic dynamism and innovation which stimulate the entrepreneurial spirit and diffusion of skills. As evidenced in the preceding discussions, governments need to institute enabling business environments for SMEs to grow and survive. One such area that needs government intervention is taxation of SMEs.

Revenue mobilized from taxation constitutes one of the major sources of revenue to the government of Ghana, and as such is pertinent in the development of the Ghanaian economy. Tax policies and systems in a country are greatly related to the business ventures in the country. A country that enacts favourable and progressive tax laws and policies have the potential to breed successful and financially healthy business enterprises. Petersen and Schoof (2015) opined that taxation can have important effects on many parts of the economy, comprising impacts on firm creation, and the development of SME growth.

In Ghana, the importance of SMEs as a creator of jobs predominantly for those with low skills level is widely recognized. SMEs contribute 70 percent of Ghana's Gross Domestic Product (GDP) and about 71 percent of the workforce in the sector (Ghana Statistical Service, 2017). In the manufacturing sector, SMEs employ about 85 percent of the total workforce. Over the years, the growth of SME's employment rate has exceeded the growth in the contribution to the GDP; this is one of the reasons why the Government of Ghana has been trying to support them through policies and

programs that will make available finance for their development. But, all these efforts by the government have been less effective as much assistance has not been given in the area of tax policies. Tax policies are reported to be one of the constraints to the growth and expansion of SMEs in Ghana (National Board for Small Scale Industries, 2016).

Furthermore, SMEs in Ghana are liable to different types of taxes and these include income tax, corporation tax, capital gain tax, custom duties and value-added tax that are paid at different stages of the business (Keith, 2012). All these taxes eat into the profit of SMEs which could have been ploughed back into their operations. The high tax rate charged tax compliance cost and the challenges taxpayers faced in honouring their tax obligations have been impacting on the growth and development of SMEs in Ghana. Keith (2012) posits that high taxes can affect the size and strength of SMEs population through the reduction in the number of business births, by discouraging those who might otherwise form a new business, slow down the rate at which SMEs can grow by making it more difficult for them to finance rapid expansion.

Statement of the Problem

The taxation of SMEs is a pertinent issue given their importance to the economies of countries globally. SMEs formed the majority of business ventures and contribute significantly to the employment and economic emancipation of both developed and developing economies (Barungi, 2018). Despite the enormous contribution of SMEs to the country's economic development, they are faced with challenges of high tax rates, unfavourable tax policies that tend to affect profits generated by SMEs adversely and high tax compliance costs that accompany the filing of tax returns to revenue

authorities. Barungi (2018) postulates that a careful design of government programs for SMEs, including special tax laws can go a long way in addressing market failures and excessively high compliance burdens hanging on the neck of SMEs.

In Ghana, SMEs have a high mortality rate especially a few years after their establishment due to unfavourable tax policy regimes and exorbitant tax rates imposed on their activities which cut across various stages of production and service provision (National Board for Small Scale Industries, 2016). The situation is not different in the case of SMEs in the Central Region. Preliminary investigation revealed that myriad enterprises collapse and some at the verge of collapse which was linked to taxation related issues such as high tax rate, tax compliance cost and tax policies instituted by the government (National Board for Small Scale Industries, 2018). For instance, the re-introduction of the 3% VAT flat rate in July 2017 has since been met with resistance as it has affected demand for SME's products and increase in business risk. Besides, the profit margins of SMEs are being eroded by the 3% VAT flat rate aggravating the existing difficulty in accessing finance by SMEs in the Central Region (National Board for Small Scale Industries)

Kumar and Rao (2015) observed that the tax systems as it exists in Ghana now disproportionately affect SMEs relative to larger firms, since to some extent larger firms and SMEs treat profits and losses unequally, and larger firms having the advantage to secure debts relative to SMEs. This help firms to reduce their tax burden (i.e. loan interest is tax-deductible), while SMEs are faced with relatively high compliance cost on SMEs due to the inability to finance major business activities through debt. The high tax rate

charged tax compliance cost and the challenges taxpayers faced in honouring their tax obligations have been impacting on the growth of SMEs in Ghana. Keith (2012) posits that high taxes can affect the size and strength of SMEs population through a reduction in the number of business births, by discouraging those who might otherwise form a new business, slow down the rate at which SMEs can grow by making it more difficult for them to finance rapid growth.

However, to the best knowledge of the researcher, little research has been done to establish the relationship between taxation and SMEs' growth in the Central Region of Ghana. The current study, therefore, seeks to examine the impact of taxation on SMEs' growth in Ghana focusing on the Central Region as a study area by exploring the effect of tax rate and complexities on SMEs, the influence of tax policy on the growth of SMEs and effects of tax compliance cost.

Purpose of the Study

The purpose of the study is to examine the effect of taxation on the growth of Small and Medium- sized enterprises in Ghana

Research Objectives

Specifically, the study seeks to:

1. Ascertain the effect of tax rate and complexities on the growth of small and medium-sized enterprises in the Central Region
2. Determine the influence of tax policy on the growth of small and medium-sized enterprises in the Central Region
3. Examine the effect of tax compliance cost on the growth of small and medium-sized enterprises the Central Region

Research Hypotheses

The research objectives were hypothesised as;

1. H₁: There is a significant relationship between tax rate and complexities and growth of small and medium-sized enterprises in Central Region
H₀: There is no significant relationship between tax rate and comp and growth of small and medium-sized enterprises in Central Region.
2. H₂: tax policy has a significant influence on the growth of small and medium-sized enterprises in the Central Region
H₀: tax policy does not have a significant influence on the growth of small and medium-sized enterprises in the Central Region
3. H₃: tax compliance cost has a significant effect on the growth of small and medium-sized enterprises in the Central Region
H₀: tax compliance cost does not have a significant effect on the growth of small and medium-sized enterprises in the Central Region

Significance of the Study

The outcome of this study will enable the government and other policymakers to comprehend the extent to which the tax policies have on SMEs' financial performance and growth. The rules and regulations enacted by the government incline to affect the sustainable growth in SMEs considering the role they play in the economic development of the economy.

The study will be of immense benefit to SME owners and managers to understand how taxation impacted on the growth of their businesses and how to better handle tax-related issues to remain in business. Besides, the knowledge of taxpayers on tax-related issues will be beneficial to both the government and the taxpayer.

The current study will also provide further empirical data and findings in the area of taxation and SME's efficiency for academicians and researchers who have an interest in such research areas.

Scope of the Study

The study was focused on SMEs registered with the Ghana Revenue Authority in the Central Region. The study makes use of primary data which were collected with a structured questionnaire designed in line with the study objectives largely in the form of a five-point Likert scale. Adequate sample size were selected from the SME population currently operating in the Region. Data were analysed using percentages, mean, standard deviation and regression in the bid of establishing the relationship between the dependent and independent variables.

Delimitations

The study was focused on SMEs registered with the Ghana Revenue Authority in the Central Region. The study makes use of primary data which were collected with a structured questionnaire designed in line with the study objectives largely in the form of a five-point Likert scale. The adequate sample size was selected from the SME population currently operating in the Region. Data were analysed using percentages, mean, standard deviation and regression in the bid of establishing the relationship between the dependent and independent variables.

Limitations

All research studies have limitations, possibly related to the difficulty of controlling variables within the research design or related to the limited types of data that can be gathered due to ethics or feasibility. The limitation of

this study is that the study controlled only two variables: the size of business and business experience. Thus, besides these two control variables being studied, other variables may have a relationship with the growth of SMEs. Due to time constraints and difficulty in obtaining data for the other controlled variables, the study did not consider them in the work. However, this has not in any way nullify the importance of the work.

Organization of the Study

The study was organized into five major chapters; with chapter one containing background to the study, statement of the problem, objectives of the study, research questions, scope and significance of the study. Chapter two of the study covers the literature review with a look at theories underpinning taxation and empirical literature on the impact of taxation on SMEs. Besides, the research methodology dealt with in chapter three, in which that data collection and presentation procedures were examined. Furthermore, chapter four covers data analysis based on the responses from the respondents. Finally, a summary of major findings, policy recommendations and conclusions were part of chapter five.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This section of the study dwells on the review of pertinent literature relating to the subject matter of the study. The review was done along with three themes: theoretical review, empirical review and conceptual literature review. The theoretical literature review was done to put the work in proper theoretical grounding. The empirical review covers the review of similar works done in the current field of research and helps in identifying gaps the study sought to close. A measure of the study variables was done under conceptual review and subsequently, establishing the interrelationship between the dependent and independent variables in a diagrammatical form.

Theoretical Review

This part of the literature reviewed theories underpinning the study which was developed by scholars and it is relevant to the study. These theories are the ability to pay the theory of taxation, the economic deterrence theory, and the theory of planned behaviour.

The ability to pay theory of taxation

The ability to pay theory of taxation was postulated by Swiss philosopher (Rousseau, 1985). The theory put forward that taxes levied on individuals should be according to their income or ability to pay and it is the foundation for progressive tax where tax rate increase by the increase of the taxable amount (Jones, 2014). The theory is built on the supposition that people or businesses who earn greater income or wealth and are in a position to pay should be made to pay a higher amount of tax than those with less

individual or business income. This presents the most equitable form of a tax system in an economy and this has been generally applied in the industrial economies (Ogbonna & Ebimobowei, 2012).

The main tenet of this model is that the burden of taxation should be shared by members of society on the principle of justice and equity. The payment of tax under this principle is based on the relative ability to pay and therefore, apportioned according to the income levels of individuals or businesses (Ogbonna & Ebimobowei, 2012). This theory is pertinent for this study as it explains how taxation influences the growth of SMEs either positively or negatively. Thus, payment of tax by businesses is driven by their ability to afford the amount of tax imposed on them by tax authorities. When SMEs are faced with too much taxes, it tends to affect their profitability which translates into the stagnation of growth.

The economic deterrence theory

The theory on tax compliance is also known as deterrence theory postulates that taxpayers are moral utility maximizers and emphasizes an incentive to comply. The theory suggests that taxpayers are influenced by economic motives such as profit maximization and a likelihood of detection (Kuug, 2016). The economic deterrent theory considers the taxpayer as one who maximizes utility in that when the penalty for non-compliance is less than the gain, then an individual is motivated to evade tax. Consequently, a penalty structure forms part of the punishment and is a critical factor in an individuals' choice to evade tax.

It was agreed that there was a point where enforcement became uneconomical and resulted in a social loss (Becker, 1968). Hence other theories emerged based on the economic deterrent theory.

According to Allingham and Sandmo (1972), there is an inverse relationship between the certainty of being detected and the severity of punishment. They argued that where there is a high probability of detection, penalties should be low and vice versa. This theory proposition by Allingham and Sandmo (1972) may look nice for the nation-state of Ghana, considering the large unstructured informal sector where tax evasion appears to be very high. Their study also claimed that instances in which the probability of detection of evasion is certain, moderate punishment may be as effective a deterrent compared to a more severe one.

Thus, it is asserted that increasing the penalty level may not necessarily achieve a greater deterrent effect if the offender knows that the chance of being apprehended is high. In expressing another dimension to the utility view by Allingham and Sandmo (1972) looked at taxpayers' attitude toward risk and claimed that in instances where a taxpayer is risk-averse that decreases with income, an increase in the tax rate would result in a decrease in evasion. Consequently, it was argued that attitude to risk was determined by the taxpayer's level of income. The implication of this view is when taxpayers' income goes up there is less likelihood of evasion or non-compliance. The implication of this view by Lyons (1974) is that when the state creates an enabling economic environment that allows the income of taxpayers to increase there will be less evasion of taxes.

The evasion of taxes in the US has revealed the weakness in the economic deterrent theory and this has brought to the fore a search for more complex theories that could reduce non-compliance that emphasizes an extended penalty for evaders. Though the studies were based on the economic deterrent theory, they indicate that taxpayers are more sensitive to the magnitude of the penalty than to the probability of detection when the probability is very low (Reinganum & Wilde, 1986). It is suggested that a system of taxation that combines both penalties and rewards is more prudent in maximizing compliance than a system that focuses solely on sanctions (Brunner & Falkinger, 1999). As a result, positive inducements for compliance may have a key role to play in deterrence. The challenge, however, is how the inducements will take. That is whether they (inducements) come through quicker tax refunds, or a percentage reduction in tax payable.

The relevance of this theory to the current study is that tax authorities and the government will understand the motivation of taxpayers and how it impacts their desire to honour their tax obligations. If the government creates an enabling business environment, businesses will thrive and more revenues will be generated. Thereby, owners of the businesses will be ready to pay their taxes without defaulting. The current study made it clear that focussing on penalties to solve the problem of tax evasion may not be effective.

Theory of planned behaviour (TPB)

The theory of planned behaviour posits a direct relationship between intention and behaviour of an individual and is critical to any significant change in policy. The intention of the taxpayer is an essential component of tax compliance since it is only through the willing participation of taxpayers

that revenue is collected. Therefore, predicting taxpayers' intention to comply is as important as predicting the actual compliance behaviour (Chorlton, Conner, & Jamson, 2012). It is worthy of note that determining if the behaviour is motivated by the unwillingness to comply will shape the treatment of taxpayers to improve the performance of the behaviour.

The tax authority would, therefore, design interventions that preemptively address the cause of the non-compliance rather than administer solutions after the non-compliance which may encourage further non-compliance. In addition to intention, the TPB addresses the issue of behavioural control with the inclusion of perceived behavioural control and actual control. Perceived behavioural control consists of the individual's controllability of the behaviour and their self-efficacy in performing the requisite behaviour while the actual control has been defined as the relevant skills and abilities as well as barriers to, or facilitators of, performance (Ajzen, 2011).

Very closely related to the TPB is the theory of reasoned action (TRA). Several scholars have applied TRA as a dominant theoretical framework in their research on various behavioural situations.

The TRA has its focus on behavioural intention as the antecedent to actual behaviour. Intentions are assumed to capture the motivational factors that influence behaviour. Ajzen (2011) posits intention as indicating how hard individuals are willing to try or how much effort they would exert to perform the behaviour. To understand a particular individual's behaviour such as taxpayers', it is important to identify the determinant of behavioural intention. TRA suggests two independent determinants of intentions. These are the

attitude toward behaviour and subjective norms. According to Ajzen (2011), attitude is the degree to which an individual has a good or poor evaluation of a particular behaviour. One of the factors that determine attitudes is the behavioural belief, which involves an evaluation of the consequences or outcomes of a particular behaviour. Attitudes are influenced by a belief in an outcome in which its degree is measured in terms of outcome evaluation. Subjective norms, according to Loo, Evans, and McKerchar (2012) refer to social pressures perceived to be exerted on an individual to act or not to act. Thus, pressure from society can be the reason why an individual may act in a particular way of fashion.

According to Millar and Shevlin (2003), perceptions of unfair tax burdens can affect taxpayers' views about paying tax and consequently their compliance behaviour towards the tax system. Breckler and Wiggins (1991) argued that an effective attitude deals with emotions such as feeling happy, sad or guilty when performing certain behaviour while instrumental attitude refers to a more cognitive consideration to which performing behaviour would be advantageous. This implies that the emotions of the taxpayer may affect compliance in that when their mood favours the performance of legal obligation such as tax compliance they will willingly do so. However, when the taxpayer considers the advantages the individual derives from the compliance either positive or negative, i.e. cognitive consideration, then the one may comply or not.

This theory shows that payment of tax by SMEs is also depends on the attitudes and beliefs of managers and owners but not only based on the desire to pay as demanded by the government or the fear of being prosecuted.

The theory aids in explaining other pertinent factors that affect tax compliance and the perception about how tax revenue is being used.

Conceptual Review

This section of the literature review helps in explaining the study variables and their measurement as adopted by other studies. It forms the basis for the theoretical foundation by bringing out clearly the justification for selecting a variable to be part of the study. The variables reviewed are tax rate and its relationship with the growth of SMEs, tax policy and its impact on SME growth, tax compliance cost and growth of SMEs. Measurement for SME growth was also covered and finally, challenges affecting taxpayers and SME growth were explored.

Definition of SMEs

Small businesses were described in different ways, but the most frequently used criterion is the amount of the enterprise's staff. Confusion often occurs concerning the arbitrariness and cut-off points used by the multiple official sources when implementing this definition. The Ghana Statistical Service (GSS) considers businesses with fewer than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large Enterprises, as contained in its Industrial Statistics. Ironically, the GSS regarded businesses with up to 9 staff as Small and Medium-sized Enterprises in its domestic accounts.

It has long been recognized the vibrant position SMEs in developing nations as conduits through which to achieve the development goals of developing nations. In the least developed nations, SMEs are projected to employ 22% of the adult population (Levy & Powell, 2004). The sector

employs about 15.5% and 14.09% of the labour force in Ghana and Malawi respectively (Parker, Bellucci, Torlina, Zutshi, & Fraunholz, 2014) has experienced higher employment growth than micro and large scale enterprises (5% in Ghana and 11% in Malawi). In Ghana, the sector's output as a percentage of GDP account.

To accelerate the rate of development in low-income countries, small-scale rural and urban companies have been one of the main fields of interest for many policymakers. These undertakings have been recognized as the motors by which developing countries ' development goals can be accomplished. In many developing nations, they are prospective sources of jobs and revenue (Calipinar & Ulas, 2013).

Measurement of SMEs' growth

The growth of SMEs is measured by some employment generated by the enterprise, expansion rates are shown by an increase in the number of branches, account for major share jobs created and key players in the economic growth (Kumar & Rao, 2015). Additionally, Kumar and Rao (2015) opined that SMEs display higher net job creation rates as compared to larger firms, as they engaged in a wide-ranging population of businesses. Bannier and Zahn (2012) postulate that firm age is one of the important distinguishing traits, and there is evidence in empirical literature linking age, size, and (proportional) growth. For any given size, the proportional growth rate of enterprises tends to diminish with age.

Likewise, older enterprises have a greater likelihood of survival than younger ones. These observations are consistent for instance, with models of

firm selection as market entrants take time to learn about the relative efficiency in the industry (Banner & Zahn, 2012).

Rojsurakitti (2015) postulates that continuous growth is relatively infrequent as few businesses enjoyed steady growth over a period of seven years or more. Whereas, some firms followed an irregular trajectory with only two to years of stable growth. As a result, the overwhelming number of enterprises experiencing strong growth did not grow increasingly. The model of the firm with an annual increase in its workforce has been used in many studies as an indicator of the growth of an enterprise (Banner & Zahn, 2012).

Tax Rate and Complexities and SMEs Growth

Tax rates levied on SMEs influenced the growth of the enterprise. Higher tax rates and tax complexities negatively impacted on the growth and development of SMEs as well as on firm creation. These high tax rates translate into a high cost of production, which ultimately resulted in hikes in the prices of goods and services provided by SMEs (Graham & Mills, 2008).

The corporate tax affects the financing decision and decision on investment as well as the choice of organizational form. Corporate tax rates which are pegged below top marginal personal income tax along with provisions for deferral of personal taxation through reinvestment of profits can serve as incentives for entrepreneurs to register their businesses (Graham & Mills, 2008). A reduction in corporate tax encourages more businesses that are not registered for fear of being taxed to be incorporated, all things being equal (Graham & Mills).

The quest of governments to strengthen the competitiveness of SMEs in many countries leads to reduced tax rates (Gordon, 1963). They impose

various types of taxes to protect infant industries and to facilitate fair competition among SMEs. These steps according to Loo et al. (2012) are often pushed by equity objective (SMEs earn lower profits) and efficiency objectives (SMEs are exposed to market failures, e.g. reduced access to financing, necessitating government policy).

Tax Policy and SMEs Growth

The resources SMEs directs towards tax compliance could have been used for reinvestment, leading to the growth of SMEs in the future (Bahl & Bird, 2008). Therefore, there is the notion that taxes and a complex tax system disproportionately put a burden on smaller businesses. Slemrod (2008) observed that the same compliance requirement, cost of compliance for both small and larger companies constitute discrimination against smaller companies. When compliance costs and tax rates are revised downwards, the profit margin of SMEs will increase. Also, government revenue from taxation will increase, since the less complex provisions for a small enterprise reduce the size of the shadow economy and the number of non-complying registered taxpayers (Slemrod).

Moreover, overbearing regulatory environment with a myriad of regulatory authorities and agencies, multiple taxes, cumbersome importation procedures, and high port charges contently put undue pressure on the operations of SMEs. As a result of these complexities, a significant number of businesses also failed to register or honour their tax obligations (Lisi, 2015). This increases the burden on those taxpayers who try to comply with the tax law and discourages their future compliance.

A tax regulatory system that is complex and excessively regulated tends to be unduly onerous and mostly a detrimental effect on the growth of SMEs as they tried to transform into forms that offer a lower tax burden or no tax burden at all (Harju, 2014). If the tax system is poorly implemented, it leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received and the eccentricity of optimal allocation of resources (Loo et al., 2012).

Tax Compliance Cost and SMEs Growth

Tax compliance cost has been a topical issue among academics, government policymakers, and business undertakings. Ameyaw, Addai, Ashalley, and Quaye (2015) hold the view that the cost of complying with tax obligations is part of the three components of the social cost of taxation. These costs according to them constitute the costs incurred by society in the process of transferring purchasing power from taxpayers to the government.

Compliance cost can be classified into three: time spent, cash expenses and psychological cost. The total time spent contains employees' costs (in-house staff) and external cost (fees paid to external accountants and other advisors). These compliance costs are not within the remit of management of the business enterprises (Pope & Abdul-Jabbar, 2008). Empirical antecedents showed that regulatory fall disproportionately on SMEs Pope and Abdul-Jabbar (2008), considering the limited resources at the disposal of SMEs and inadequate expertise to comply with diverse and complex regulation (Atawodi & Ojeka, 2012). Furthermore, Eichfelder and Vaillancourt (2014) opined that high compliance cost of tax can lead to tax avoidance, tax fraud, and constrain

investment by way of lessening the competitiveness of the country in terms of taxation attractiveness.

The issue of non-compliance is also laid at the doorstep of unbearable tax compliance costs. This could come in the form of SMEs failing to submit their tax return within the required period or refusal to completely submit the tax returns, understatement of income, overstatement of deductions, refusal to pay assessed tax by due dates (James & Edwards, 2010).

Empirical Review

Extant literature was reviewed in line with the study objectives. This review was done to unearth related studies and their outcomes which were used as a basis of comparison of the current research. Many studies have been conducted on the impact of taxation on small and medium-sized enterprises. The review covered studies in another part of the world, Africa and narrow down to Ghana. The reviews are presented below.

Keith (2012) conducted a study on the impact of taxation on small and medium-sized enterprises in the United States of America. Data were collected through interviews with SME owners and managers and was analysed using a descriptive approach. The study findings showed that many tax laws enacted by the federal government though not intended for businesses resulting in high tax rates which negatively affected the growth and development of SMEs. The study also found that high personal income taxes have milk dried many of the sources from which SMEs used to draw their outside funds.

Investigation of the effective factors in the efficiency of the tax system by Aizenman and Jinjark (2009) in Iran, it was posited that tax experts intimate improvement of the ways of taxation, utilization of IT, avoiding the

interference of the departments and industrial unions in taxation and increasing the manpower in the tax organization will enhance compliance. Further, quality of the management and employing qualified personnel with the requisite knowledge, motivation and punishment for deviant behaviour of tax collectors, public education on the importance of paying taxes at all levels in the society are other factors that will enhance compliance and effectiveness. Also, successful tax patterns in other countries could be studied and adopted where appropriate.

In Nigeria, Atawodi and Ojeka (2012) researched the relationship between tax policy, the growth of SMEs and the Nigerian economy. 150 SME owners were sampled using non-probability sampling from the total population of SMEs operating in Zaria, North Central Nigeria State where questionnaires were administered to the respondents. The hypothesis of the study was tested using Spearman's rank correlation. The study showed a significant negative relationship between taxes and SMEs ' growth. They further stated that to obtain a vibrant and flourishing SME sector, the tax policy of Nigeria needs to be appropriate such that it will be an encumbrance to the growth of SMEs.

Another study on the effect of multiple taxations on the performance of small and medium scale business enterprises in Benue State was conducted in Nigeria by (Ocheni & Gemade, 2015). The adopted survey research design with a population of 91. Self-administered questionnaires were used in collecting data. The study found that multiple taxations negatively influenced the survival of SMEs and the relationship between SME's size and its ability to pay taxes is significant.

The descriptive research design was used to assess the effectiveness of the presumptive tax collection system and its impact on the variability of SMEs i/n Zimbabwe by (Nyamwanza, Mavhiki, Mapetere, & Nyamwanza, 2014). The sample size of the study comprises 67 Bindura commuter transport operators who constitute respondents for the study. The findings of the study showed that there is an inverse relationship between presumptive tax and profitability of SMEs.

Conducting a study on revenue potential and tax compliance among SMEs in Kenya, Nyakundi (2018) found that tax compliance among SMEs was low which was traced to several factors such as poor management and internal control practices as many enterprises were merely trying to keep their head above water. Another pertinent factor identified was an informal approach to an establishment, operations, and dissolution which creates an ease of mobility.

Machogu and Amayi (2016) conducted a study to explore the impact of the tax system on the growth of SMEs in Shinyanga, Tanzania, to determine the perception of managers of the tax systems' effectiveness in promoting the growth of SMEs in Tanzania. The outcome of the study showed that when taxes are increased, prices of goods and services increase and there is a downward movement in the rate of consumption leading to a reduction in the sales volumes. The study found that the tax system negatively influenced the growth of SMEs. This is because the amount of cash collected is channeled into the payment of taxes rather than to expand the business. The study was based on 120 respondents and a descriptive survey design was used.

Tee, Boadi, and Opoku (2016) conducted a study on the effect of tax payment on the performance of SMEs in the Ga West Municipality Assembly in Ghana where a survey of 102 manager/executives officers was administered with questionnaires and interview. Data were analysed by descriptive analysis method, correlation, and regression analysis. The outcome of the study indicates that the majority of the respondents perceived the adverse impact of existing tax on the growth of SMEs.

Adebisi and Gbegi (2013) posit that "in Ghana, one of the greatest problems facing tax administration is that of income tax evasion". This study was corroborated by Asante (2012), who intimates that tax evasion is a major problem in Ghana. He intimated that the evasion is as a result of the large scale of illiteracy, ignorance of tax laws, difficulty in identifying sole-proprietor, inadequate number of tax offices and officers, complex tax laws are among causes of tax evasion. Tax evasion involves non-declaration of income; under-declaration of income; and inflation of deduction from income (Pirttilä & Selin, 2011).

Amoah, Asuamah, and Amaning (2014) in a study on tax evasion in Ghana, intimate that if the tax system is unfair, a large percentage of the money collected is wasted, and the money collected gets into the pockets of corrupt politicians, then evasion is justified by the citizens. They recommend that taxation policies in the economy must be fair and that tax officers must be encouraged to stay away from corrupt activities. They conclude tax revenue should be spent on projects that will benefit the public as a whole so that citizens can be motivated to pay their taxes.

Conceptual Framework

The conceptual framework dwells on the interrelationship between the dependent and independent variables of the study. Based on the interrelated nature of these variables and concepts, the study deemed it necessary to diagrammatically represent the concept to show how they interconnect. The variables of interest are the growth of SMEs as a dependent variable, tax rate, tax policy, tax compliance cost as independent variables. How these variables relate is depicted in figure 1.

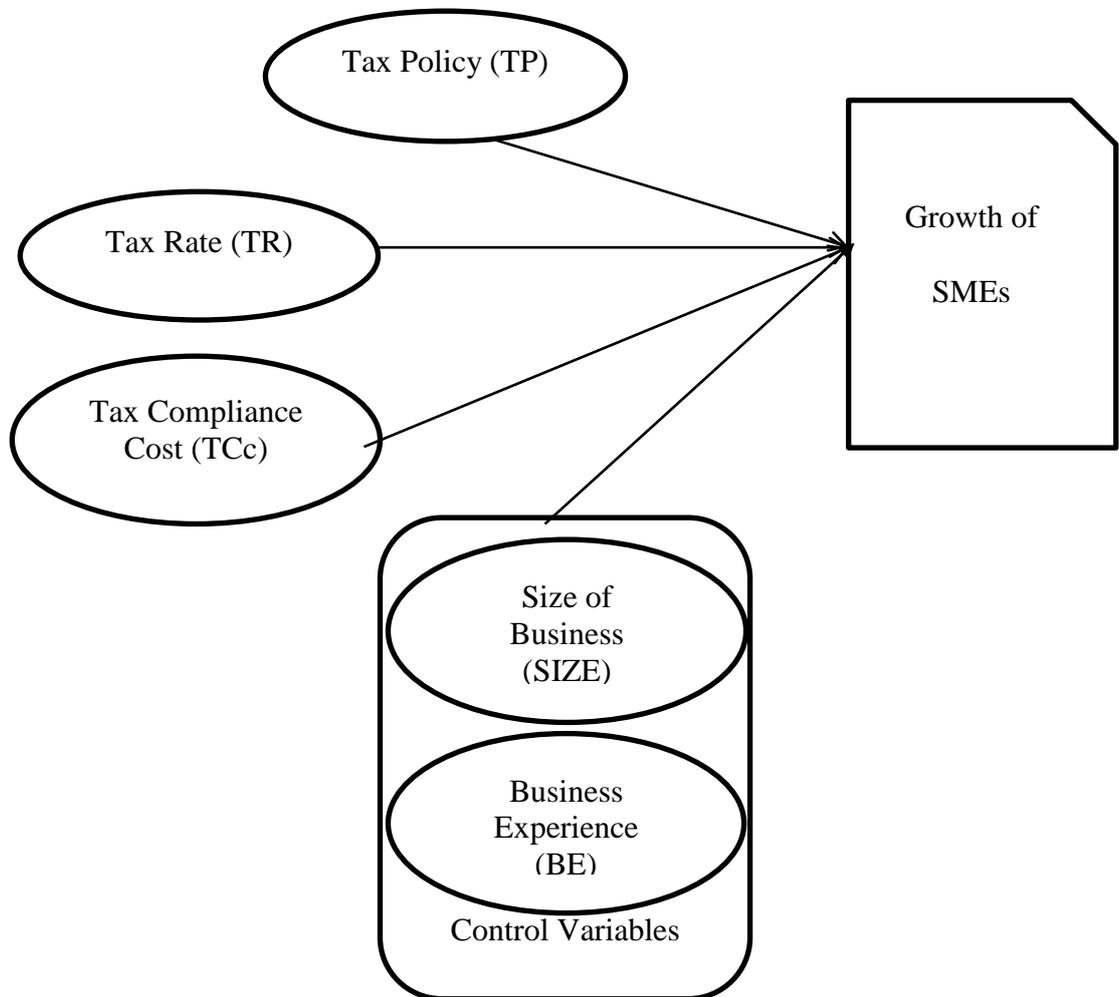


Figure 1: Conceptual Framework of Study variables

Source: Author's construct (2019)

The conceptual framework showed that the growth of SMEs is driven by the tax policy instituted by the government. Thus, excessive regulatory climate with a multitude of regulatory officials and organizations, numerous taxes, complicated import procedures, and elevated port fees places undue stress on SMEs. Because of these complexities, a large proportion of SMEs has also failed to register or honour their tax commitments. This ultimately affects their profitability and growth in the short and the long run. Furthermore, the tax rate charged SMEs has a relationship with their growth. Higher tax levels and tax complexities have adversely affected SME growth and development as well as business development. These high tax levels translate into elevated manufacturing costs, which eventually resulted in higher prices for SMEs' products and services.

Tax compliance cost is perceived to negatively affect the growth of SMEs. Consideration of the restricted funds available to small and medium-sized enterprises and insufficient knowledge to comply with various and complicated regulations impacts adversely on SMEs' growth. As control variables, the size of the business and the number of years the business is being operated positively impact the growth of SMEs.

Chapter Summary

The study revised three theories that are relevant to the current study. These theories: ability to pay theory of taxation, the economic deterrence theory and the theory of planned behaviour. The review of the theories showed how taxpayers perceived and react to the call on them to pay to their tax obligation and how this impact on SME's growth. The review of the various

variables of interest in the study points out how they relate to the growth of SMEs.

Variables such as tax rate and its complexities are projected to either adversely affect SME's growth or positively affect it, tax policy could either have a positive or negative effect on SME growth and tax compliance cost could have a negative effect on SMEs growth. Concerning empirical reviews, the literature is inconclusive. Thus, studies in Ghana and other parts of the world reported the conflicting relationship between the growth of SMEs and taxation.

CHAPTER THREE

RESEARCH METHODS

Introduction

This part of the research focused on defining the various steps and approaches used in the execution of the research. This will cover research design, target population, data collection instruments and approach to analysing data collected.

Research Design

The study employs a descriptive survey design. A descriptive survey design constitutes identifying the characteristics of an observed phenomenon. It surveys the impact of taxation on SMEs ' growth in the Central Region. A survey design provides a description of some important characteristics of the population as well as permits for inferences of cause and effects (Mutai, 2015).

Study Area

The population of a study is defined as any set of persons or objects that possess at least one common feature (Busha & Harter, 2008). The population of the study is 1,550 small and medium-sized enterprises (SMEs) registered with the Ghana Revenue Authority (GRA) in the Central Region. The study focused on the status of a taxpayer since the population was linked to GRA. Therefore, the definition of what constitutes a small taxpaying unit and the medium taxpaying unit provided by GRA was adopted. Medium taxpayers are the taxpayers with an annual turnover of above GHS 90,000 but fall below GHS 5,000,000 and small taxpayers are those whose annual turnover GHS 90,000 and below.

Sampling Procedure

Kumekpor (2002) posits that sampling consists of a prudently selected proportion of the units of a phenomenon to assist extend the knowledge acquired from the research of that fragment to the whole which the fragment was chosen. There are six (6) taxpayer offices in the Central Region which are classified as medium taxpayer offices and small taxpayer offices. Two taxpayer offices are located in Cape Coast, thus, one each of medium and small taxpayer offices and the remaining four which are small taxpayer offices are located in Dunkwa-On-Offin, Agona Swedru, Assin Fosu, and Kasoa.

Table 1: Medium Taxpayer Office and Small Taxpayer Office in Central Region

Location	No. of STO	No. of MTO	Total Tax Office	No. of Respondents Selected
Cape Coast	1	1	2	100
Dunkwa-On-Offin	1	0	1	50
Agona Swedru	1	0	1	50
Assin Fosu	1	0	1	55
Kasoa	1	0	1	55
Total	5	1	6	310

Source: Ghana Revenue Authority (2019)

Financial managers, general managers, accountants and owners of SMEs were targeted as sample respondents because they are in a position to answer the questionnaires as they possess the requisite knowledge about the

business concerning taxation issues of their enterprises. A total of three hundred and ten (310) questionnaires were administered to individual taxpayers. The sample size is determined based on the number of registered taxpayers in each taxpayer's office. Since the Cape Coast taxpayer office has a larger number of taxpayers, 100 respondents were chosen at random, 50 each respondent was also selected from Dunkwa-On-Offin, Agona Swedru and 55 respondents each from Assin Fosu and Kasoa. The criterion is based on a number of people who pay tax at each office. The selection of the sample is based on the recommendation of Mugenda and Mugenda (2003) who posits that between 10-50 percent of the population is adequate sample size.

The study adopted a convenience sampling technique. A convenience sample is a non-probability sampling method in which the sample is taken from an easy-to-contact or reach a group of individuals. For instance, a convenience sample would be to stand in a mall or grocery store and ask individuals to answer questions. Also known as grab sampling or sampling of accessibility is this form of sampling. The sampling technique does not have any other requirements except that individuals are accessible and ready to engage. Furthermore, this sort of sampling technique does not involve the generation of a simple random sample, as the only criterion is whether the respondents agree to engage (Saunders & Thornhill, 2011).

The study applied this method of sampling because the registered taxpayers are not readily accessible. As a result, the researcher stationed at the premises of the offices of GRA at the five locations in the Central region. The rationale of the study is explained to the taxpayers with the help of workers in

the offices. Those who agree to take part in the study were sampled and questionnaires administered to them.

Data Collection Instruments

The study used structured questionnaires designed in line with the study objectives to collect data from the respondents. The questionnaires were designed using a 5 point Likert- scales ranging from “Strongly Disagree represented by 1 to “Strongly Agree” denoted by 5. Section A part of the questionnaire comprises demographic variables such as business size, sector of business, number of staff employed, method of financing and years of experience. Section B comprised of questions measuring the effect of tax rates on the growth of SMEs. The next section which is C contains questions measuring tax compliance cost and how it influences SME's growth and the final section dwells on tax policy and SMEs growth.

Validity and Reliability of Research Instrument

A pilot study was conducted to upgrade the validity of this research. The study was done in two taxpayer offices: Cape Coast taxpayer office. This office was hand-picked to test the questionnaire before the actual administration. The selection of the office is based on similarity in its characteristics within the study area concerning the operations in other districts in the region. This was intended to guarantee that participants addressed all possible problems in answering the questions and allowed the investigator to redesign the questions more clearly and simply.

The level of consistency with which it quantifies the credit it should be measuring is the unwavering quality of any tool. Langbroek and De Beuckelaer (2007) explained that, by using the Cronbach Alpha coefficient

system through SPSS programming, it is possible to defeat the conveyance of the study twice to quantify the reliability. Consequently, the reliability of the research's significant constructs was evaluated using the Cronbach Alpha coefficient method producing an alpha value of 0.8545. This signifies that the data collection instrument is valid and reliable.

Data Collection Procedures

The majority of the respondents answered the questionnaires on the spot with a handful requesting to take it away and return it on the following day. The researcher with the help of some employees of GRA used two (2) weeks to collect the data. Initially, the taxpayers were reluctant to participate but upon further explanations and with the help of the staff of GRA, the majority of them volunteered to take part in the study.

In Cape Coast, one hundred (100) questionnaires were administered which form 33% of the total questionnaires administered. The number was greater than Dunkwa-On-Offin, Agona Swedru, Assin Fosu, and Kasoa because Cape Coast has two taxpayer offices and the number of taxpayers is more than the other four offices. In Dunkwa-On-Offin, Agona Swedru, 50 questionnaires each were by distributed and 55 questionnaires each were distributed in Assin Fosu and Kasoa, making a total of 310 questionnaires for the five taxpayer offices.

Response Rate

Out of the 310 questionnaires administered, 304 was retrieved constituting a response rate of 98.1 percent. This response rate was adequate for analysing the effects of taxation on SMEs' growth in the Central region. Mugenda (2013) opined that a statistically significant response rate should be

at least 50 percent. Therefore, the response rate is sufficient and acceptable for the study.

Measurement of Variables

Dependent variable

The dependent variable to be used in this study is the growth of SMEs. The growth of SMEs was measured using an annual increase in the workforce of the SMEs (adopted from Bannier and Zahn (2012)). Respondents were asked to indicate the percentage increase in the workforce of their enterprises.

Independent and Control Variables

The independent variables for the study were tax rate and complexities, tax compliance cost, tax policy and moderating variables being the size of business and business experience. A minimum score of 1 was given if the factor did not affect SME growth and a maximum score of 5 if the factor affects SME growth.

Table 2: Variable Notation, Definition, Measurement and Hypothesized Relationship

Variable	Notation	Definition of variable	Measurement	Hypothesized Relationship
SMEs Growth	GR	The increase in the number of employment, an increase in the number of branches and an annual increase in the workforce	Annual percentage increase in the workforce (employees)	N/A
Tax Rates and complexities	TRc	The rates of tax charged and the complexities in filing tax returns	Rated on a scale of 1-5 using statements relating to the tax rate and complexities	-Ve/+Ve
Tax Compliance Cost	TCc	The cost of complying with tax obligations	Summation of Cash expenses and employees	-Ve

			cost (in-house staff and external cost)	
Tax Policy	TP	A tax regulatory system put in place for the administration of tax issues	Rated on a scale of 1-5 using statements relating to tax policy	-Ve/+Ve
Size of Business	SIZE	Size of the SME firm	Small or medium taxpaying unit	+Ve
Business Experience	BE	Number of years the enterprise has been in operation	Years of operation	+Ve

Source: Author's compilation based on literature

Data Processing and Analysis

The data collected were edited to check for inconsistencies in the answers provided by the respondents. The data was then coded into the Statistical Product for Service Solution (SPSS) version 22 for analysis. Descriptive tools were used to develop tables and frequencies.

Model of the Study

To establish the relationship between the dependent and independent variables, a multiple regression was used. The Ordinary Least Squares (OLS) was used to estimate the regression equation for the study. OLS regression is a statistical method of analysis that estimates the relationship between one or more independent variables and a dependent variable; the method estimates the relationship by minimizing the sum of the squares in the difference between the observed and predicted values of the dependent variable configured as a straight line.

The general model is stated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \dots \dots \dots \beta_k X_k + \varepsilon \quad (1)$$

The specified regression model is

$$GR = \alpha + \beta_1 TRC + \beta_2 TCc + \beta_3 TP + \beta_4 SIZE + \beta_5 BE + \varepsilon \quad (2)$$

Where GR= Growth of SMEs

TRC= Tax Rates and Complexities

TCc= Tax Compliance Cost

TP= Tax Policy

SIZE= Size of the Business

BE= Business Experience

α = Constant

ε = error term

Chapter Summary

Chapter three dwells on the methods and strategies used in the study to achieve the study objectives. The design adopted for the study and the description of the study area were clearly stated. The population which

constitutes registered taxpayers at the STOs in the central region formed the basis of selecting the study samples using a convenient sampling technique. This method was adopted as a result of the distribution of the population. Also, the instrument for data collection was designed and tested to ensure its validity and reliability in collecting data for the study. Data was collected with the help of some staff of GRA where on the spot questionnaire administration was done. Data collected was coded into SPSS and results generated for discussion.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This section of the study dwells on the response received, demographics, descriptive statistics of the study variables and regression analysis in examining the effects of taxation on the growth of SMEs in the Central Region of Ghana. The outcomes of the study were discussed under the various research objectives and hypotheses.

Demographic Information

This part of the data analysis covers information on the demographics of respondents. The demographic information of respondents is summarised in table 3.

Table 3: Demographic Information of respondents

		Frequency	Percent
Business Size	Small	196	64.5
	Medium	108	35.5
Position	Owner	38	12.5
	Accountant	148	48.7
	Manager	118	38.8
Business Experience	Less than 1	16	5.3
	1-5 years	66	21.7
	6-10 years	141	46.4
	Over 10 years	81	26.6

Educational Level	Primary	12	3.9
	JHS	30	9.9
	SHS	82	27.0
	Diploma	79	26.0
	Undergraduate	80	26.3
	Postgraduate	21	6.9
Business Sector	Manufacturing	30	9.9
	Trading	111	36.5
	Services	143	47.0
	Agriculture and Agro- Processing	20	6.6
	Number of Staff	Less than 6 people	113
6-9 people		117	38.5
10-29 people		70	23.0
30-100 people		3	1.0
More than 100 people		1	.3

N = 304

Source: Field Data, (2019)

From Table 3 most of the SMEs chosen for the study falls under the small taxpayers unit of Ghana Revenue Authority. This formed 64.5% of respondents and the rest 35.5% represents a medium type of SMEs. Additionally, the majority of the respondents were accountants (48.7%)

followed by managers (38.8%) and owners 12.5%. This indicates that most SMEs in the Central region have accountants who managed their finances and maintain accounting records for tax purposes.

The respondents showed that businesses have enormous experiences. 46.4% of SMEs operated between 6 -10 years. Cumulatively, SMEs operating between 1 and over 10 years formed 94.7% of the SMEs under consideration. Hence, the businesses were in a position to provide relevant information needed concerning tax issues.

All respondents had some form of education. The lowest qualification is primary and the highest qualification is masters. The majority of the respondents hold an SHS certificate (27%) and closely followed by undergraduate qualification (26.3). Those who have master's degrees were 6.9% and diploma certificate holders were 26%. BECE Certificate and primary were 9.9% and 3.9% respectively. This points to the fact that the majority of the respondents can read and write and will be able to comprehend the issues being researched on when explained to them.

The SME businesses are classified into four major sectors of the economy; namely manufacturing, service, trading, and agriculture and agro-processing. The highest sector of respondents was the service sector (47%) followed by trading (36.5%). The manufacturing sector and agriculture and agro-processing sector recorded 9.9 and 6.6 respectively.

Finally, most of the businesses have employees cumulatively between 6-29 people constituting 61.5%. This shows that the majority of SMEs in the Central region is a medium enterprise. The small businesses employed 113

people (37.2%) and SMEs with employees between 30-100 constitute only 1% and 0.3% for SMEs with more than 100 employees.

Effects of Tax Rate and Complexities on SMEs’ Growth

The effects of tax rate and complexities on the growth of SMEs in the Central region are analysed in this section.

Table 4: Effects of Tax Rate and Complexities on SMEs’ Growth

Statement	N	Min	Max	Mean	Std. Dev	Ranking
High tax rate negatively impacts on the growth my enterprise	304	2	5	4.47	.568	4 th
Tax complexities influence my enterprise negatively	304	2	5	4.30	.580	5 th
High tax rate and tax complexities resulted in lower profits of my enterprise	304	2	5	4.66	.572	2 nd
High tax rate and complexities reduced the turnover of my business over the years	304	3	5	4.56	.523	3 rd

Source: Field Data (2019)

Five variables measurement items were tested to examine the relationship between tax rate and tax complexities and SMEs' growth. Rating on a scale of 1 to 5, the majority of the respondents agreed and strongly agreed with all the 5 variables. The highest-ranked variable 'my enterprise’s cost of

production upsurges due to high tax rate leading hikes in prices of goods and services provided' recorded a mean value of 4.71 indicating that majority of the respondents strongly agreed that high tax rate charged by tax authorities contribute greatly to the high cost of production.

This according to the respondents, contribute enormously to an increase in prices of goods and services. The respondents also indicated that the profit-generating capacity of their businesses is significantly truncated as a result of tax complexities and high tax rates. This was alluded to in the statement 'high tax rate and tax complexities resulted in lower profits of my enterprise' which recorded a mean value of 4.66 and was ranked second among the 5 variables. Furthermore, it was asserted to the respondents that high tax rates and complexities reduced the turnover of their business over the years. As the prices of goods and services sore up due to high taxes and complexities in filing tax returns, demand also falls resulting in the slow movement of goods and services.

The fourth highest-ranked variable 'high tax rate negatively impacts the growth of my enterprise' has a mean value of 4.47 indicating that the majority of the respondents agreed to the assertion that the high tax rate charged SMEs affects their growth negatively. They also stated that tax complexities influence SMEs negatively. Thus, the cumbersome and complex tax issues in relation to the filing of tax returns have adverse effects on the growth agenda of SMEs in the Central region.

Therefore, it can be deduced from the above discussion that the majority of SME respondents in the Central region confirmed that the high rate of tax charged SMEs and complexities involved in filling tax have a

negative influence on the growth of SMEs. The outcome of the study is in line with the finding of Loo et al. (2012). Likewise, Ameyaw et al. (2015) stated that for the government to help strengthen SMEs in the Central Region and Ghana as a whole, there is the need to reduce the tax rate and complexities involved in tax filling.

Influence of Tax Policy on SMEs Growth

The analysis in this section dwells on the relationship between tax policy and the growth of SMEs.

Table 5: Influence of Tax Policy on SMEs Growth

Statement	N	Min	Max	Mean	Std. Dev	Ranking
Complex tax regulatory system put undue pressure on SMEs operations	304	2	5	4.23	.813	4 th
Excessively regulated tax system unduly onerous and detrimental effect on the growth of SMEs	304	1	5	4.49	.613	1st
Poorly implanted tax system leads to a waste of time when paying tax	304	1	5	4.45	.658	2nd
Same compliance requirement and cost for both small and large business is inimical to SMEs growth	304	2	5	4.34	.740	3rd

Source: Field Data, 2019

As shown in Table 5, the SME respondents agreed that tax policy influences SME growth. The four Likert scale items measuring tax policy and

how it relates to the growth of SMEs recorded mean values above 4. The respondents revealed that excessively regulated tax system unduly onerous and detrimental effect on the growth of SMEs. This statement has a mean score of 4.47 and a standard deviation of 0.613. Thus, too much regulation in the tax system in Ghana made it difficult for SMEs to cope with their operation and driving their business growth agenda. This variable was ranked highest among the four variables and this finding is supported by (Kumar & Rao, 2015).

The respondents also indicated that when the tax system is poorly implemented, it results in time-wasting in honoring tax obligations. The majority of them agreed to the statement 'excessively regulated tax system unduly onerous and detrimental effect on the growth of SMEs' with a mean score of 4.5 and ranked second. Likewise, the respondents agreed to the statement 'same compliance requirement and cost for both small and large business is inimical to SMEs growth' with a mean value of 4.34. The capacity of SMEs is different from large companies and therefore using the same compliance requirement for them will disadvantage SMEs leading to an adverse effect on the growth of SMEs. The finding is confirmed by Tee et al. (2016) who observed that applying the same compliance requirement, the cost for both small and large firms is discrimination against smaller firms.

Complex tax regulatory system putting undue pressure on SMEs operations was also identified as being one of tax policy issues affecting SMEs' growth. The finding is supported by the position of Lisi (2015) who stated that undue pressure on SMEs increases the burden on those taxpayers who try to comply with the tax law, and discourages their future compliance.

This generally discourage serves as a disincentive for those who want to pay their tax liabilities and eventually negatively impact the future effort of honouring their tax obligations.

Relationship between Tax Compliance Cost and Growth of SMEs

The effect of tax compliance cost and SMEs’ growth is discussed in this section of the data analysis.

Table 6: Tax Compliance Cost and Growth of SMEs

Cost	Frequency	Percent
GHS0-GHS 500	2	.7
GHS 501- GHS 1000	22	7.2
GHS 1001- GHS1500	10	3.3
GHS 1501- GHS 2000	126	41.4
More than GHS 2000	144	47.4
Total	304	100.0

Source: Field data, 2019

In relation to tax compliance cost and SME's growth, the respondents were asked to estimate the average amount of money incurred in complying with their tax obligations. These amounts comprise cash expenses paid and time spent which is formed by costs of in-house staff and that of external consultants (fees paid to external accountants and other advisors). Most of the SME indicated that they spent more than GHS 2000on compliance activities, forming 47.4% of the respondents. Besides, 41.4% of the SMEs spent between GHS 1501- GHS 2000. Those who spent between GHS500-GHS 1,500 cumulatively constitute 11.2% of the SMEs.

The data shows that the majority of SMEs spent a relatively high amount in their quest to comply with tax obligations. In the views of Slemrod (2008), the cost incurred in complying with tax obligations formed part of the social cost of taxation. This cost according to the researchers' forms part of the costs incurred by society in the process of transferring purchasing power from taxpayers to the government. It is obvious from the study findings that a majority of the enterprises spent the sizable sum of money in the bid to comply with their tax obligations. As postulated by Atawodi and Ojeka (2012) high compliance cost of tax can lead to tax avoidance, tax fraud, and constrain investment by way of lessening the competitiveness of the country in terms of taxation attractiveness. It is, therefore, imperative for government and other tax authorities to fashion out the best ways of reducing tax compliance costs.

Regression Analysis

To examine the association between taxation and growth of SMEs in the Central region, multiple linear regression was performed to ascertain how the five variables (tax rate and complexities, tax policy, tax compliance cost, size of business and business experience) significantly predict the growth of SMEs. The analysis is presented available.

Table 7: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. error of the Estimate
1	.396 ^a	.157	.134	1.007

Source: Field Data, 2019

The multiple linear regression analysis describes the effect of the five independent variables acting jointly on the growth of SMEs. The R^2 value is

the coefficient of the determinant (expressed as a percentage) shows the variability of the dependent explained by the changeability of the in the explanatory variable (s). the model R-square value was 0.157 signifying that the model explains about 16% of the variation in the dependents variable (Growth of SMEs) as explained by the variations in the independent variables (tax rate and complexities, tax compliance cost, tax policy, size of business and business experience). The adjusted *R*-square is a pointer of generalization as it is used to estimate the expected shrinkage in R-square that would not generalize the population due to the result being over-fitted to the data set by including too many independent variables.

Table 8: Analysis of Variance (ANOVA)

		Sum of	Mean			
Model		Squares	Df	Square	F	Sig.
1	Regression	34.064	5	6.813	6.713	.000 ^b
	Residual	221.249	298	1.015		
	Total	255.313	303			

a. Dependent Variable: Growth of SMEs

b. Predictors: (Constant), tax rate and complexities, tax compliance cost, tax policy, size of the business and business experience

Source: Field data, 2019

ANOVA which was derived from the regression analysis of the independent variables on the dependent variable (Growth of SMEs). From the results, the regression model is significant and acceptable (*p*-value < 0.05, *F*-value= 6.713) in estimating the relationship between the independent and dependent variables. The total deviation in the dependent variable in the model

is 255.313. The regression model was able to explain 34.064 of the total sum of squares while 221.249 of the total sum of squares was not explained.

The F ratio of 6.713 significant at 0.000, pointed to the fact that a linear relationship exists between the responses (Growth of SMEs) and the five independent variables, tax rate, and complexities, tax compliance cost, tax policy, size of a business and business experience.

Table 9: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	2.538	.678		3.743	.000
Tax Rate and Complexities	-.289	.092	-.223	-3.128	.002
Tax Compliance Cost	.178	.077	.164	2.306	.022
Tax Policy	-.240	.072	-.240	-3.332	.001
Size of Business	.020	.020	.071	1.016	.311
Business Experience	.181	.081	.156	2.228	.027

Dependent Variable: Growth of SMEs

Source: Field data, 2019

The results as presented shows the estimated coefficients of the regression model. The results revealed that tax rate and complexities are negatively related to the growth of SMEs (p -value= 0.002). This signifies that the tax rate and complexities tend to stifle the growth of SMEs. If the rate of tax charged SMEs is high and the processes of filling tax returns complex, it

turns to negatively impact on the growth of SMEs. This finding is in line with the findings of Keith (2012) where they concluded that high personal income taxes have milk dried many sources from which would have served as external sources of funding for SMEs

The results on tax compliance cost showed that tax compliance cost has a statistically significant positive relationship with the growth of SMEs ($p = 0.022$). This indicates that high compliance costs resulted in the growth of SMEs. This shows that most businesses failed to pay tax when the compliance cost increases thereby reducing their tax expenses which translated into high profit and growth of the business. Flores et al. (2016) opined that compliance costs are not within the remit of management of the enterprises. Machogu and Amayi (2016) observed that high compliance cost of tax serves a disincentive for taxpayers to pay tax thereby, leading to tax avoidance, tax fraud and constraints in investment. Besides, the current findings conformed to the earlier findings of (Tee et al., 2016).

Tax policy and growth of SMEs are inversely related. A unit increase in tax policy could lead to 0.240 decreases in the growth of SMEs. The relationship is statistically significant with a p -value of 0.001. If government fashioned out tax policies that increased the tax burden on SMEs, it leads to a decline in the growth of SMEs. The findings of Atawodi and Ojeka (2012) affirmed the current finding on tax policy and SMEs' growth. According to their findings, tax policy has a significant negative effect on SMEs' growth. However, Bannier and Zahn (2012) found that avoiding the interference of the departments and industrial unions in taxation and increasing the manpower in the tax organization will enhance compliance.

The growth of SMEs is not explained by the size of business as it is found to have a statistically insignificant coefficient. Business experience is found to have a statistically significant positive influence on the growth of SMEs (p -value = 0.027). This connotes that an increase in the age of the business leads to the growth of SMEs. In the views of Bannier and Zahn (2012), age is one of the important distinguishing traits, and there is evidence in empirical literature linking age, size, and (proportional) growth. The researcher further stated that older enterprises have a greater propensity of survival than younger ones.

Chapter Summary

Results and analysis of the study showed that tax rate and complexities have a significant negative effect on the growth of SMEs. The results of the study also showed that the cost of production upsurges due to the high tax rate leading hikes in prices of goods and services. Tax policy and growth of SMEs have a significant negative association. The size of the business is also found to predict the growth of SMEs and are inversely connected. However, business experience is found to have a positive effect on the growth of SMEs.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

Chapter five of the study presents a summary of findings in line with the study objective and conclusions drawn based on the findings. Additionally, policy recommendations on the way forward are given. The main purpose of the study is to examine the impact of taxation on small and medium-sized enterprises in Ghana. Specifically, the study sought to ascertain the effect of tax rate and complexities on the growth of small and medium-sized enterprises, to determine the influence of tax policy on the growth of small and medium enterprises to examine the effect of tax compliance cost on the growth of small and medium-sized enterprises in the Central region.

Summary of Findings

Majority of the businesses considered for the study registered with the small tax-paying units of GRA constituting 64.5% of respondents. Majority of the respondents were Accountants of the enterprises (48.7%), all the respondents had some form of education. This points to the fact that most people in charge of the tax-related task for the business hold the WASSCE certificate (27.0%). The respondents' business belonged to a total of four (4) sectors namely; manufacturing, service, trading and agricultural and agro-processing. Most of the businesses employed between 6 to 29 people as staff cumulatively forming 61.5%. This shows that the majority of SMEs in the Central region are medium enterprises.

Tax rate and complexities have a significant negative effect on the growth of SMEs. Thus, an increase in tax rate and its complexities lead to a

decrease in SME's growth. A unit increase in compliance cost could result in a reduction in the growth of SMEs and is statistically significant at a 5% confidence level.

The results of the study showed that the cost of production upsurges due to high tax rate leading hikes in prices of goods and services provided and also high tax rate and complexities were reported to be the cause of lower profits of the enterprise. As a result, SMEs turned to default in the payment of taxes to increase their growth.

Tax policy and growth of SMEs have a significant negative association. The size of the business is also found to predict the growth of SMEs and are inversely connected. However, business experience is found to have a positive effect on the growth of SMEs.

Conclusion

The study concludes that Tax rate and complexities have a statistically significant negative effect on the growth of SMEs indicating that high tax rates and complex tax systems negatively impact the growth of SMEs.

It is also concluded that compliance cost has a statistically significant positive influence on the growth of SMEs, implying that higher costs incurred in complying with tax-filing and related activities forced SMEs to default in tax payment thereby leading to their growth.

Furthermore, the tax policy and growth of SMEs have a significant negative relationship. Inappropriate tax regimes and management negatively impact the growth of SMEs. Business experience has a positive effect on the growth of SMEs pointing to the fact that older businesses are most likely to survive as compared to newly established enterprises.

Recommendations

Given that the rate of taxation and its complexities have negative effects on SMEs' growth, the government should endeavour to reduce the rate of tax charged businesses especially SMEs. In formulating tax policies, care should be taken to minimize complexities involved in filing tax returns and its associated tax accounting processes.

The study also recommends that tax systems should be aimed at reducing the cost incurred in complying with tax laws. This will encourage more SMEs to comply since little time and money will be incurred to be able to honour their tax obligations to the state. Besides, it will help increase revenue collected from the business by the Ghana Revenue Authority.

The study finds that tax policy instituted by government impact on the growth of SMEs, thus, tax policies targeted towards that private sector should be sensitive towards SMEs. Since the government considers the private sector as the engine of growth for the Ghanaian economy, every effort should be made to institute tax policies that will propel the growth of enterprises.

Lastly, the Ghana Revenue Authority should endeavour to make tax filing requirement and payment more economical and efficient to help minimize the burden it placed on SMEs and also serves as incentives for SMEs to pay their taxes.

Suggestions for Further Research

In the future, a study can be conducted to establish a link between the determinants of tax compliance among SMEs in Ghana and their growth and development. Besides, a study can also be carried out on the impact of taxation on SMEs' growth covering the whole country.

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APPENDICES

LETTER OF INTRODUCTION

MAVIS DESIREE BENTUM

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

CAPE COAST

Dear Respondent,

**RE: EXAMINING THE IMPACT OF TAXATION ON SMALL AND
MEDIUM ENTERPRISES IN GHANA: A STUDY OF CENTRAL
REGION**

I am a Master's degree student in the School of Business, University of Cape Coast, Cape Coast. The study is a partial fulfilment for the award of Master of Business Administration in Accounting, I am conducting the above-underlined study.

You have been selected to form part of this study. To this end, I kindly request your assistance in completing the attached questionnaires.

The information and data you will provide is for academic purposes only and will be treated confidentially, only the researcher and the university will have access to the information provided.

Thank you in advance.

Sincerely,

MAVIS DESIREE BENTUM

UNIVERSITY OF CAPE COAST
COLLEGE OF HUMANITIES AND LEGAL STUDIES
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING
QUESTIONNAIRE

Please, tick [√] or fill in as appropriate.

A. DEMOGRAPHICS

1. What is the size of your business?

- a. Small
- b. Medium
- c. Other, please specify

2. Please, what is your position?

- a. Owner
- b. Accountant
- c. Manager
- d. Others (please specify)

3. For how long has your business been in operation?

- a. Less than 1 year
- b. 1-5 years
- c. 6- 10 years
- d. Over 10 years

4. Please indicate your education level

- a. Primary
- b. J.H.S
- c. S.H.S
- d. Diploma
- e. Degree
- f. Masters
- g. None
- h. Others please specify.....

5. In which sector did your business fall into?

- a. Manufacturing b. Trading
- c. Service sector d. Agricultural and Agro-processing
- e. Others (Please specify).....

6. How many employees do you have?

- a. Less than 6 people b. 6-9 people
- c. 10-29 people d. 30-100 people
- e. more than 100 people

**B. THE EFFECT OF TAX RATE AND COMPLEXITIES ON THE
GROWTH OF SMEs**

7. To what extent do you agree to the effect of tax rate and tax complexities on the *growth* of your enterprises? Please indicate the extent of agreement with the statements measuring the effect using the symbol [√]; **5- Strongly agree (SA), 4- Agree (A) 3- Neutral (N), 2-Disagree (D), 1- Strongly Disagree (SD)**

	Tax rate and complexities on the growth of SMEs	Please tick [√]				
		SD	D	N	4A	SA
i.	High tax rate negatively impacts on the growth my enterprise					
ii.	Tax complexities influence my enterprise negatively					
iii.	My enterprise’s cost of production upsurges due to high tax rate leading hikes in prices of goods and services provided					
iv.	High tax rate and tax complexities resulted in lower profits of my enterprise					
v.	High tax rate and complexities reduced the turnover of my business over the years					

C. THE INFLUENCE OF TAX POLICY ON THE GROWTH OF SMEs

8. To what extent do you agree that *tax policy* impacts on SMEs growth?

Please indicate the extent of agreement with the statements using the symbol

[√]; 5- Strongly agree (SA), 4- Agree (A) 3- Neutral (N), 2-Disagree (D), 1-

Strongly Disagree (SD)

	Tax policy and growth of SMEs	Please tick [√]				
	Statement	SD	D	N	A	SA
i.	Complex tax regulatory system put undue pressure on SMEs operations					
ii.	Excessively regulated tax system unduly onerous and detrimental effect on the growth of SMEs					
iii.	Poorly implanted tax system leads to a waste of time when paying tax					
iv.	Same compliance requirement and cost for both small and large business is inimical to SMEs growth					

D. EFFECT OF TAX COMPLIANCE COST ON THE GROWTH SMEs

9. On average, how much do you spend annually to be able to comply with the tax compliance requirement?

GHS.....

.....

E. IMPACT OF TAXATION ON SMES' GROWTH

10. Please indicate the number of employees you have for the respective years as provided in the table below.

Year	2014	2015	2016	2017	% increase
No. of employees					

11. To what extent do you agree that the following impact on the growth of your enterprise? Please indicate the extent of agreement using the symbol [√]; **5- Strongly agree (SA), 4- Agree (A) 3- Neutral (N), 2-Disagree (D), 1- Strongly Disagree (SD)**

	Factor (Variable)	Please tick [√]				
		SD	D	N	A	SA
i.	Tax rate and complexities					
ii.	Tax compliance cost					
iii.	Tax policy					
iv.	Size of business					
v.	Business experience					

Thank you for your participation