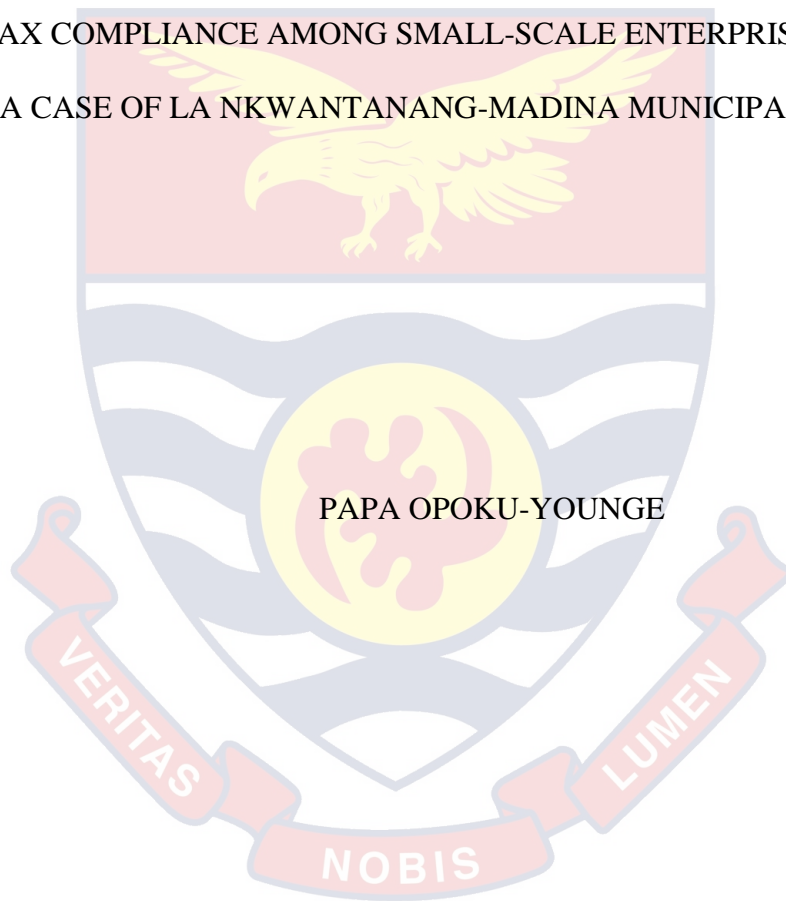


UNIVERSITY OF CAPE COAST

TAX COMPLIANCE AMONG SMALL-SCALE ENTERPRISES IN GHANA:  
A CASE OF LA NKWANTANANG-MADINA MUNICIPAL ASSEMBLY



PAPA OPOKU-YOUNGE

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UNIVERSITY OF CAPE COAST  
COLLEGE OF DISTANCE EDUCATION

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PAPA OPOKU-YOUNGE

Dissertation submitted to the Department of Business Studies of the College of  
Distance Education, University of Cape Coast, in partial fulfillment of the  
requirement for the award of Masters of Business Administration (Accounting)

MARCH 2019

## DECLARATION

### Candidate's Declaration

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

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

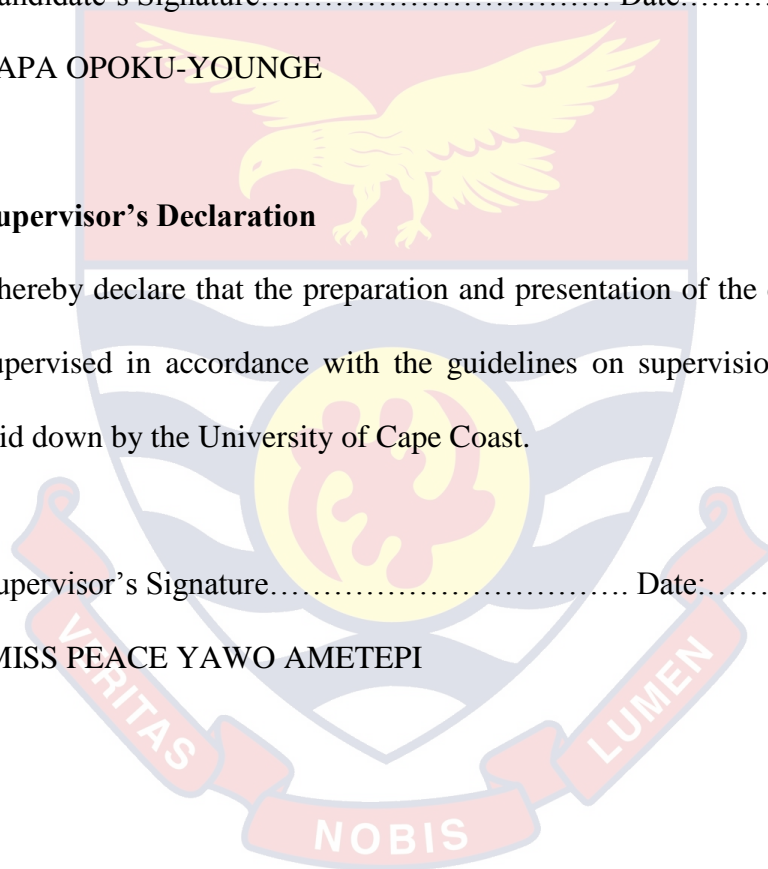
PAPA OPOKU-YOUNGE

### 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:.....

MISS PEACE YAWO AMETEPI



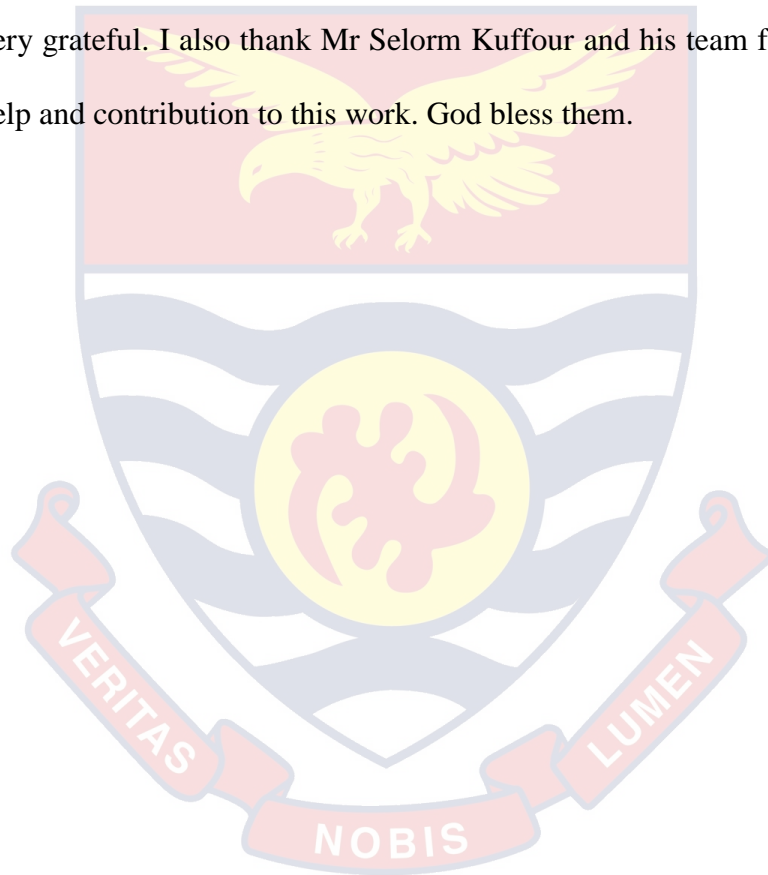
## ABSTRACT

The aim of the study was to explore tax compliance among selected small-scale businesses in the La Nkwantanang-Madina Municipal Assembly (LANMA). The study adopted a qualitative research method. The study also adopted a descriptive survey study design in addressing the objectives of the study. The study population comprised of all small-scale businesses in La-Nkwantanang-Madina Municipal Assembly who have operated for not less than two years and GRA offices within the same Assembly. The study employed both purposive and convenience sampling technique in selecting fifteen (15) small-scale businesses and eight (8) officers from the GRA respectively. The study also used interview guides in collecting data from the participants. Consequently, Nvivo software version 11 was used in analyzing the data which later developed into themes that fall under the specific objectives. Thus, the study results showed that the level of tax compliance in the La Nkwantanang-Madina Municipal Assembly is low and it is due to poor knowledge about tax, voluntary invasion of tax and late registration of business. Consequently, the challenges being faced by SSBs include low-income level, poor education on tax and high tax rate. The study, therefore, recommends that to overcome these challenges, the government must ensure that, information regarding the payment of tax, uses of tax, legal action of not paying tax must be communicated to all taxpayer by using TV advertisement, radio and communication van.

## ACKNOWLEDGEMENTS

I am very grateful to the Almighty God for giving me strength and the gift of life through this demanding but rewarding exercise. The completion of this work was realized through the will of God.

Special thanks go to my supervisor, Miss. Peace Ametepi, who patiently and selflessly guided me throughout the entire process and assisted me with some relevant guidance that helped kick start this dissertation. I am very grateful. I also thank Mr Selorm Kuffour and his team for their immense help and contribution to this work. God bless them.



## DEDICATION

To my parents Mr. and Mrs. Younge



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## CHAPTER ONE

### INTRODUCTION

This chapter presents the introduction of the study. It addresses the background of the study, problem statement, research objectives and questions, significance of the study, the scope of the study and the organization of the study.

#### **Background of the Study**

Across the globe, taxation has been the major source of domestic income to governments to finance their expenditure. Government depends on tax revenues to finance its budgets and accelerate developmental plans. Governments also use taxation to encourage or discourage certain economic activities that do not suit the national interest. The tax charges come in the form of direct taxes such as rent tax, gift tax, royalties, income tax among others, and indirect taxes such as value-added tax (VAT), excise duty, communication service tax, export and import duties and many others.

The tax revenues are utilized by governments to construct and improve upon social amenities and infrastructures such as roads, hospitals, schools, water and electricity and among others. For instance, it is revenue mobilized through taxes that the Nana Akuffo-Addo administration has been able to implement its flagship policy, the Free Senior High School policy, where the fees of over 400,000 students enrolling in the senior high school are being absorbed by the government. The governments generate tax revenues by levying charges on citizens and corporate entities. To mobilize tax revenues in Ghana, the Ghana Revenue Authority Act, 2009 (Act 791) solely mandates the

Ghana Revenue Authority with the duty to ensure maximum compliance with the tax laws to ensure a sustainable revenue stream for government.

For these purposes, the filing of tax returns is a civic responsibility and also a requirement by law in many countries including Ghana. The issue of tax compliance has been a major concern for many governments across the globe. Famous among them, the Spanish government has been fighting tax compliance among footballers. The quest to fighting tax compliance, footballers such as Lionel Messi, Cristiano Ronaldo and many others were sued for defaulting tax obligation. This is no different in Ghana. Many Ghanaians are engaged in income-earning activities, with the informal sector constituting the majority. Statistics show that employees in the country are estimated at 6 million individuals, but only 1.5million persons are registered with the Ghana Revenue Authority (GRA) and pay their taxes. The statistics also show that Ghana ranks below Cote d'Ivoire, Kenya, Senegal, Cape Verde and Swaziland in terms of the contribution of payroll tax to Gross Domestic Product (GDP), (Adu-Gyamfi, 2014).

According to Emmanuel Kofi Nti, Commissioner-General of the Ghana Revenue Authority, about 1.2million Ghanaians are registered for tax purposes and pay taxes to cater for 27million Ghanaians. He said, out of the 1.2million, 1 million people are from the formal sector and only 200,000 are from the informal sector. He further revealed that 70% of the operators of the economy are from the informal sector. Many of the people in the informal sector are left out of the tax bracket. He added that the contribution of the informal sector to total tax revenue remained below 5%. According to the GRA report 2015/2016, PAYE contributed about 15% to total domestic

revenue; the self-employed about 1.1% and corporate tax about 19%. Now, if the informal sector dominated by self-employed individual and happens to be in the majority as compared to the formal sector, is contributing 1.1% to domestic revenue, then, there is a huge problem with tax compliance in the informal sector. The small-scale operators (informal sector) in the economy are a major leakage in tax revenue mobilization and against the background of this unacceptable situation, the need to research into the issue of tax compliance among the small-scale enterprises using La Nkwantanang-Madina Municipal Assembly as a case study. La Nkwantanang Madina is one of the sixteen districts in the Greater Accra Region with a population of one-third (35.5%) engaged in small-scale business such as service, sales works, craftworks, trades, and machine operations and are obliged to pay tax to the government) (Ghana Statistical Service, 2010).

### **Statement of the Problem**

Over the years, Ghanaians struggle to travel to countries like UK, United States, Germany, Canada, Malaysia and other developed nations at the peril of their lives because they view these places as developed by all standards. And yet, they forget that these countries have been able to achieve such developments through an effective tax system that brings in enough revenue which has been used to build better infrastructures that are admired. The culture of impunity with which Ghanaians, most among them those in the informal sector, neglect our civic duty of paying taxes must cease if we are to achieve our objectives and also move Ghana beyond aid as envisioned by the Nana Addo administration.

Although tax compliance falls across all industries and sectors; Pope and Abdul- Jabbar (2008) indicated that small and medium scale enterprises are those highly noted of tax evasion as a result of the size of their business as well as the capacity and ability to fulfil fully tax obligations. Clear observation from small businesses in Ghana regarding tax payment indicates that a significant number of these businesses are not paying taxes due to inadequate government machinery in identifying and bringing those businesses into the tax net (Aryee, 2007).

Donkor-Hyiama (2013) also explained that it is increasingly becoming a challenge to trace income for taxation due to the use of unregistered agents who act as government representatives and collect tax from businesses operating on lands in the names of individuals. Further, regardless of time and place, the main issue faced by all tax authorities is the act of persuading taxpayers in complying with tax regulation within the tax system (Naroog-Kuug, 2016).

Loo, McKerchar and Hansford (2009), posited that inadequate knowledge on relevant tax has the potential of resulting in unintentional non-adherence actions. Taxpayer insight, mindsets and the expense on adherence appeared to have been given little attention. Tax in respect of compliance is an increasingly global issue for tax officers and public authorities since it adversely affects the ability of political authorities to mobilize expected public taxes. The problem is aggravating in third world nations especially among Sub-Saharan African nations (Cobham, 2005).

Tax compliance regarding knowledge, perceptions and cost of compliance has rarely been explored in developing countries of which Ghana

is no exception. Tax compliance regarding knowledge, perceptions and cost of compliance has rarely been explored in developing countries of which Ghana is no exception.

It is clear that the informal sector forms the majority of the operators in the economy, yet they are the least contributors to the total domestic tax revenue. Small-scale enterprises are mostly frequent cash-generating entities and therefore the government can mobilize more tax revenue from there when the tax laws are strengthened and tax mobilization operations widen. If GRA in 2016, through its special Revenue Mobilization Task Compliance Checks, were able to retrieve 4.279 million Ghana cedis in just seven weeks from business owners, then tax revenue can increase when tax compliance laws are enforced. It is against this background that the study seeks to uncover the hindrances to tax compliance among small-scale enterprises in the La Nkwantanang-Madina Municipal Assembly.

### **Purpose of the Study**

The purpose of the study in a broader sense is to examine the level of tax compliance among small-scale enterprises in La Nkwantanang-Madina Municipal Assembly. To achieve that, the study would measure the challenges hindering tax compliance among small-scale enterprises and provide a long-lasting solution to increase the revenue mobilisation among small-scale enterprises.

### **Objectives of the Study**

The main objective of the study is to investigate tax compliance among selected small-scale businesses in the La Nkwantanang-Madina Municipal Assembly. The study specifically seeks:

1. To assess the current tax compliance regulations by the Ghana Revenue Authority.
2. To investigate the level of tax compliance of small-scale business in the La Nkwantanang-Madina Municipal Assembly.
3. To explore the challenges facing small scale business in the La Nkwantanang-Madina Municipal Assembly complying with tax obligations

### **Research Questions**

To address the specific objectives, the study was guided by the following questions:

1. What are the current tax compliance regulations by the Ghana Revenue Authority?
2. What is the level of tax compliance of small-scale enterprise in the La Nkwantanang-Madina Municipal Assembly?
3. What are the challenges confronting small scale enterprises in the La Nkwantanang-Madina Municipal Assembly in adhering to tax obligations?

### **Significance of the Study**

The study aims at investigating tax compliance among selected small-scale businesses. Therefore, results obtained from the study will provide relevant information to tax authorities with regards to tax compliance issues among small scale businesses in Ghana. The results will also provide



government, stakeholders and policymakers' information needed to develop policies that will ensure effective data collection on rent tax compliance issues to reduce non-tax compliance among small scale businesses in Ghana. Moreover, it will help tax authorities and government to develop flexible tax collection procedures to ensure effective tax administration. Future researchers may use this study as a guide in their research. Finally, the results will also become foundational research material for researchers who wants to replicate the study using different research methods most especially on tax compliance issues in Ghana.

### **Delimitations**

The study was delimited to only small-scale business owners within the La Nkwantanang-Madina Municipal Assembly in the Greater Accra region. This limited the quantum of information to be collected and analyzed to reflect the national situation. The study was also faced with a time constraint. The study was conducted within a limited period. These delimitations could compromise the in-depth of the study and analysis of the objectives.

### **Limitations**

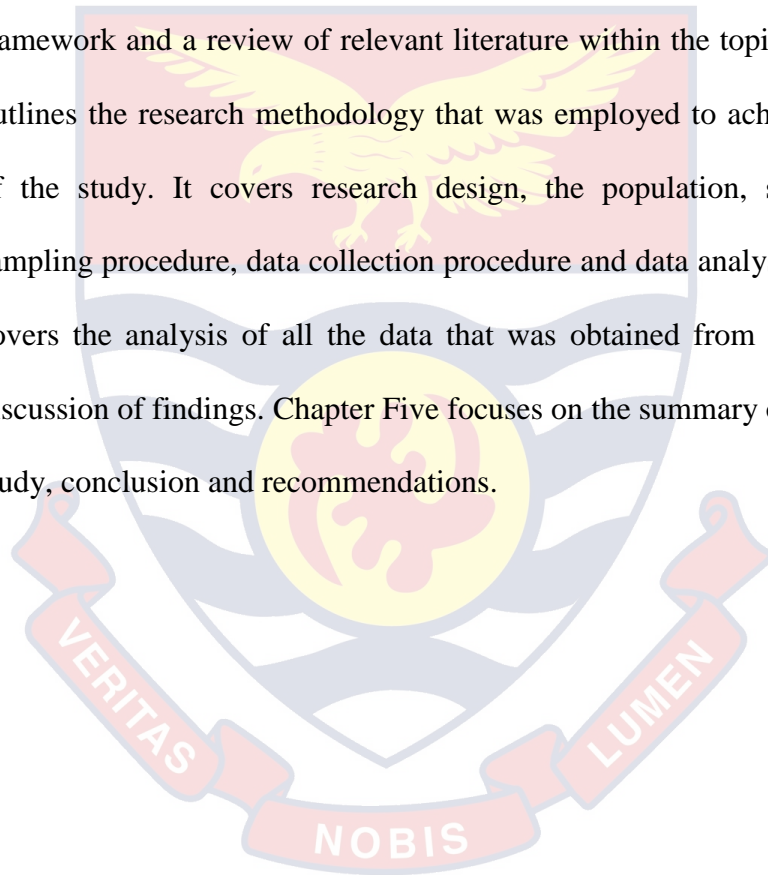
There may be potential weaknesses to the study concerning the perceptions of participants, non-verifiability of certain professed experiences. In seeking to know the challenges and level of understanding of tax obligation as a civic responsibility, the perceptions of participants may be subjectively affected by each individual's level of worldview, ethics or interest in the study. Although the study made efforts to verify some facts and assertions, the



inability to verify all facts claimed or projected by participants within the period of study may pose a limiting factor.

### **Organization of the Study**

The study is organized in five chapters. The first chapter introduces what the study is about and also gives an insight into the background of the study, statement of the problem, objectives, significance of the study and organization of the study. The second chapter provides a theoretical framework and a review of relevant literature within the topic. Chapter Three outlines the research methodology that was employed to achieve the purpose of the study. It covers research design, the population, sample size and sampling procedure, data collection procedure and data analysis. Chapter Four covers the analysis of all the data that was obtained from the research and discussion of findings. Chapter Five focuses on the summary of findings of the study, conclusion and recommendations.



## CHAPTER TWO

### LITERATURE REVIEW

#### Introduction

The study aims at investigating the tax compliance among selected small-scale businesses in the La Nkwantanang-Madina Municipal Assembly. Therefore, this chapter presents a review of pieces of literature that are related to the area under the study. The chapter focuses on theories that are related to the study which includes Tax compliance theory, Economic Deterrence Theory and Theory of Reasoned Action. Also, the chapter conducts a review of studies that are related to the topic. These studies can be found in books, journals and online articles. The reviews are under activities of small-scale businesses, the extent of tax compliance of small-scale businesses and tax compliance challenges among small scale businesses. The chapter first presents the level of tax compliance in Ghana, the theories that are related to the study, empirical review of studies that are related to the current study and a conceptual framework.

#### Tax Compliance in Ghana

Taxation is a means by which governments finance their expenditure by imposing compulsory charges on citizens and corporate entities. They are generally not paid in exchange for some specific thing, such as a particular public service. In modern economies, taxes are important sources of government revenue. It is the key source of financing its budgets and executing a developmental plan. Despite the key important use of tax revenue for national development, some citizens and businesses across the globe try to evade taxes.

This is not different with the case of Ghana as tax compliance is identified as one of the major problems for tax authorities as it is not easy to persuade taxpayers to comply with their tax requirements irrespective of the existence of tax laws. In other words, tax compliance is an issue of concern to the government as many taxpayers always want to evade it. According to Adu-Gyamfi (2014), tax compliance is the ability to make the payment of tax, production and submitting of information to tax authorities in the required format and on time. Atawodi and Ojeba (2012) also described tax compliance as the fulfilment of all tax obligations which includes the filing of tax forms, citing the exact income and deductions and having them returned within a given period. Similarly, Eduku (2016) described tax compliance as the activity that involves following the tax rules in a country which included declaring of one's income, filing of tax forms, and payment of tax due on time. These definitions imply that tax compliance has to do with the payment of tax on time and the fulfilment of all tax requirements.

In Ghana, tax is the major source of developmental revenue since its introduction in the year 1943. Based on this, successive governments have developed and instituted different tax reforms and administrations to help manage as well as enhance tax compliance of businesses in the country (Yin, Wemah, & Abugre, 2016). According to Acheampong, Debrah and Yeboah (2016) Ghana has the Ghana Revenue Authority as a statutory public organization that has been given the mandate to mobilize and administer tax revenue for the country. This includes Custom and Exercise Duties, Communication Service Tax, Income Tax and Value Added Tax. This institution aims to ensure that there is compliance with tax reform.

Tax compliance is one of the civic obligations of all citizens and businesses and also a legal requirement in Ghana. According to the Ghana Revenue Authority (2012), the Institute of Statistical Social and Economic Research and the Ghana Revenue Authority research revealed that tax compliance in Ghana is very low and this is due to the low level of education on tax and tax compliance. The statistics indicated that the potential employees in the country are estimated at 6 million individuals yet only 1.5 million persons are registered with the Ghana Revenue Authority and are noted to pay their Pay as You Earn (PAYE) (Amanamah, 2016).

Again, the statistics show that Ghana is ranked below countries like Kenya, Cape Verde, Swaziland, Cote d'Ivoire and Senegal (Adu-Gyamfi, 2014). In other words, when it comes to tax compliance, Ghana is identified as a country that has a low level of compliance and this can, in the long run, affect the total revenue generated by the country for development programs. The government under the Nana Addo administration cannot realize its vision of a Ghana beyond Aide if the issue of tax non-compliance persists.

### **Theoretical Review**

According to Creswell (2007), a theoretical review is described as a stage in a research work where already existing theories that are related to the topic are used to establish a relationship between the current research and the theories which can help in developing of new hypotheses to be tested. Therefore, the theories that underpin the study are tax compliance theory and the theory of reasoned action. The aim of reviewing theories is to find theories that have been propounded by scholars and are related to the

research. This is to help give an in-depth explanation of the topic using theories.

### **Tax Compliance Theory**

According to Tan and Tower (1992), Tax compliance theories emerged from tax compliance studies because of the weakness identified by scholars within the economic theory of tax compliance and tax gaps. Although initial development of compliance theories begun with deterrence models recent tax compliance theories are modelled around social and psychological theories (Murphy, 2004). Based on this Murphy, (2004) explained that the theory of tax compliance assumes that human beings are social elements that play a vital role in individual taxpayer compliance decisions. The theory expounds on the issue of why people do pay taxes. Although the theory emerged from a wide variety of disciplines, its application has been relevant with regards to deterrence decisions and compliance decisions. According to Marti (2010), the factors that underpinned deterrence tax decisions include; the complexity of the tax system, level of revenue information services, withholding and information reporting, preparer responsibilities and penalties, probability of receiving audit coverage, progressive and actual level of tax rates, and penalties for non-compliance.

In other words, the tax compliance theory explains why humans would pay tax or deter from paying tax. The assumption from the theory is that the human element plays a critical role in direct and indirect tax compliance decisions (Murphy, 2004). This, therefore, explains why a small business would evade or comply with tax in Ghana. Relating the theory to the study, businesses in Ghana are to understand that the taxes they pay are being used

by the government to provide amenities and services. In other words, taxes serve as a source of revenue for the government. Therefore, payment or non-payment affects the state of the country.

The tax compliance theory explains that people tend to evade taxes due to the complexity of the tax system, level of revenue information services, and withholding and information reporting. This makes it difficult for the government to have funds to meet the needs of the citizens. Additionally, these factors act as a challenge for the government as it indicates that citizens are not willing to comply with tax policies in the country. The theory, therefore, supports the study's aim of exploring the tax compliance level among businesses where it gives an understanding of the reasons behind the low level of tax compliance amongst businesses. Based on this theory it can be said that the level of tax compliance can increase if these factors or reasons are addressed.

### **The Theory of Reasoned Action (TRA)**

The Theory of Reasoned Action was propounded by Ajzen and Fishbein in 1980. The theory explains the behaviour of people towards the acceptance of a decision to comply with the introduction of an event or application. In this regard, the theory focuses on the use of technology. In the field of technology usage, TRA is described as the behavioural intention accounted for by an individual's attitude towards behaviour and subjective norms (Laukkanen & Cruz, 2009). Therefore Riivari (2005) explained that the attitudes towards a particular subject can be in the form of behavioural beliefs, subjective norms, normative beliefs and motivations.



Hence this theory implies that an individual has voluntary control over his or her behaviour which in the long run affects the decision to accept or reject a decision to comply with a rule or policy. Research by Connor and Armitage (1998), indicated that TRA can predict and explain newly introduced behaviour of people with regards to the acceptance of a product or technology. Generally, the theory of reasoned action (TRA) which explains an individual or a person's intention shows the link between the intent of a person to behave and the behaviour exhibited (Ajzen & Fishbein, 1967).

The theory provides diverse factors which underscore and influence a person's subjective behaviour. Therefore, whether a small business owner would behave rightly or not is dependent on the intention of the person. Addressing this study, the theory reveals that people have reasons for the kind of decisions that they make irrespective of the consequences of their decisions. Relating the theory to the study, the low level of compliance amongst taxpayers is based on reasons that influence their behaviour which is the failure to comply with tax policies. Using this theory, it is evident that, taxpayers justify their actions of low compliance level to factors like complexity of the tax system, level of revenue information services, withholding and information reporting, preparer responsibilities and penalties, probability of receiving audit coverage, progressive and actual level of tax rates, and penalties for non-compliance. In other words, taxpayers tend to use the challenges as a reason for their decision not to pay tax, therefore, leading to a low level of tax compliance.

## **Economic Deterrence Theory**

Economic Deterrence Theory is a concept that has a positive impact on tax compliance. The theory was developed to explain the possible means to improve tax collection among taxpayers. According to Chauke (2016), taxpayers' decisions to pay tax are influenced by the tax rate. The tax rate is a measure put in place to penalize taxpayers who refuse to comply or pay their taxes to the government. Schneider (2019) connotes that implementing persuasive measures such as increasing the tax rate and aligning tighter penalties for non-compliers can be used to influence taxpayers to comply with tax regulation. On the other hand, Schneider (2019) stated that providing tax education and increasing the incentives associated with tax compliance can also influence the decision of taxpayers to comply with the tax regulation. Economic deference theory is significant to the study because the theory helps us understand that the level of tax compliance among taxpayers can be increased when the GRA officials effectively implement persuasive measures or educate them (owners of the small-scale business) on the benefits associated with the tax.

## **Empirical Review**

This section seeks to review pieces of literature on researches that are related to the topic. The reviews were done under, the current tax compliance regulations by the Ghana revenue authority, the level of tax compliance of small-scale business in the La Nkwantanang-Madina Municipal Assembly and the challenges facing small scale business in the La Nkwantanang-Madina Municipal Assembly complying with tax obligations.



### Activities of Small-scale Enterprises

Several researchers and authors have varying meanings in terms of business necessities as such capital expenditures and facilities, the number of workers, the total amount of revenue generated, fixed capital investment, the level of development and market share of the small-scale business (Ayozie et al., 2013). According to Adjei (2012), all these qualities or characteristics of small-scale business vary in every state or nation. Faris (2018) define small-scale enterprises as a small business with a limited number of workers and a limited inflow of finance and resources. Seidel (2019) also describes small-scale enterprises as a small business that operates with a small number of employees and resources. Furthermore, Adjei (2012) defined small-scale business as an independent business managed in a personalized way with somewhat a small market share.

On the other hand, small scale business is statistically defined as the size of the business, its impact on several areas such as employment, export and gross domestic product (GDP), as well as the level to which its contributions change over time (Adjei, 2012).

Kayanula and Quartey (2000) define small-scale business as a business with less than ten (10) workers, and with business necessities, including plant and machinery, not more than ten (10) million Ghana Cedis. According to Makond (2014), the small-scale business engages in activities such as manufacturing activities, servicing or repairing activities, construction activities, and financial activities and retailing activities. Other business activities include wholesale business, transport activities, public utilities and communication (Makond, 2014).

## The Level of Tax Compliance of Small-scale Enterprises

According to Yin, Wemah and Abugre (2016), tax compliance is reporting and declaring on all incomes, as well as paying all tax charges as required. However, most businesses do not declare their income because they do not want to pay taxes (Cussen, 2019). The reasons why businesses do not pay taxes include lack of education as well as complex tax systems. This has led to a low level of tax compliance among businesses (Yin, Wemah & Abugre, 2016).

Aladejebi (2018) measured the level of tax compliance among small business in Nigeria. The study used a quantitative research approach and sampled 250 and 223 small-scale business using simple random sampling technique. A questionnaire was used to gather data from the owners and analysed using the SPSS. Findings of the study revealed that there was an increase in tax compliance among businesses in Nigeria. The study result further revealed registration of companies with corporate affairs, Pay as You Earn to state Government, filing of account, and monthly VAT returns were constantly paid by the SME owners.

Furthermore, Magiya (2016) assessed the level of tax compliance among small scale business in Kenya. A quantitative research approach was used for data collection. A total of 403 small scale businesses were selected using the simple random sampling technique. Data were analysed using a linear regression model. Results of the study revealed that there was a high level of tax compliance among small-scale business. The study results further explained that the majority of the small scale business owners filed their returns, kept records of tax paid and registered their business when necessary.

Mwangi (2014) conducted a study on the level of tax compliance. The study sought to examine the factors influencing tax compliance among small businesses in Kenya. The study adopted a mixed-method approach for data collection. A total of 150 small businesses were selected using a stratified sampling technique. A questionnaire was used to gather data from the selected businesses. Findings of the study revealed that there was a poor level of tax compliance among small businesses due to inadequate information regarding taxation. The study concluded that low level of tax compliance was due to inadequate information regarding taxation. In as much as the study was able to address the objectives, the study failed to give an in-depth understanding of the topic because it did not investigate the issue from the taxpayer's perspective and perception of tax. Therefore, the use of an interview design would have made room for in-depth knowledge on the topic. The overall presentation of the study was good.

In a related study conducted by Kuug (2016) on the level of tax compliance among growing companies registered at the Ghana Revenue Authority. The study aimed at identifying the level of tax compliance among small scale businesses the study used a mixed-method was for data collection. An interview guide and questionnaire were used to gather for the selected respondents. The study results revealed that there is a low level of tax compliance among small growing companies that were registered at the Ghana Revenue Authority. The study concluded that the low level of tax compliance was as a result of the complex tax system, corruption and poor record-keeping. Furthermore, in as much as the study was able to identify the level of tax compliance among small scale business, it failed to analyze the situation by

understanding how taxpayers perceive tax and the use of tax revenue in Ghana. Moreover, the study was fairly presented.

However, Atawodi and Ojeka (2012) also conducted a study on the level of tax compliance among small businesses. The study aimed to identify the factors that affected the level of tax compliance of small businesses. The study made use of quantitative study design in addressing the objective of the study. The study revealed that the low level of tax compliance is as a result of the poor tax system, lack of education and multiple taxations. The study concludes that these factors were the reason for the low level of tax compliance among small scale business. Consequently, a qualitative study design would have given the study an in-depth understanding of how taxpayers perceive tax and the use of tax revenue through interviews. The respondents would have gotten the chance to express their opinions and thoughts on tax compliance.

Wahabu (2017) conducted a study on tax compliance of small businesses and for that matter, small scale businesses in Tamale metropolis. Therefore, the study made use of quantitative study design in addressing the objective of the study. A total of 265 small and medium-sized were selected using a stratified sampling technique. A questionnaire was used to gather the data and analysed using a Statistical Packaging for Social Science (SPSS) version 21. The study revealed that there was a low level of tax compliance among small businesses. This low level of tax compliance was as a result of the low level of tax knowledge of owners and managers, complex tax laws, profit level of small businesses, the rate of taxes and opinions on government expenditure. Critically looking at the study, the study failed to

explore the taxpayer's perception about tax and uses of tax revenue through an interview to get an in-depth knowledge of why the level of tax compliance was low. On the other hand, the use of quantitative study designed helped the study to include more small-scale business to make a better generalization of the results.

Similarly, Amanamah (2016) conducted a study on tax compliance level among small businesses in Kumasi Metropolis. The study aimed at identifying the major factors that affected the tax compliance level of small businesses in Kumasi metropolis. The study adopted a qualitative research design in addressing the study objectives. A total of 70 SMEs were selected using a convenient sampling technique. A questionnaire was used to gather data from the selected businesses and analysed using descriptive statistics. The study revealed that there was a low level of tax compliance amongst small businesses. The reasons for the low level of tax compliance among small businesses in Kumasi included high tax rates, low level of education on taxes and government spending. From the study, it is evident that it was limited to only Kumasi, therefore, making the results limited to only businesses operating in Kumasi metropolis. Therefore, further studies should be conducted in the Greater Accra Region to generalize the situation on tax compliance of small-scale businesses. The use of an interview will also give an understanding of the taxpayers' perception of tax and its uses in Ghana. Acheampong, Ofori and

Yeboah (2016) conducted a study on the level of tax compliance of small enterprises in Ghana. The study used a quantitative research design and sampled a size of 500 businesses using a simple random sampling technique.

Data collected were analysed using the probit regression model. The study revealed that the lack of tax education, lack of proper record keeping influenced the level of tax compliance.

### ***Tax Compliance Challenges among Small-scale enterprises***

In Ghana, Civil and Local Government staffs, as well as public servants, are taxed on their wages and salaries which are deducted at source by the Accountant General's department. The private and informal sector which is dominant in Ghana is not left off the tax net since their contribution to the infrastructural development and social amenities of this country is paramount and vital. However, their contribution is very abysmal. Unlike the formal sector whose taxes are deducted at source, theirs (the informal sector) depends on voluntary compliance and this is where the problem lies.

In a study conducted by Onias, Chari and Nyakurimwa (2015) on the factors that affected the tax obligations of small businesses. The study adopted a mixed-method approach to addressing the aim. Both an interview guide and questionnaire in the collection of data. The use of both an interview guide and questionnaire helped the researcher to collect both numbers and opinions that give a better understanding of the study results. Findings of the study revealed that challenges that hinder the adherence of tax by small businesses in Bindura, Zimbabwe includes high tax rates, lack of trust in the revenue authority and low risk of detection. The study objectives included the challenges hindering tax compliance., The study was well presented with the topic, objective, research design, results and conclusion well stated.

Seidu, Abdul and Sebil's (2015) study conducted a study on the factors that leads to non-compliance of taxes. , The study adopted a quantitative study



design where questionnaires were used in data collection. The study found that the lack of education on tax, multiple taxations, as well as the type of small-scale businesses, were the challenges being faced by businesses in the Tamale metropolis when it comes to the compliance of tax. Critically looking at the study, it was shown that the study adopted a quantitative study design in addressing the objectives. The use of quantitative study design limited the study from gathering data that includes the opinions and thoughts of the respondents. A mixed-method design would have helped the study as tax officials would have also been interviewed to obtain their opinions on the topic.

Similarly, Wahabu (2017) also conducted a study on the challenges of tax compliance in Ghana. The study aimed to identify the challenges of tax compliance among small businesses. The study adopted a quantitative research design in addressing the objective. A total of 265 small and medium-sized were selected using a stratified sampling technique. A questionnaire was used to gather the data and analysed using a Statistical Packaging for Social Science (SPSS) version 21. From the study, it was revealed that the challenges associated with non-adherence to tax policies are a low level of tax knowledge on the part of owners and managers of small-scale businesses, complex tax laws, high rate of taxes, profit level of small businesses and opinions on government spending.

Appiah (2015) examined the challenges affecting tax compliance among small scale business in Ghana. Using a quantitative research design, a total of 400 respondents were sampled using a simple random sampling technique. Data were collected using a questionnaire. Findings of the study

revealed that lack of proper bookkeeping, distance to the office, lack of tax education and place of business was high.

Atawodi and Ojeka (2012) explored the challenges associated with tax compliance among Small and Medium Enterprise in Nigeria. The study used a quantitative research approach and sampled 150 SMEs using both simple random sampling technique and judgmental sampling, a questionnaire was developed to gather data from the owners of the business and analysed using the SPSS. Findings of the study identified the filing procedure and high cost of tax as challenges affecting tax compliance.

Finally, Newman and Nokhu (2018) conducted a study on the challenges affecting the level of tax compliance among Small Scale Businesses in Zimbabwe. The study used a quantitative research approach and sampled 35 SMEs using a simple random sampling technique. A questionnaire was used to gather data from owners of the selected SMEs. Findings of the study revealed that lack of knowledge on taxation contributed to the low level of tax compliance among SMEs.

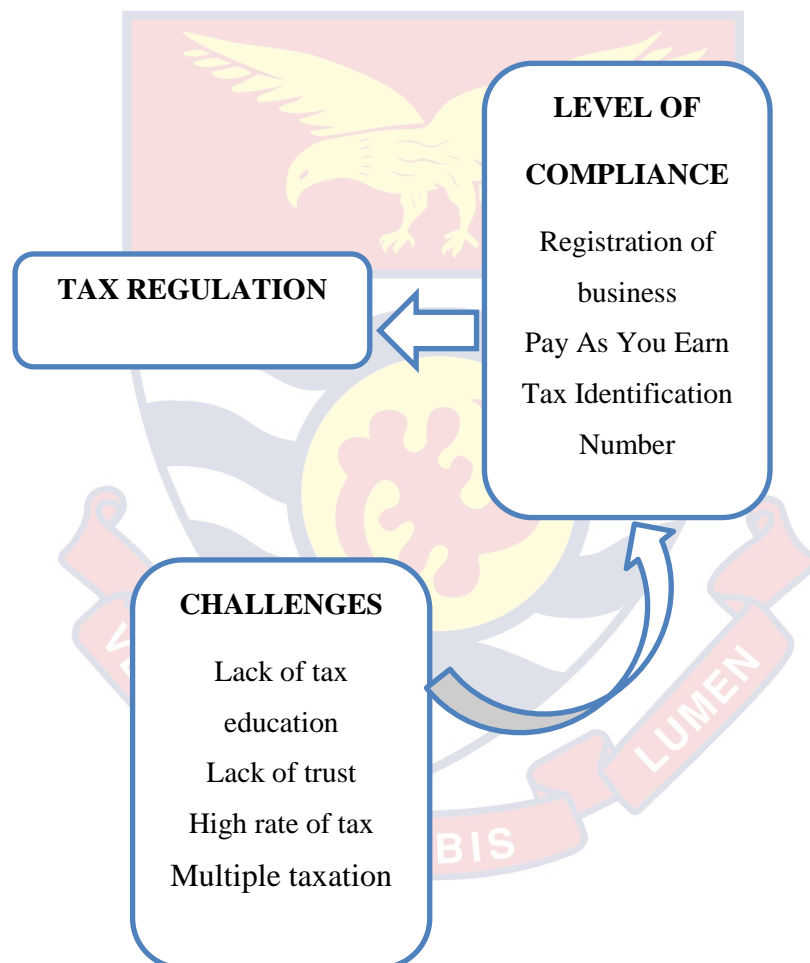
In conclusion, good research work has been conducted on tax compliance of small-scale enterprises in Ghana. However, there are limited researches on the matter in the nation's capital, Greater Accra. Also, these researches conducted failed to bring out the understanding of the issue from the perspective of the taxpayers, as to how they perceive tax and tax revenue uses, through an interview guide. Hence, the research gap that this study seeks to address.



### Conceptual Framework

A conceptual framework is an analytical tool used to explain the relationship between two variables identified in the study. The variables are dependent and independent. The diagram below explains the relationship between the variables identified in the study.

Figure 1: Conceptual framework on tax compliance on small-scale enterprises in Ghana



Source: Researchers' Construct, 2019

Government depend on the tax to foster the kind of development needed in the country. Without the tax, the basic requirements such as schools, hospitals, quality road and electricity needed to enhance the growth and wellbeing of human might not be achieved. This is to say that tax helps the government

mobilise adequate revenue for the development of the country. According to Mwangi (2014), there are several ways to measure the level of tax compliance among small-scale business. The level of tax compliance can be measured through business registration with Corporate Affairs, Pay as You Earn, and the use of Tax Identification Number. Despite the benefits associated with tax compliance, Appiah (2015) revealed that issues such as lack of tax education, lack of trust, high rate of tax affect tax compliance in Ghana.



## CHAPTER THREE

### RESEARCH METHODS

#### Introduction

The current study aims at exploring the current tax compliance regulations by the Ghana revenue authority, investigating the level of tax compliance of small-scale business in the La Nkwantanang-Madina Municipal Assembly and exploring the challenges facing small scale business in the La Nkwantanang-Madina Municipal Assembly complying with tax obligations. This chapter presents the various methods adopted to help achieve the objectives of the study. The chapter covers the research approach, research design, population, sample size and sampling technique, data sources and research instrument, ethical issues, proposed data analysis.

#### Research Design

Research design is the strategy, plan and structure of conducting a research project (Kweit and Kweit, 1981, in Leedy, 1993). The study adopted a descriptive research design with a qualitative research technique. According to Creswell (1994), a descriptive method of research is to gather information about the present existing condition. The purpose of employing this method is to describe the nature of a situation, as it exists at the first time of the study and to explore the cause or causes of a particular phenomenon. The researcher opted to use this kind of research considering the desire of the researcher to obtain first-hand data from the respondents to formulate rational and sound conclusions and recommendations for the study. This design also helped describe why small-scale business operators comply or fail to comply with tax laws in Ghana.

## Research Approach

A qualitative study approach is described as a study design that allows a researcher to uncover a trend in thoughts and opinions by diving into the problem (Creswell, 2007). This implies that a qualitative study design allows a researcher to have an in-depth understanding of the topic that is being studied. Qualitative study design makes use of opinions and observations of participants to help in gaining a better understanding of the topic under study. The adoption of qualitative study design made room for the use of interviews where there were direct interactions with the participants. The study adopted a qualitative study design because it allowed the researcher to have a face to face interaction with the participants where their opinions and thoughts were used in obtaining an in-depth analysis of the study. It also makes room for reliable and accurate responses where behaviour, actions and reasons for the actions being taken.

## Study Area

La Nkwantanang-Madina Assembly was selected as the study area for the study. It is one of the sixteen districts in the Greater Accra Region. The administrative capital of La-Nkwantanang-Madina Municipal's capital is Madina. La Nkwantanang-Madina Assembly was created in the year 2012 and inaugurated on the 28th of June 2012. It was established by Legislative Instrument (L.I) 2131. The La Nkwantanang-Madina Assembly is bordered on the east by Adenta Municipal, south by Accra Metropolitan Assembly, west by Ga West and north by the Akuapim South District. According to the 2010 population and housing census, the population of the municipality stands at 111,926 with 57,655 females and 54,271 males (La Nkwantanang-Madina

Municipal, 2010). La Nkwantanang-Madina Assembly has a population of one-third (35.5%) engaged in small-scale business such as service, sales works, craftworks, trades, and machine operations and are obliged to pay tax to the government (Ghana Statistical Service, 2010). The researcher selected the study areas because of proximity, and there is an increasing number of small scale enterprises in the district, hence, assessing information would be easy.

### **Population**

Babbie (2007) described the population as the total number of subjects a researcher seeks to examine. The study targeted small scale enterprises operators both registered and unregistered who have operated at La Nkwantanang-Madina Assembly for not less than two (2) years as well as GRA officials who have worked in La Nkwantanang-Madina Assembly for not less than two years. The study selected this population because they have in-depth knowledge of tax compliance.

### **Sampling Procedure and Sample Size**

#### **Sampling Technique**

A sample is described as a subset of the population of the study that has all the characteristics that a researcher seeks to examine (Babbie, 2007). There are two main types of sampling and they are probability and non-probability sampling (Bhat, 2018). Probability sampling is a type of sampling used to select members randomly from a population using a selection criterion (Creswell, 2003); the selection criteria are simple random sampling, cluster sampling, systematic sampling and stratified sampling (Creswell, 2003).

Non-probability sampling is also a type of sampling that does not give equal chance to all individuals in the population (Palys, 2008). The selection criteria for non-probability sampling are the convenience sampling, purposive sampling, snowball sampling and quota sampling. Concerning the research objectives, the study used both purposive and convenience sampling technique to select the target population.

Purposive sampling technique is a sampling technique researcher use to select members who have in-depth knowledge of the subject under study (Palys, 2008) whilst convenience sampling technique is a technique used to select members willing to participate in the study (Bhat, 2018). Practically, the purposive sampling technique was used to select GRA officials whilst the convenience sampling technique was used to select small business operators. The rationale behind this sampling technique was to have a deeper understanding of the businesses compliance to tax in Ghana.

### **Sample Size**

The study adopted both purposive and convenience sampling techniques to select fifteen (15) small business operators and eight (8) GRA officers. The techniques helped obtain the right participants who were willing to be interviewed within the frame of the topic area. The sample size supports the indication by Creswell (2003), that qualitative study should at least have 9 respondents.

### **Data Collection Instrument**

The study adopted an interview guide in collecting information from the participants. An interview guide is described as the list of questions used by a researcher in obtaining responses from an interviewee. The interview

guide was divided into four sections. The first section covered the demography of the participants. Similarly, the interview guide was self-designed in line with the stipulated research objectives and literature. It covered issues of business activities of small-scale businesses, current tax compliance regulations by the revenue authority, level of tax compliance and challenges facing small scale business in complying with tax obligations. The consistency of the interview guide was obtained before the actual data collection was done. The rationale behind the adoption of an interview guide was to enable the participants to express their thought on the subject under study.

### **Data Collection Procedure**

With the collection of data, the participants were contacted at their workplaces. For the officials of GRA, permission was sought from the management before conducting the interview. The participants were approached during lunchtime and the interview sessions were conducted. For the small-scale business operators, the researcher conducted the interview session at their business centres. The interview sessions were recorded using a tape recorder. The interview session lasted 20 minutes for each participant. Thus, a period of twenty days was used in collecting data from the participants.

### **Data Processing and Analysis**

The recorded data were transcribed and processed using Nvivo software. The analysis took the form of developing various themes that were grouped under major and minor themes. The study utilized the thematic content and rank order analysis from the software to help analyze the data and achieve the objectives of the study. In other words, the responses obtained



from the participants were grouped under major and sub-themes to help answer the research questions.

### **Ethical Issues**

A consent letter outlining the nature and purpose of the research was given to participants of the study. This was to seek their willingness to participate in the research or otherwise. The letter also assured participants that their confidentiality, rights and dignity were protected and not infringed upon. The researcher also obtained written informed consent from the individual participants to ensure their freedom to participate in the research and also to assure them of the confidentiality of their responses.

### **Chapter Summary**

The study also adopted a descriptive survey study design in addressing the objectives of the study. The study population comprised of all small-scale businesses in La-Nkwantanang-Madina Assembly who have operated for not less than two years and GRA offices within the same Assembly. The study employed both purposive and convenience sampling technique in selecting fifteen (15) small-scale businesses and eight (8) officers from the GRA respectively. The study also used interview guides in collecting data from the participants. Consequently, Nvivo software version 11 was used in analyzing the data which later developed into themes that fall under the specific objectives. One of the limitations of this study was bias on the part of the principal researcher since the interpretation of the data was based on the principal researcher's discretion. To mitigate this, the principal researcher ensured that the analysis was done meticulously and was based on major and minor themes which were developed concerning the objectives of the study

## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### Introduction

The main objective of the study is to explore tax compliance among selected small-scale businesses in the La Nkwantanang-Madina Municipal Assembly (LANMA). To achieve the main objective, the study set out to explore the business activities of small-scale businesses, assess the current tax compliance regulations by the revenue authority, determine the level of tax compliance of small-scale business and finally the challenges facing small-scale business in complying with tax obligation. The results are grouped under major and minor themes. The results of the interview with the small business owners are first presented followed by the results of the interview with the tax officials.

#### Findings of Official of Small Business operators

This section focuses on the results obtained from small business operators. The results are grouped under themes to make the analysis of results easier and well understood.

#### Demographics Profile

When small scale business operators were asked of their marital status, it was revealed that most of them are married, some were cohabitating and few were single. Almost all of the respondents indicated that they had at least one child while few of them did not have a child of their own. Most of the respondents had vocational skill while few had diploma level of education. Also, the business types identified by the participants were

wholesale and retail, communication and repair and service. From the study, most of them said they were into the wholesale business.

One of the interviewees said *"I am a wholesale drugs distributor"*

Another participant indicated that *"I sell stationery products for schools and students"*

Other participants stated that they sell airtime vouchers, mobile phones and engage in mobile money transfer. Consequently, some also said they repair mobile phones and sell foodstuff

Two of the participants said *"I sell fruits and vegetables to the folks in my area"*

Furthermore, most of the participants said they were sole proprietors with a few into partnership. Consequently, most of them said their businesses have been in existence for seven years, some said five years, others indicated six years and a few said three years with one indicating ten years. From the interview, all the businesses have employed at least one worker and at most seven workers. Also, most of the participants said they earn income ranging between GHC 1,000 – GHC2,000. Others said they earn GHC25,000 – GHC30,000 and few earned GHC 500 - GHC 900.

According to one participant, *"I own the business myself"*.

Another participant said *"I have been operating my business for five years now"*

One participant said that *"I have three workers who are of tremendous help so I can earn between GHC25,000 – GHC30,000"*

## Level of Tax Compliance of Small-scale Enterprises

This section addresses the objective that focuses on the level of tax compliance of small-scale enterprises. Therefore, the interview results revealed three major themes. These themes are registration, income and knowledge

Objective	Major Theme
Level of tax compliance of small-scale enterprise	i. Registration
	ii. Income
	iii. Knowledge

### *i. Registration*

From the interview, it was found that small scale operators either register or do not register their businesses. The registration or not registering of businesses by small scale operator is based on several reasons. Some of these reasons include not willing to pay tax, perception of government soliciting funds from them. Also, the owners said they did not register the businesses before operations started. Thus, they did not want to pay taxes when they started operations. For example, one of the small-scale business operators who sell call credit and engage in mobile money services said: *"If I register then I have to pay tax, that's the main reason why I did not register the business"*. This appeared to be common among them as another small-scale business operator who sells food indicated that, *"The government would be taking the little money I am to gain so I did not register"*.

### *ii. Income*

Also, from the interview, most of the participants said they kept their financial records of businesses whereas a few did not. Consequently, almost all of the participants said they had other sources of income. Yet all participants said they did not declare their income.

According to participant 9 *“Yes, I do have other businesses which generate income for me but I do not include them in my mainstream of business. You don't expect me to pay tax on all my businesses”*

Similarly, participant12 said that *“even though I have other businesses that generate income, I do not see why I should declare that income”*

Participant 13 said: *“I have financial records of all my business activities but I do not include all when it comes to paying tax. Selling of water does not generate much so I support myself with other business but these businesses do not need to pay tax. They are my support stream”*

### **iii. Knowledge**

The results revealed that there is no knowledge of tax compliance. To be able to pay tax, one needs to register the business yet these small-scale enterprises have no knowledge of the need to register their businesses.

Two of the participants indicated that they knew about the registering of neither the businesses nor where to have it registered. Again, one of the participants who sell fruits said she did not know where and who to register her businesses with since she did not think the selling of fruits is a kind of business that needs to be registered.

According to Participant 5, *“at first I did not know I had to register the business”*.

Similarly, Participant 8 said that *"Looking at my business where I can make only GHC 20.00 in the day, do you think I will have time to seek information on paying off the tax. My money is not enough to pay tax. The government can look elsewhere"*

Participant 11 said that *"I didn't think it was by law that I register my business besides its just food I'm selling to these labourers. You can't compare by sales to that of big restaurants like Marwako, KFC and Papaye"*

Participant 1 said that participant said *"I wanted to register the business before I started operating but did not know where the registration was being done. I asked around and seem most people do not even know I needed to register my business"*

On the other hand, some of the participants' revealed that they have registered their businesses, they received enough knowledge on payment of tax and as such, they pay it annually

According to Participant 3, *"I pay my tax annually after I was educated on the need to pay my tax and to whom it should be paid. The officials have never had issues with me after I received enough knowledge on tax"*

Again Participant 7 said *"Oh I pay my tax annually. I am a good citizen of the country. Paying tax is my civic duty so I do it without any form of struggle even though the selling of phones doesn't fetch much money"*



### Challenges of Tax Compliance among Small-scale Businesses (SSBs)

This section addresses the objective of the challenges of tax compliance among small scale businesses. From the interview, almost all of the respondents indicated that they have defaulted in their payment of tax in the past. The challenges were multiple taxations, high tax rate and lack of knowledge. Therefore, two themes were derived from the responses. These themes are costly and poor perception

Objective	Major Theme
Challenges of tax compliance among small scale business	i. Costly
	ii. Poor perception

#### *i. Costly*

The results revealed that small scale business operators complained about the high cost of tax payment. In other words, the high cost involved in paying tax makes it difficult for business operators to pay to tax to the appropriate authorities.

According to participant 8, *"the taxes is too much, I am even in fear that they [tax authorities] would collapse the business because I pay three to four taxes annually and this is abnormal"*

Participant 4 stated that *"I can't pay because I paid another authority the same tax they are demanding for"*

Participant 15 said, *"The tax rate is too high. How much do I make at the end of the month that they expect me to pay that amount? Then they should come for the business because the money they are asking is actually the business"*



According to Participant 2, *"the authorities are being unreasonable. Do they expect a fruit seller like me to be able to raise that amount of money for tax annually? How much do I even make in a day?"*

**ii. Poor perception**

Poor perception of tax is one of the challenges affecting tax compliance. The results revealed that, due to poor knowledge on the importance and the benefits of the tax, almost all the participants had a poor perception of tax. This was evident in the responses that indicated a relationship between the government and tax

According to Participant 14 *"The government is incompetent and the ministers are all thieves. You want me to give my hard-earned money to them so they spend it on trips and their numerous girlfriends. I am not struggling because of them. I'm struggling for my children"*

Similarly, Participant 10 said that *"The government would just share these monies among themselves; I just don't think it's necessary to pay always"*

Participant 6 said that *"I toiled for myself and not for any greedy politicians to go and enjoy with his or her family. If they want monies to spend, they should hit the street just like me and not sit in their air-conditioned cars and homes and expect my money to hit their accounts"*

Two of the participants indicated that when businesses are bad, there is no way they will pay tax.

One of the participants (Participant 7) *"When business is bad, I cannot pay the tax"*

## Findings of official of Ghana Revenue Authority

This section focuses on the results obtained from the officials of the Ghana Revenue Authority. The results are grouped under themes to make the analysis of results easier and well understood.

### Demographic Profile of GRA Officials

The findings revealed that almost all (7) of the official of Ghana Revenue Authority (GRA) had First Degree and one had Diploma certificate. Also, most of the participants have been working at GRA for five to ten years, while some have worked in the institution for one to four years and few have worked for eleven years in the institution. Additionally, most of the participants were supervisors, others were tax officers and few were field workers.

Finally, most of the interviewees have held their various positions for five to ten years. While others have held their position for one to four years and one has been in the current position for more than ten years. All the officials noted that they know the number of small businesses operating within the La Nkwantanang-Madina Municipal Assembly. Consequently, the officials said over three-hundred small-scale businesses were operating within the La Nkwantanang-Madina Municipal Assembly whereas few said there are about four hundred small scale businesses in the municipalities.

According to one of the officials, *“there are about three-hundred small-scale businesses in the municipality”*

The officers also said that the dominating business type in the area was a sole proprietorship. Thus, most of the officers said that the activities

engaged in by these businesses were service and repair, wholesale and retail and few said communicating.

According to one of the participants, *“a high number of these small businesses are run by an individual”*

According to one of the officials, *“most of these small-scale businesses are food vendors, as well as phone sellers and repairers.”*

### Level of Tax Compliance of Small-Scale Enterprise

Objective	Theme
Level of tax compliance of small-scale enterprise	i. Registration of business
	ii. Measurement of tax level

#### *i. Registered businesses*

The study revealed that the municipality has some of their businesses registered by the GRA whereas some are not registered by the GRA. The results also revealed that small scale enterprises start operating before registering their businesses, therefore, making the payment of tax inconsistent.

According to one of the officials of GRA in the Domestic Tax Revenue Division *“business owners rarely paid their taxes because they have not registered”*

Similarly, another GRA official said that *“a business that has not been registered cannot be asked to pay tax. There is no proof such a business exists and I think that is how business operators can evade payment of tax”*

Another GRA official stated that *“some business operators who have registered barely pay their taxes, even when they are notified. It is as*

*if we forced them to register and as such, we are just making noise with the notices served to them"*

On the other hand, a few of the GRA officials indicated that some of the business operators paid their taxes after registering.

According to official 3, *"they [small-scale business owners] often do pay their taxes when reminded to do so"*

**ii. Measurement of tax level**

The results also revealed that GRA officials had ways of measuring tax compliance level among small scale business operators. The GRA officials make use of Tax Identification Number (TIN) as well as a declaration of other sources of income by the small-scale business operators.

According to GRA official 8, *"we just have to take your TIN and we will know if you do pay regularly or not"*.

Similarly, GRA official 3 said that *"We use the TIN to identify those who do not pay tax regularly and those who regularly pay their tax"*

The results also revealed that declaration of other sources of income by small scale business operators is another way by which tax compliance is measured by GRA officials in the municipality.

GRA official 5 said that *"When small-scale business owners declare their other source of income, we do use that to measure their level of compliance as well"*.

**Challenges of Tax Compliance among Small-scale Enterprises**

The results revealed that challenges are being encountered by GRA officials in ensuring that small scale businesses comply with tax policies. The challenges identified by the study include the low level of profit, lack of

knowledge on tax compliance which is as a result of the lack of education. From the results, two themes were developed. These themes are dishonesty and demography of business operators.

Objective	Theme
Challenge of tax compliance among small scale enterprise	i. Demography of business operators
	ii. Dishonesty

**i. *Demography of business operators***

The results revealed that the demographic characteristics of business operators are a challenge to ensuring tax compliance. Demographic characteristics like educational background and location of businesses make it difficult for GRA officials to take the tax from the business operators. Due to the educational background of the business operators, they are unable to read and understand when served with notices on payment of taxes.

GRA official1 said that *"most of these people [small scale owners] have a poor educational background, therefore, they cannot read notifications provided to them during municipal meetings which clearly states the need to pay taxes"*

According to GRA official 7 *"how do we expect these business operators to comply with taxes when they do not even understand the need to pay tax? Their lack of education affects how effective we need to work and there must be a way around this problem"*

Similarly, GRA official 3 said that *"I have personally had the challenge of getting a business operator to pay tax. Their level of*

*education is very low and this is not a good thing at all. Imagine a business operator telling you he didn't understand any of the issues raised concerning meetings so he won't pay tax"*

Another challenge is the location of the businesses. Businesses in remote areas can evade tax due to the inability of GRA officials to get to them.

GRA official 6 said, *"Most of these small-scale businesses are in remote areas which make it difficult to ensure they comply."*

**ii. Dishonesty**

Dishonesty was also identified as a challenge when it comes to tax compliance; the dishonesty identified was in the area of business operators. Their unwillingness to declare their income to be taxed is one of the challenges being faced by GRA officials. This is because small scale business operators are of the view that they earn little and as such cannot pay tax.

According to GRA official 4, *"most of the time they complain that they earn so little they cannot seem to calculate their tax to pay"*.

GRA official 8 said that *"They refuse to tell us the truth about their business just to evade tax"*

Similarly, GRA official 5 said that *"these business operators are crooks. They know very well they must declare all their income but because they want to evade tax, they leave out some of the figures, therefore, making their books look small for considerations"*

GRA official 2 also said that *"some business operators try to outsmart us by hiding information on their income since they know that is what will help us to take taxes from them"*



## Discussion

### Demographics of Small-Scale Business

Small and medium business generally offers over 50% employment to many job seekers in the economy; however, most of these SSBs have their own unique business that they operate. Result obtains in the current study showed that the majority of the participants operate a wholesale and retail shop. Some of the participants were also into scratch card sales business. A few participants were also into repairs and services businesses. Similarly, Makond (2014) also highlighted some business activities practised by SSBs to include manufacturing activities, servicing or repairing activities, construction activities, wholesale business and retailing activities. Out of the several GRA officials interviewed, most of the participants stated that the majority of SSBs owners are into servicing and repairs as well as wholesale and retail. This result is similar to the result obtained from the owners of SSBs in the La Nkwantanang-Madina Municipal Assembly. The result from the current study also revealed that all officials of GRA have good knowledge about the number of small businesses operating within the La Nkwantanang-Madina Municipal Assembly. Likewise, the result obtained from the tax official from GRA showed that there are over three-hundred small-scale enterprises operating within the La Nkwantanang-Madina Municipal Assembly

Mostly, the size of a business and activities are undertaken by most SSBs are dependent on the form of ownership. The result from the current study showed that most of the SSBs considered for the study are owned by one proprietor (sole proprietorship). Similar to these, the official of GRA also indicated that sole proprietorship is the dominated form of business ownership



in the La Nkwantanang-Madina Municipal Assembly. However, there were some of the SSBs who had registered and operate their business as a partnership business. Nonetheless, both forms of businesses adopted by these SSBs owners have their merits and demerit on the respective businesses.

Operating and sustaining productivity in SSB is not an easy task because of the various obstacles that approach the growth stages of all businesses. The result from the current study showed that the various forms of businesses have been in operations for over seven years now. Other participants have operated their businesses for five years, six years and three years. There was one SME in the La Nkwantanang-Madina Municipal Assembly that has operated for more than 10 years now.

Based on the response from the various participants, their organization uses the services of at least one (1) employee and at most seven (7) employees. Some participants employed the services of their siblings and relatives because of trust, cost and commitment. Similar to these results, Quartey (2000) also indicated that most small and medium Enterprises have less than ten (10) workers.

The result obtained from the current study shows that most of the SSBs considered for the study, records GHC 1,000 – GHC2,000 as their monthly income. Furthermore, some few businesses recorded GHC25,000 – GHC30,000 at the end of the month. Nevertheless, a relatively small number for SSBs recorded GHC 500 - GHC 900 as salary each month. Considering the size and staff strength of an ideal SSB, the highlighted revenue recorded as sales for these businesses can be said to be impressive and attractive. According to Ayozie et al. (2013), the number of workers, the total amount of

revenue generated, fixed capital investment, the level of development and market share of the small-scale business is qualities or characteristics of SSBs.

### **The Level of Tax Compliance of Small-Scale Business (SSB)**

The various Small-Scale enterprises considered for the study are registered and highly approved by the Registrar General to operate the business. Contrary to the results obtained from the SSB owners, GRA officials indicated that less than half of the SSB in the La Nkwantanang-Madina Municipal Assembly have registered their business. The result further showed that, although some businesses have currently registered their business, there were a lot of participants who did not register their businesses before starting operation. Similar to this a result from GRA official also showed that all SSB in the metropolis start operation before registering their business. According to Kuug (2016), business entities need to register with the registrar general to be recognized as a fully operational business.

According to Pope and Abdul- Jabbar (2008), small and medium scale enterprises are highly noted for evading tax as a result of the size of their business as well as the capacity and ability to fulfil all tax obligations. Similar to this result, the current study also revealed that most SSBs refuse to register their business under the company Act because of the fear of paying tax. This, therefore, explains why small business in Ghana tends to evade tax.

The official at GRA indicated that voluntary defaulting of tax among small scale businesses in the La Nkwantanang-Madina Municipal Assembly influence the level of tax complaint. Another major concern highlighted by most of the participants as a barrier to their task compliance is their knowledge about the payment of tax. Most SSB owners have low knowledge about the

process, the means and place to pay their tax obligation. Similar to this result a study conducted by Wahabu (2017), to assess the tax obligation of small businesses in Tamale metropolis revealed that most SSB has issue complying with tax because of their low knowledge about taxation.

Result gathered from the participant showed that most SSB pays their taxes once a year. Although these make it easier for tax official mobilize revenue (tax), there are still some SSB owners who pay their tax quarterly. The result obtained from the majority official at GRA revealed that small-scale businesses rarely paid their taxes.

The financial records of SSB were also highlighted as one factor that influences the level of tax compliance among small scale businesses (SSB). Base on the result obtain from the current study, most SSB owners keep a record of their financial transaction. Based on the result obtained from the study, Most SSBs have other sources of income which subsidizes the tax paid to the government at the end of the year. Through these other sources of income for the business, the owners can set aside a fund that would cover up for the annual tax payable to the government.

According to Yin, Wemah and Abugre (2016), the reporting and declaring on all incomes, as well as paying all tax charge enhances tax compliance. Concerning this finding, the current study can imply that most SSB owners do not comply with tax because they do not declare their income. According to the result obtained from the officials at GRA, the declaration of income of SSB help the official to calculate and measure the tax payable for SSB. An official at GRA indicated that the Tax Identification Number help them to measure how SSB comply with the tax.

### **Challenges of Tax Compliance among Small-Scale Business (SSBs)**

The result from the current study showed that, are several barriers that prevent SSB from fully complying with tax. According to the majority of the participants, the following challenges are associated with the reason why SSB owners do not comply with the tax. Multiple taxations have been identified by several officials as major problems among taxpayers. This can be evident in the current result of the study which indicated that most SSB were being taxed more than once by different authority and a result in a study by Seidu, Abdul and Sebil (2015) which also highlighted multiple taxations as one of them were the factors that led to non-adherence to tax rules, and ultimately non-payment of tax among small businesses in Tamale metropolis.

Not only do multiple taxes affect the compliance to tax among most SSB but also the high tax rate also influences the compliance to tax. Based on the result obtained from the currents study, most participants do not comply with tax because of the high tax rate. Similar to this result, hand, Wahabu (2017) also conducted a study to assess the tax obligation of small businesses in Tamale metropolis and found that high rate of taxes prevents SSB owners from complying with tax.

Knowledge about taxation is indeed a problem facing most SSB owners in the economy; however, there is a significant number of people and business that have fair or good knowledge about taxation. As evident in the result of the study, one a few participants had low knowledge about tax. Contrary to this finding, a study conducted by Wahabu (2017) in the northern region revealed that most SSBs do not comply with tax because of their low knowledge of tax. Likewise, result obtain from the tax officials at GRA also

indicated that most SSB in the La Nkwantanang-Madina Municipal Assembly default tax because of their knowledge on taxation

The result from the majority of the participant shows that most SSB does not comply with the task because of their low-income level. Since the tax is charged on the amount of money generated by the business after a period, most underperforming SSB of business that makes relative lower sale find it difficult to comply with the tax. Naroog-Kuug (2016) also highlighted that economic factors such as income level, tax rates, tax benefits and tax audits are major factors that determine tax compliance.

According to GRA, most SSB default or do not comply with tax because of their level of income or profit margin. Lack of tax education is another major challenge highlighted by the tax officials at GRA to impede the compliance of tax among SSB in the La Nkwantanang-Madina Municipal Assembly. Similarly, Seidu, Abdul and Sebil (2015) also identified lack of education as a major challenge that impedes the mobilization and compliance of tax among small businesses in Tamale metropolis.

The result from the tax officials showed that the location of some of the small businesses in the La Nkwantanang-Madina Municipal Assembly do not help the official to mobilize tax from these businesses. These, however, is one of the major causes of poor tax compliance among the various SSB in the La Nkwantanang-Madina Municipal Assembly.

The attitude of some of the SSB owners also makes it difficult for the official of GRA to ensure tax compliance. Some taxpayers use hash words on the officials who visit their premises to mobilize tax. This attitude of taxpayer

prevents tax official from ensuring tax compliance among small businesses in the La Nkwantanang-Madina Municipal Assembly





## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### Introduction

In this chapter, a summary of the findings of this study is presented. The chapter also consists of the conclusion and also the recommendation made from the findings of the study.

#### Summary

The main purpose of the study was to explore tax compliance among selected small-scale businesses in the La Nkwantanang-Madina Municipal Assembly. To aid in the achievement of the study, it employed three specific objectives which are; assess the current tax compliance regulations by the revenue authority, determine the level of tax compliance of small-scale business and to find out the challenges facing small scale business in complying with tax obligations. In addressing the objectives of the study, the study adopted a descriptive research design to obtain in-depth information from selected respondents. The population for the study was all small-scale business in La Nkwantanang-Madina Assembly in Ghana and GRA offices within the same Assembly. The study made use of purposive and convenience sampling techniques to select fifteen (15) small business operators and eight (8) GRA officers. Besides, an interview guide was used to gather data from the participants. Gathered data were analyzed qualitatively.

#### Key Findings

Results obtained in the current study showed that the majority of the participants operate a wholesale and retail shop. The finding of the study showed that over three-hundred small-scale businesses are operating within



the La Nkwantanang-Madina Municipal Assembly. According to the finding obtained from the SSB and the GRA officials, most of the SSBs in the La Nkwantanang-Madina Municipal Assembly operate a sole proprietorship business. The result from the study showed that the various forms of businesses have been in operations for over seven years' now. The findings of the study showed that most of the SSBs have at least one employee and at most seven employees. Likewise, the finding of the study shows that most of the SSBs considered for the study, records GHC 1,000 to GHC2,000 as their monthly income.

In examining the extent of tax compliance of small-scale businesses (SSB), the finding of the study revealed that even though most of the SSB considered for the study are registered companies, information from GRA showed that less than half of SSB in the La Nkwantanang-Madina Municipal Assembly have registered their businesses. Likewise, most of the SSB normally start their business operation before registering their businesses. The finding showed that most SSBs refuse to register their businesses because of the fear of paying tax. The finding further showed that most SSB owners have low knowledge about the process, the means and place to pay their tax obligation. Most SSBs in the La Nkwantanang-Madina Municipal Assembly pay their taxes once in a year. Most SSB keeps records of financial transactions. Most SSBs have other sources of income which subsidies the tax paid to the government at the end of the year. Most SSBs do not declare their total earning to GRA. The finding of the study revealed that Tax Identification Number help GRA to measure the rate at which SSBs comply with tax

Finally, findings from the study showed that Most SSBs were being taxed more than once by a different authority. The finding of the study also showed that a high rate of taxes prevents SSB owners from complying with tax. Most of the owners of SSB have little knowledge about the need to pay Tax. The result from GRA also showed that most SBBs in the La Nkwantanang-Madina Municipal Assembly default tax because of their little knowledge on tax. The finding identifies low income or profit as a factor that prevents SSBs from paying tax. Most SSB owners have little education on tax. The location of Most SSBs makes it difficult for GRA to locate most SSBs. The result from GRA showed that the attitude of some SSB owners makes it difficult to mobilize tax from the various businesses.

### **Conclusion**

Based on the result obtained from the study, it can be concluded that the majority of SSBs in the La Nkwantanang-Madina Municipal Assembly were into retail and wholesale of goods and services. Although these SSBs were registered as a sole proprietorship, there were a lot of SSBs in the municipal that were not registered and authorized to operate. The few businesses that were registered mostly started operation before registering the business. It can also be concluded that the average SSB in the municipal employs the service of at least one worker and a maximum of seven workers to generate a sale of GHC 1,000 to GHC2,000 in a month.

Based on the result obtained from the study, it can further be concluded that the level of tax compliance among small-scale business in the municipal is low. These can be associated with the poor knowledge about tax,

the late registration of businesses, the voluntary invasion of tax, and the mood and time of payment.

Finally, the study concludes that, the compliance of rent tax obligations among SSBs in the La Nkwantanang Madina Municipal Assembly is on the low side due to several challenges such as multiple taxations, high tax rate, and lack of knowledge on tax, low-income level or profit margin, poor education on tax, geographical variables and the negative attitude of taxpayers.

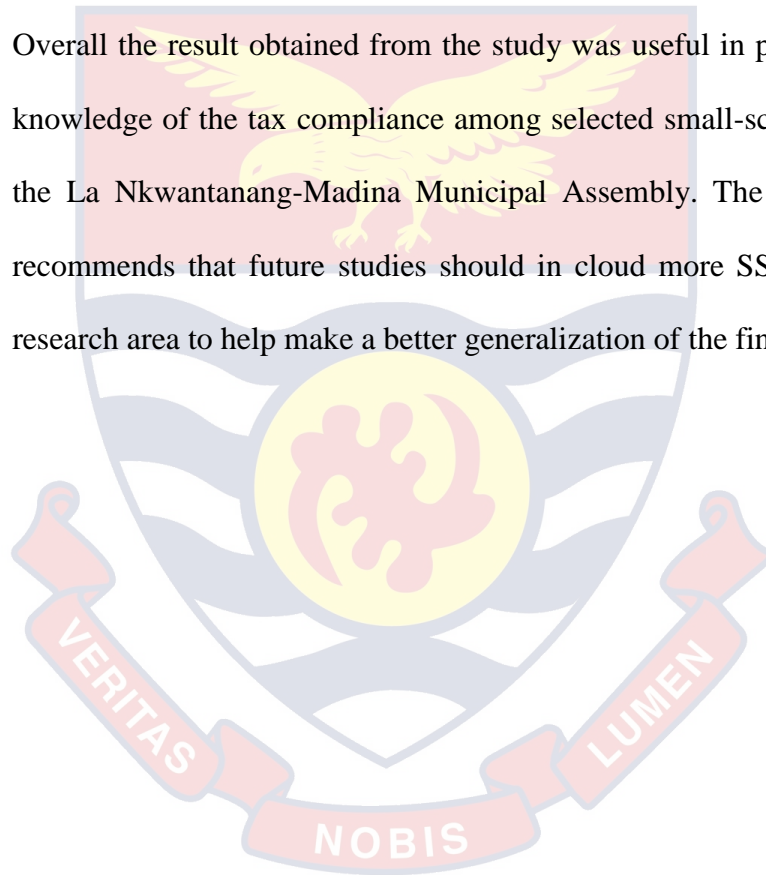
### **Recommendations**

Based on the result obtained from the study, the following recommendations are made.

- The study revealed that there was little knowledge regarding the payment of tax to the government. To overcome the challenge of little knowledge, the GRA must ensure that, information regarding the payment of tax, uses of tax, legal action of not paying tax must be communicated to all taxpayer by using TV adverts, radio and communication van.
- Another challenge highlighted in the study to prevent the compliance of tax among SSB in the La Nkwantanang-Madina Municipal Assembly is the declaration of revenue/income. The official of GRA should make it mandatory for every registered business to declare their revenue anytime they pay their tax and must deploy sanctions on those who fail to do so.
- It was also evident in the study that, most SSB owners did not comply with tax because of the high tax rate imposed on their business. Since most SSB are highly concern about prices of goods and services, the study recommends that GRA should do a thorough survey on the incomes of the

various businesses to charge a fee or tax that will merit the income and economic position of the business.

- The geographical location of most SSB was also another problem that prevented the tax compliance of SSB. To enhance compliance among SSBs located in a scarce area in the municipal, management of GRA should ensure that they deploy more task force to these areas to help locate and mobilize funds from these SSBs on behalf of the Government.
- Overall the result obtained from the study was useful in providing a better knowledge of the tax compliance among selected small-scale businesses in the La Nkwantanang-Madina Municipal Assembly. The study, however, recommends that future studies should include more SSB owners in the research area to help make a better generalization of the findings.



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## APPENDIX

### INTERVIEW GUIDE

#### (GRA Officials)

Dear participant,

I am a student undertaking research on rent tax compliance among small scale businesses in La Nkwantanang-Madina Municipal Assembly. The research is purely academic in nature and any information obtained will be kept confidential.

Your cooperation and support will be highly appreciated.

#### Section A: Demography

1. What is your level of education?
2. For how long have been employed by the institution?
3. What is your position in the institution?
4. How long have you held this position?

#### Section B: Business activities in small scale businesses

5. Do you know the number of small-scale businesses operating in the municipality?
6. If yes, how many?
7. Between sole proprietorship and partnership, which ownership type of business dominates in the municipality?
8. What type of activities do the small-scale businesses engage in the municipality?

#### Section C: The level of tax compliance of small-scale businesses (SSB)

9. How many registered small-scale businesses are in the municipality?
10. Do the small-scale businesses start operating before registering?

11. How often do they pay tax?
12. How do you measure tax compliance?

Section C: Challenges of tax compliance among small scale businesses (SSBs)

13. Has there been any issue of tax default among the small-scale businesses?
14. If yes, what was the reason?
15. What other challenges do you face in terms of ensuring compliance among small-scale businesses?

### **INTERVIEW GUIDE**

#### **(Small Business Operators)**

Dear participant,

I am a student pursuing a Master's Degree in Accounting at the University of Cape Coast and carrying out research on tax compliance among small scale businesses in La Nkwantanang-Madina Municipal Assembly. The research is purely academic in nature and any information obtained will be kept confidential.

Your cooperation and support will be highly appreciated.

Section A: Demography

1. What is your marital status?
2. Do you have children/dependents?
3. If yes, how many?
4. What is your level of education?

Section B: Business activities in small scale businesses

5. What kind of business are you in?
6. What is the ownership type (Sole proprietor/Partnership) of your business?
7. For how long has this business been in existence?
8. Do you have workers?
9. If yes, how many (workers)?
10. How much do you earn in a month?

Section C: The level of tax compliance of small-scale businesses (SSB)

11. Is your business registered?
12. If yes, did you start operating your business before registering?
13. How often do you pay your tax?
14. Do you keep financial records of your business activities?
15. Do you have other sources of income?
16. If yes, do you declare your other income?

Section D: Challenges of tax compliance among small scale businesses (SSBs)

17. Has there been any year you defaulted in paying your tax?
18. If yes, what was the reason?
19. What other challenges do you face with regards to paying taxes