EXAMINING INCOME TAX EVASION AND ITS EFFECTS ON THE ECONOMY: A CASE STUDY OF GHANA REVENUE AUTHORITY – (DOMESTIC TAX DIVISION AND TRADERS IN SUNYANI MUNICIPALITY)

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Abstract- The modern view of taxation stems from the common premise that no one can be an island for him or herself. In 1996, Moses, Williams and Salter defined tax as a compulsory levy collected by the government to fund public expenditure. The researcher's purpose to this study is to delve into income tax and why income earners like traders evade income tax and to examine the effect income tax evasion has on the economy as well as the problems that tax administration faces in an attempt to mobilize tax revenue from traders in Sunyani municipality and offer solutions with suitable recommendations. For the purpose of convenience, Sunyani municipal was chosen as the study area. Respondents for this study shall be traders within Sunyani market and GRA (Domestic Tax Division) The study was to find out the problem connected with income tax evasion on the economy. The research revealed many problems on individuals' attitude towards income tax. It was found out that their educational background were low. This was especially in the case of traders. Most of them were basic and secondary school leavers who had no in-depth education in taxes. Also, it was observed that the traders did not keep proper records, which makes it difficult to ascertain their correct and actual assessable incomes. In view of this, recommendations were made which I strongly believe that when these are comprehended to, it will ensure efficiency and effectiveness in the administration of income tax in Ghana.

Key Words- Income Tax, Tax Evasion, Tax administration, Assessable Income.

I. INTRODUCTION

The provision of the infrastructure of any society alls for a colossal amount of money which, of course the individual will find difficult to provide. There is therefore the need for a common source of fund on which to draw for the provision of the needed infrastructure. One of the means of this common source of fund is taxation. In 1996, Moses, Williams and Salter defined tax as a compulsory levy collected by the government to fund public expenditure. All over the world, taxes are being raised to provide services that private enterprise or individual citizens cannot provide or services that are better provided by the state. In view of the above, a tax is a compulsory levy on the wealth of a person or body of persons for the provision of the infrastructure of the state. Every government has its own development programme to pursue and one way of financing such progamme is revenue derived from taxation. Two broad classes of taxes can be identified. These are direct and indirect taxes. Income tax was first introduced in the then Gold Coast on November 1st, 1943 by the income tax ordinance 1934 (ordinance No. 27 of 1943). The overall objective of taxation is to promote general welfare of the people. Taxes contribute to providing the income needed for essential function of government. At the same time taxes serve as a socio-economic tool which can be used to reduce excessive inequalities of wealth. Additionally, taxes can be manipulated to check inflation and promote economic stability. Systems are put in place by governments worldwide to make every individual pay tax. In Ghana, the Ghana revenue authority (GRA) is responsible for assessment of direct taxes, collection of direct taxes and payment of amounts collected into the consolidated fund. From this, the fund disbursement of the money needed by the various sectors of the economy for developmental purpose is made. As it is, there is a constant flow of revenue into the consolidated fund but government and its agencies always complain of inadequacy of revenue. This paradox can simply be explained that, the revenue targeted has not been able to meet the expenditure targeted. This deficiency in revenue generation from taxation can be ascribed to many factors which include evasion, avoidance and default. These thwart the government's efforts of meeting its social responsibilities.

The Objective of the Study

The main objectives of the study include;

a. To examine the awareness of tax obligations of traders to Ghana Revenue Authority
b. To examine the effect income tax evasion has on the economy.
c. To examine the problems that tax administration faces in an attempt to mobilize tax revenue from traders in Sunyani municipality
d. To examine the procedures of tax collection
e. To examine how traders are assessed for tax payment

II. INCOME TAX RELIEFS

A relief is an approved deductible allowance intended to reduce one's taxable income and thereby lessen the

tax burden. The following are some of the relief granted in Ghana:

- Marriage
- Children Education
- Disability
- Life assurance and social security contribution.
- Aged Dependent parents or relatives. Factors that bring about tax evasion and tax avoidance

1. A deliberate act to cheat the state.
2. The complication in the procedures that a tax payer must follow in order to pay tax. (Bureaucracy)
3. The ineffective techniques put in place causes tax avoidance. (Logistics).
4. Improper record keeping also attracts evasion since proper accounts are not kept by most traders,
5. Also people understate their income in order to pay less to GRA.
6. The level of confidence built in the tax administrators calls for this problem. (Tax collectors not trust worthy).
7. Lack of faith in government's ability to utilize tax collection for social welfare purposes.
8. The government engages in immoral, unethical and distractive activities.

III. RESULTS PRESENTATION

The following are the data or responses obtained as been some of the challenges facing the administration of income tax in Ghana.

[1]. Lack of education on taxation
[2]. Unwillingness by Ghanaians to pay tax
[3]. The corrupt nature of tax officials
[4]. Provision of wrong information by taxpayers to the service
[5]. Lack of motivation to the GRA personnel
[6]. Large area of operation
[7]. Outmoded system of operation
[8]. Inadequacy of GRA staff
[9]. Lack of logistics

IV. ANALYSIS AND INTERPRETATION OF DATA

A. Lack of education on income tax

TABLE 1.1

RESPONDENTS	POSITIVE RESPONSE		NEGATIVE RESPONSE	
	FREQ.	%	FREQ.	%
TAX OFFICIALS	90	60	60	40
TAX PAYERS	120	80	30	20

The table 1.1 and chart 1.1 reveals clearly that out of the 150 respondents from the taxpayers and tax officials, 80 and 60 percent answered positively whiles the rest responded negatively.

B. Unwillingness by Ghanaians to pay tax.

TABLE 1.2

RESPONDENTS	POSITIVE RESPONSE		NEGATIVE RESPONSE	
	FREQ.	%	FREQ.	%
TAX OFFICIALS	120	80	30	20
TAX PAYERS	30	20	120	80

With regards to whether or not Ghanaians are willing to pay tax, the study disclosed that on the part of the taxpayers 20% consented to the unwillingness to pay whiles 80% responded otherwise. 80% of the GRA personnel proved positively to the problem understudy whiles 20% stated otherwise. Through interview conducted, the GRA personnel disclosed to the researcher that only few among many of the taxpayers come to their office voluntarily to file their returns for assessment and also the provisional assessment made to them are not comprehended to by the taxpayers. Furthermore, the taxpayers run from their stores when they go on field operation. This is a clear indication that Ghanaians in general are not willing to pay tax.

C. The Corrupt Nature of Tax Officials

On the issue of tax officials being corrupt, out of the 150 respondents of the GRA personnel, only 48 responded positively and
102 answered negatively. This means that about 32% accepted the fact that some of the officials are victim to it.
The response from the taxpayers revealed that most of the officials are highly corrupt as 86% of the respondents answered positively to the problem under study.

TABLE 1.3

RESPONDENTS	POSITIVE RESPONSE		NEGATIVE RESPONSE	
	FREQ.	%	FREQ.	%
TAX OFFICIALS	48	32	102	68
TAX PAYERS	129	86	21	14

D. Provision of Wrong Information by Taxpayers to the Service

TABLE 1.4

RESPONDENTS	POSITIVE RESPONSE		NEGATIVE RESPONSE	
	FREQ.	%	FREQ.	%
TAX OFFICIALS	81	54	69	46
TAX PAYERS	60	40	90	60

From the study, 54% of sampled GRA personnel disclosed that the taxpayers have been providing wrong information about their businesses to the service with regards to their address, and location. 46% stands for those who provide the right information about their business. From the 150 taxpayers sampled 90 responded that they provide the right information to the service representing 60%. Making comparison between the officials and the taxpayers view, there is a high percentage of taxpayers who provide wrong information to the service.

SUMMARY

- Income taxes are very high in that it takes almost half of their income
- There is a poor customer relation on the part of the GRA officials.
- Tax collectors connive with income tax payer to cheat. Thus figures are understated for tax payers to pay low and the rest of the money which is supposed to be credited to the consolidated fund rather goes into individual income tax collector's pocket.
- Most people did not know the importance of taxation and therefore feel reluctant to come forward boldly to declare their incomes for tax purposes.

RECOMMENDATION

1. Task force
2. Tax incentive scheme for agents
3. Public education
4. Computerisation
5. Manpower development
6. Logistics
7. Motivation
8. Inadequate staff training

CONCLUSION

The inception of the Ghana Revenue Authority has brought significant improvement in the operations of revenue collections, and can do better if the recommendations outlined above are followed and implemented.

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