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**WIDENING THE TAX BASE IN GHANA'S INFORMAL SECTOR: ROLE OF GHANA
REVENUE AUTHORITY**

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INTRODUCTION

Background to the Study

Over the years, Ghana's budgets have suffered perennial deficits partially on account of low domestic tax revenue mobilisation which statistically hover around 18% of Gross Domestic Product (Danquah & Osei-Assibey, 2016). Whilst this downside has several facets, one of the foremost remedies is protecting the domestic tax base. Widening the domestic tax base of the economy has been a subject matter that has received hefty attention of successive Governments over years in most parts of the world (Federation of Indian Chambers of Commerce and Industry [FICCI] 2015). As a matter of reality, various tax authorities in Ghana have created numerous efforts directed at mobilising as much as possible tax revenue to assist government expenditures on developmental, social, recurring and interventional projects over the years. These efforts of tax mobilisation are dear to governments for the achievements of fiscal consolidation and higher tax revenue to Gross Domestic Product ratio. Ghana Revenue Authority's efforts are carefully crafted to tackle the informal sector where there are perceived revenue leakages but still struggling as a result of the inadequacies of the current tax structure to efficiently mobilise revenue from certain industries and sectors of the economy.

The concept of the informal sector with its tax liability is considered as a social model mainly used for small, medium and micro enterprises (SMMEs) that are quite difficult to be captured by the operations of tax authorities (ILO, 1972). It is evidently a fact therefore that though the government needs to mobilise tax revenue quite on the aggressive side, tax increases have a decline effect on upper-income households' reported taxable income and indeed more than, decrease moderate-income households' reported income. This is not because upper-income households choose to work less, but because they take advantage of their greater capacity to shift income from one category to another or one time period to another to reduce their taxes (Fieldhouse, 2013). Consequently, Fieldhouse (2013) reiterates that, raising tax rates while broadening the tax base through tax elimination and expenditures in the form of deductions, exclusions, exemptions, and preferential treatment of capital income against labour efforts and improving tax enforcement to minimize this avoidance thus could deter inefficient allocations of capital that are made simply for tax purposes.

Broadening the income tax net of the informal sector simply translates into increasing the amounts as taxable incomes and has two ways to achieve this An alternative remedy is for taxpayers' balances

on the tax return forms to be improved. The second is to increase the number of taxpayers in the informal economy by accelerating job creation in the private sector (Mpapale, 2014).

Tax reforms which seek to broaden the tax base in the informal sector must be friendly to the operators of the sector so as to minimise tax-avoidance opportunities and further strengthen tax mobilisation strategies in the sector. Such reforms have value beyond raising revenue; they would help the tax code adhere more closely to the principle of horizontal equity, a core public finance and taxation theory concept stating that two people with the same income should not pay significantly different effective tax rates based on the ability to exploit tax code preferences or loopholes (Tax Policy Unit, Ministry Of Finance And Economic Planning, 2011).

Although the informal sector is the challenge around which the intended widening of the tax net could be achieved, it plays an important and controversial role. Though jobs provided could be on a low paid scale with unreliable tenure, the informal sector solves employment challenges for the teeming populace. It bolsters entrepreneurial activity, but at the detriment of state regulations compliance, particularly regarding tax and labour regulations (Tybout, 2000). It is a bear truth that there are there are off-sets roles and function played by the formal and informal sectors. There are availability of commercial goods and services in addition to readily skills to be learnt in the market. Informal actors provide services to formal actors on a sub-contracting basis (Amin, 2002). In addition, individuals can participate both in the formal and the informal economies (<https://issuu.com/nany-alb/docs/sida>).

Some also highlight the informal economy's role in for instance stimulating the growth of the market economy, promoting a flexible labour market and absorbing retrenched labour from the formal sector. Others on the other hand claim that informal labour has become a convenient means of pursuing the global agenda of privatisation and liberalisation (Amin, 2002).

The informal sector covers a wide range of labour market activities which combine two groups of different nature. On one hand, the informal sector is formed by the coping behaviour of individuals and families in economic environment where earning opportunities are scarce (Amin, 2002). On the other hand, the informal sector is a product of rational behavior of entrepreneurs that desire to escape state regulations (Gërkhani, 2004; Swedish International Development Cooperation Agency [Sida] (2004).

Statement of the Problem

Concerns are heightened to the perception that tax clienteles within the formal sector are overly being taxed, neglecting the large untapped informal sector. The collection of taxes within the informal sector has always been a herculean task for governments despite the need to broaden the tax nets. This is due to the sheer size and the disorganised nature of the sector. The 2010 Population and Housing census estimated that over 86% of the Ghanaian labour force is employed within the private informal sector (Danquah & Osei-Assibey, 2016).

Besides, in recent past, the issue of monies unaccounted for held in the Ghanaian informal sector has been in the limelight and has witnessed a fierce contest. The issue has resulted in the hold up of series of workshops and tax reform public consultations by the appropriate authorities. The estimates of the monies held in the informal sector are a matter of considerable speculation and estimates vary wildly. Beyond the issue of unaccounted monies lying in the informal sector, however, is the issue of unaccounted monies lying in the accounts of perceived corrupt tax authorities and what is perceived to be the parallel economy. There is, of course, this issue of widening the tax base by taxing exempt income like the Real Estate income, agricultural income, manufacturing income, artisanal income etc. Indeed, there is a strong case for taxing the informal sector income particularly beyond a large threshold limit. This, however, is an issue which involves political hues and affects centre-state relationship (Federation of Indian Chambers of Commerce and Industry [FICCI], 2015)

One among these hurdles over the past several decades in the Ghanaian informal sector is a growing challenge with respect to black money or resources neither reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession for purposes of being taxed.

Added to the aforementioned is the zeal by public taxpayers to evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc), evade payment of other statutory contributions, evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1957, Minimum Wages Act 1948, Payment of Bonus Act 1936, and Contract Labour (Regulation and Abolition) Labour Act, 2003 (Act 651); and / or to evade compliance with other laws and administrative procedures.

In line with the above argument is non-existent good tax systems to enable stabilize a chunk of the revenue for the Government to respond to challenges and needs of the populace and create social harmony even when there is a change in economic conditions and demographic structure.

In concluding, the characterisation of the informal sector by unstable small, medium and micro entities which are largely intangible in nature and operations is a significant contributor of the inability of state tax authorities to effectively administer tax mobilisation in the economy. The basis of computing tax liability in any accountable and transparent tax regime is the availability of accounting records without which nobody will ever tell how much is due and when it is due which in fact is the bane of the informal sector in Ghana.

It is for this state of affairs the researcher takes upon himself to research into possibilities of widening the tax base in the informal economy of Ghana with special reference to the Northern Region.

Objectives of the Study

The core reason for carrying out this project is venture an assessment of practical possibility of widening the tax base in Ghana with relevant emphasis on the informal sector in the Northern Region of Ghana. Specifically, in line with the problem statement as discussed above, the researcher wishes to address the following concerns per modernifications from the stands of Centre for Peace and Development Initiatives [CPDI] (2011).

1. To identify whether taxes are equitably distributed in different sectors of the Ghanaian economy
2. To find out if there are availability of database on the operations of the Ghanaian informal sector for effective tax administration
3. To know how resourceful and professional tax authorities are to understand the business processes and their true potential of the informal economy and finally,
4. To examine the view held by the taxpaying public that state tax machinery is corrupt and if it can be taken care of.

Research Questions

In facilitating well grounded findings to fulfil the research objectives, the following research questions will be answered.

1. Are there equitable distribution of taxes in different sectors of the Ghanaian economy?
2. What database exists on the operations of the Ghanaian informal sector to enable effective tax mobilisation in the economy?
3. To know how resourceful and professional tax authorities are to understand the business processes and their true potential of the informal economy and finally,
4. To examine the view held by the tax paying public that state tax machinery is corrupt and if it can be taken care of.

Significance of the Study

The study brings in its wake a number of policy directives and as a reference point for aspiring researchers in the field. Among this relevance include the following thematic areas;

The study will provide policy directives for the improvement of tax revenue mobilisation and compliance and also provide information on tax revenue potential of the informal sector to boost the total tax revenue of the economy.

Besides, this thesis is hoped to add to the extant literature on the subject of informal sector taxation. This study could serve as a reference material for aspiring students and researchers.

It is the hope of the researcher that having completed this research work, policy makers will be well informed on possible ways to help rake in more tax revenue upon widening the tax net and also to achieve the much awaiting tax potential of the informal sector thereby closing the tax gap.

Scope and Limitation of the Study

This study is confined to the possibility of widening the tax base of the informal or grey economy in the northern region of Ghana and since majority of informal sector operators are found in the agriculture sector as against the retail trade densely scattered in the urban settlements, the issue of generalisation will be quite defeating (ISSER, 2003). Going by ISSER's assertion, this study will particularly gather data from urban informal sector operators who are likely not to be into agribusinesses. There is therefore, a likelihood of some amount of error in extrapolating the findings based on the sample to the population. Another limitation on this study is the fact that people are generally very suspicious and wary of anyone talking on tax issues; hence participants in the informal sector, most of whose activities are invisible may be very reluctant to voluntarily disclose information

on their business activities and their tax status. It may mean this study will be skewed towards the participants who will voluntarily provide information and this could lead to a particular category of informal sector participants dominating the findings and Last, scarce financial resources on the part of the researcher will certainly limit the number of questionnaires intended to be on respondents. This might affect the validity, to some extent, of results of the study (Ofori, 2009).

Brief Research Methodology of the Study

This part of the study will consider tools and techniques to be used in collecting and analyzing data for the research. Areas particularly important will include: Research approach or design, study area and target population, the collection of primary and secondary data, and the data analysis techniques to be used.

The target population of this study will be the informal economy in Ghana. The sample size to be used for the informal sector will be taken from Tamale and selected rural settlements around due to envisaged limited time for the research and resources constraints. Some of participants to be chosen from the informal organizations in Ghana will include Ghana Private Road Transport Union (GPRTU), Ghana National Tailors and Dressmakers, Members of Musician Union of Ghana, National Drinking Bar Operators Association, Chop Bar Keepers and Cooked Food Sellers Association, Hair Dressers Association of Ghana, Drug Peddlers Association and Cornmill Owners Association. Sample size for this study will be 180 informal sector entrepreneurs/operators. A sample of 20 persons will be selected from each of the above category of trades and vocation. It will entirely be impossible to get a representative sample of a given large population such as informal sector enterprises in Ghana (Fisher 2004). Statistical Package for Social Scientists will be used to analyse data from the field in the form of descriptive statistics, correlation and regression analysis. Since the respondents comprised tax authorities and taxpayers who will be scattered all over the tax district and could not be covered easily in the study, sampling technique to be used will mainly be the probability sampling which is one in which each sample has no zero chance of being chosen to determine the sample size (stratified and random or systematic). This will be preferred because in case the appropriate technique is chosen, it will assure the researcher that the sample is representative and we can estimate the errors for the sampling. The statistical sampling method called stratified sampling is used when representatives from each subgroup within the population need to be represented in the sample. The first step in stratified sampling is to divide the population into subgroups (strata) based

on mutually exclusive criteria. Statistical Package for Social Sciences v.16 (SPSS) will be used for data analysis.

Organisation of Thesis

This Thesis will be organised into five chapters. Chapter one will look at introduction which comprises background to the study, Statement of the problem, research objectives and questions. Significance, scope and limitation, brief methodology and organisation of thesis will end chapter one. Chapter two examines review of related literature on informal sector. Its measurement and size, characteristics and taxation of the informal sector in Ghana and other related issues to the subject matter will be considered. Research methodology takes the centre of Chapter three and describes the research design, study population, sample and sampling procedures of the study and limitations to data collection. Results and discussion of the data to be collected from the field of study will form the fourth chapter and this is where data to be gathered from the field are interpreted and put into tables and charts. Chapter five gives a brief summary which presents a snapshot of the study, recounting the various highlights of the study. The inference based on the empirical study is captured in the conclusion while the recommendations are proposed based on the conclusions of the research.

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