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Tax Compliance among Small and Medium Scale Enterprises in Kumasi Metropolis, Ghana

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Abstract
The aim of the study was to identify the prime factors that affect SMEs' tax compliance. The sampled size for the study was 70 SMEs who were selected using convenient sampling for questionnaire administration. Data collected from the field was analyzed using descriptive statistics with the help of SPSS. The results revealed that taxes paid by respondents included income tax; a Kumasi Municipal Assembly (KMA) levy; VAT; and property tax. Generally, 91.4 per cent of the respondents indicated that they are aware that tax compliance is obligatory and 92.9 per cent are also aware that non-compliance is punishable by law. Ninety percent of respondents did not have any form of tax education. 82.9% of respondents ranked taxes paid high while 85.7 per cent of respondents said it was their biggest constraint. Respondents were of the opinion that a reduction in the taxable amount; use of tax collected for developmental projects; enforcement of punishment for non-compliance; as well as educating SMEs about their tax obligations would promote voluntary tax compliance. The study recommended that the authorities who impose taxation on SMEs should review the taxable amount and widen the tax net to include more SMEs to increase tax revenue. In addition, SMEs should be given proper tax education on the essence of paying tax and their taxes should be properly accounted for. The penalties for tax non-compliance should be enforced according to the law.
Keywords: Tax compliance, Small and Medium Scale Enterprises, Kumasi Metropolis, Ghana

1. Introduction

Globally, Small and Medium Enterprises (SMEs) are recognized as the main engine for growth and development. In Ghana, readily available data on SMEs is scarce but statistics from the Registrar General's Department suggests that 92 per cent of companies registered are micro, small and medium enterprises. SMEs in Ghana provide about 85 per cent of manufacturing employment, contribute about 70 per cent to Ghana's GDP, and therefore have a catalytic impact on economic growth, income and employment (Awunyo-Vitor *et al*. 2012; Steel & Webster 1991). Panitchpakdi (2006) sees SMEs as a source of employment, competition, economic dynamism, and innovation, which stimulates the entrepreneurial spirit and the diffusion of skills. In looking at comparators in some emerging economies, studies indicate that SMEs in India, amounting to almost 30 million operators, have been the fountainhead of several innovations in manufacturing and the service sectors, and serve as the major link in the supply chain between corporate entities and public sector units or enterprises. In India, SMEs contribute about 20 per cent to GDP; 45 per cent of industrial output; 40 per cent of exports; employ 60 million people; create 1.3 million jobs every year; and produce more than 8,000 quality products for the Indian and international markets. In South Africa, the small business sector represents a considerable portion of the economy. The total SMEs sector accounts for 84 per cent of all private employment and the SMEs represent an estimated 80 per cent of the total formal sector. They contribute more to the South African GDP than the cumulative amount of the corporate giants (Soontiëns 2002). This, no doubt, calls for effective information provision initiatives for the SMEs' productivity. Most large companies have their roots in small and medium enterprises suggesting that the future large corporations are the SMEs of today that must be nurtured to ensure their growth. Thus, SMEs are generally perceived to be the seedbed for indigenous entrepreneurship and generates all the many small investments, which would otherwise not have taken place (Aryeetey & Ahene 2004). Therefore, developing economies like Ghana needs to further the development of its private sector by creating an environment favorable for the growth of SMEs, strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement of small and medium enterprises (Chu *et al.* 2008). This will ensure that they can adequately play the role expected of them in economic transformation. SMEs are therefore important players to national development, whether one considers the situation of a developed economy or a developing economy.

Aside from being an important source of employment and income in many developing countries, SMEs with their flexible nature have a better adaptability to changing market conditions, making them better suited to withstand cyclical downturns. The dispersion of SMEs across the nation promotes better distribution of income, and generates additional value in raw materials and products as they bring about efficiencies in domestic markets. Furthermore, they have the advantage of reaching the farthest corners of the country unlike the larger establishments. For this reason, an ideal tax policy needs to be adopted in order to ensure voluntary compliance, economic growth and proper utilization of resources rather than suffocating the entrepreneur initiative they should cater for (Atawodi & Ojeka 2012).

It is a well-known fact that the revenue generated from the taxation of individuals and businesses is an important stream of income for government. In an economy like Ghana's that is struggling to remain afloat, it is even more important. Tax revenue is the source of funds used for development projects such as the provision of infrastructure like good roads, stable power supply, and a stable water supply; all of which combine to create an enabling environment for businesses - and in turn the economy at large - to grow (Atawodi & Ojeka 2012). Ghana's IRS, recognizing the high level of income tax non-compliance among the self-employed, has devised various unconventional means of taxation over the years to rope into the tax net as many self-employed persons as possible. These include standard assessment, identifiable groupings and, most recently, the tax stamp. Otieku (1988) demonstrated that, in Ghana, non-compliance by the self-employed is a major factor accounting for tax authorities receiving less than what the law allows. An effective income tax enforcement strategy is therefore warranted; however, the available of studies in the field of taxation have mainly centered on the problems of tax administration (Otieku 1988).

Holban (2007) reported that taxation can contribute to development and welfare through three sources: it must be able to generate sufficient funds for financing public services and social transfers at a high level of quality; it should offer incentives for more employment and for an efficient and lasting use of natural resources; and finally, it should be able to reallocate income.

However, the problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed tax patterns of tax non-compliance, and ultimately finding ways to reduce it, are of obvious importance to nations around the world (James *et al.* 1998) According to Apronius & Deogratias (2010), the informal sector in Tanzania contributes about 40% to GDP. They assert that revenue lost from not taxing the informal sector amounts to 35-55 per cent of the total tax revenue. The economy of Ghana is largely made up of individual and small-scale enterprises. That sector provides diverse sources of income that, if properly taxed, could increase government internally generated revenue. The Institute of Statistical, Social and Economic Research stated that "the main source of employment in Ghana is the informal sector. The sector provides employment opportunities for at least 80% of the labour force".

The estimated size of the informal sector presupposes that the sector makes a significant contribution to the Gross Domestic Product (GDP) and so the sector could equally make a major contribution to the tax revenue. A survey conducted in Accra by Jobs and Skills Programs for Africa (JASPA) in 1990/91 established that the informal sector accounts for about 22 per cent of Ghana's real GDP. In addition, the contribution made by SMEs to domestic tax revenue is less than 4%, therefore their contribution to tax revenue is lower than their contribution to output and employment. That fact notwithstanding, SMEs have not become competitive enough to increase their share of output even though they form three-fifths of the number of manufacturing firms, and larger manufacturing companies rely on them for their supplies (Dzadzra 2011).

With such a massive contribution to the GDP of the economy of Ghana, when SMEs are properly taxed they would equally make a massive contribution to revenue mobilization through the payment of tax. Studies have shown that more than half of the potential tax revenue in most developing countries like Ghana tend to remain uncollected (International Tax Dialogue, 2007).

Nevertheless, in the case of SMEs, taxing must be done in such a way that takes their income and need for survival into consideration. It is expedient that SMEs make enough profit to allow them to expand their businesses. The tax policy must be one that will not encourage SMEs to remain in the informal sector or to evade or avoid tax payments. More so, many small firms in Africa, including Ghana, choose to remain in the informal sector because the perceived benefits outweigh the perceived costs. Firms rarely see their tax contributions at work and the compliance costs are high, thus discouraging compliance. The government is also discouraged from collecting taxes from small firms, because the cost of monitoring and collecting tax from small businesses by revenue authorities, whose resources are usually scarce, sometime outweighs the revenue generated by taxation of small businesses

There have been several studies conducted on tax compliance but few on evaluating the factors that affect tax compliance, especially with respect to SMEs in the Kumasi Metropolis. This study therefore seeks to evaluate the factors that encourage tax compliance among operators of SMEs using the Kumasi Metropolis of Ghana as the study area.

2. Literature Review

2.1 Definition of SMEs

There are wide range of definitions for SMEs because several criteria are used in defining SMEs. Mostly, definitions are made based on variables such as the number of employees, annual turnover, ownership of enterprise, and value of fixed assets. Kayanula & Quartey (2000) found that there have been issues on what constitutes a small or medium enterprise in literature. Different authors have usually given different definitions to this category of business. Storey (1994) discussed the danger of using size to define the status of a firm by stating that, in some sectors, all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small. The Bolton Committee (1971) first formulated an "economic" and "statistical" definition of a small firm. Under the "economic" definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and it is independent, in the sense of not forming part of a large enterprise. Under the "statistical" definition, the Committee proposed the following criteria to determine the size of the small firm sector and its contribution to GDP, employment, exports, etc.: the extent to which the small firm sector's economic contribution has changed over time; and applying the statistical definition in a cross-country comparison of the small firms' economic contribution. The Bolton Committee applied different definitions of the small firm to different sectors. Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have five or fewer vehicles. There have been criticisms of the Bolton definitions. These centre mainly on the apparent inconsistencies between defining characteristics based on the number of employees and those based on managerial approaches.

The European Commission (EC) defined SMEs largely in term of the number of employees they have: firms with 0 to 9 employees - micro enterprises; 10 to 99 employees - small enterprises; and 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm's upper limit is more appropriate, given the increase in productivity over the last two decades (Storey 1994).

Finally, the EC definition did not assume that the SME group is homogenous; that is, the definition makes a distinction between micro, small, and medium-sized enterprises. However, the EC definition is too all-embracing to be applied to a number of countries. Researchers would have to use definitions for small firms that are more appropriate to their particular "target" group (an operational definition). It must be emphasized that debates on definitions turn out to be sterile, unless size is a factor that influences performance. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a target group (Storey 1994).

The National Board for Small-Scale Industries, the institution mandated to promote the growth of SMEs in Ghana, however conceptualizes SMEs as shown in table 1 below

Table 1. Levels of SMEs in Ghana.

SMEs Business Enterprise	Workforce	Investment Capital
Micro	1 – 5	Up to US$ 10,000
Small	6 – 29	Up to US$ 100,000
Medium	30 – 99	Up to US$ 1,000,000
Large	100 and above	Over US$ 1,000,000

(Source: National Board for Small-Scale Industries, 2010)

As contained in its industrial statistics, the Ghana Statistical Service (GSS) considers firms with less than 10 employees as small scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as small and medium enterprises (Kayanula & Quartey 2000). UNIDO defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries.

The definition for industrialized countries is given as follows: large - firms with 500 or more workers; medium - firms with 100-499 workers; and small - firms with 99 or less workers. The classification given for developing countries is as follows: large - firms with 100 or more workers; medium - firms with 20-99 workers; small - firms with 5-19 workers; and micro - firms with less than 5 workers.

An alternate criterion used in defining small and medium enterprises is the value of fixed assets in the organization. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the 'fixed assets' and 'number of employees' criteria. It defines a small scale enterprise as one with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US$ 9506, using 1994 exchange rate) (Kayanula & Quartey 2000). The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Cedis upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in itself poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated (Kayanula & Quartey 2000).

In Ghana, available data from the Registrar General indicates that 90 per cent of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. Data on this group is, however, not readily available. In 1998 the Ministry of Trade and Industry (MOTI) estimated that the Ghanaian private sector consists of approximately 80,000 registered limited companies and 220,000 registered partnerships, from which they came out with the following definitions: micro enterprises - those employing up to 5 employees with fixed assets not exceeding the value of \$10,000; small enterprises - employ between 6 and 29 employees with fixed assets of \$100,000; and medium enterprises - employ between 30 and 99 employees with fixed assets of up to \$1million (Mensah 2004). Steel & Webster (1991) and Osei *et al*. (1993) used an employment cut-off point of 30 employees in the definition of small-scale enterprises in Ghana. Nevertheless, Osei *et al.* (1993) classified small-scale enterprises into three categories, namely: micro - employing less than 6 people; very small - employing 6-9 people; and small - between 10 and 29 employees. A more recent definition is the one given by the Regional Project on Enterprise Development for Ghana's manufacturing survey paper that classified firms into: micro enterprise, less than 5 employees; small enterprise, 5 - 29 employees; medium enterprise, 30 – 99 employees; large enterprise, 100 and more employees (Teal 2002).

According to Weston & Copeland (1998), the definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms. Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets. Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively. Jordan *et al.* (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover. Olorunshola (2003) considers independent private limited companies with fewer than 200 employees to be small, and López & Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share.

2.2 Characteristics and Economic Importance of Small and Medium Enterprises

The concept of SMEs, according to Olorunshola (2003), is relative and dynamic. SMEs are characterized by innovation, evolution and uncertainty (Wynarczyk *et al.* 1993). Therefore, a firm understanding of SMEs would require a good knowledge of its features.

According to Olorunshola (2003) and Cobbold *et al.* (2008), SMEs in Ghana are usually small, owner or family managed businesses offering basic goods and services, which tend to lack organizational and management structures with the urban ones tending to be more structured than their rural counterparts. This is one of the most generic features of SMEs in Ghana. They further state that SMEs are mostly sole proprietorships or partnerships although on the surface, they may be registered as Limited Liability Companies however they are usually not separate legal entities. Olorunshola (2003) explains that this ownership style has led small and medium enterprises to have a simple management structure. Factors also contributing to the reasons small and medium enterprises have a simple management structure are few number of employees and the owners' low level of education. Since there is no legal personality between the small and medium enterprise and its owners, it means the lifespan of the enterprise is dependent on the lifespan of its owners i.e. there is no perpetual continuity.

In terms of financial reporting, research focusing on internal preparation seems to suggest that financial awareness amongst owner-managers of the smallest entities is quite low and that there is inadequate record-keeping (UNCTAD, 2002). Inadequate financial record keeping, and the consequent failure to make good use of available financial information, is characteristic of SMEs and many small businesses in developing economies (Holtmann *et al.* 2000). Furthermore, Hanefah *et al,* (2002) reported that the production processes of SMEs are usually labour intensive and they often serve as suppliers for the larger manufacturing firms with their operations being highly dependent on raw materials sourced locally. They require a smaller amount of start-up capital than the larger companies (Akinsulire 2010). The decisions of the managers have a higher tendency to be subjective given that they are managed and controlled by the same individual. The employee-employer relationship found in most SMEs is predominantly informal.

Another key feature of the SME sector in any country is that it is heterogeneous varying in size from small retail outlets to highly paid professionals, and substantial manufacturing enterprises. SMEs are likely to vary in organizational form from sole proprietorships (with or without employees), small corporations (public or private), professionals and partnerships. This feature usually results in different obligations for record keeping for the enterprise.

SMEs are thought to be engine room of innovation. This is because entrepreneurial activities such as innovation, risk bearing, employment creation, finding new opportunities and the commercialization of their inventions have contributed to the prosperity in all regions of the world. Therefore, any country wishing to remain innovative will support SME growth because they also enhance competition and entrepreneurship and hence have external benefits on economy-wide efficiency, and aggregate productivity growth. Furthermore, SME proponents frequently claim that SMEs are more productive than large firms are, but financial market and other institutional failures impede SMEs development. Thus, pending financial and institutional improvements, direct government financial support to SMEs can boost economic growth and development (Avolio, n. d; Beck *et al.* 2005; Chu *et al.* 2008). Honlglang & Jiaozben (n. d) agreed to the fact that SMEs foster economic growth through innovation by stating that, during the economic globalization period and under fierce competition conditions, the research and development activities of small and medium-sized enterprises play an irreplaceable role in promoting technology innovation and national economic development because of their adaptive ability to changes in the market, flexible operation mechanism, as well as innovation spirit. As a result, they can adapt to new situations more easily than large corporations can. Innovation is also critical for getting new ideas into the economy (Hendy 2003). Small and medium enterprises serve as the link between the large business enterprises and the consumers; and, as such, large enterprises can hardly survive without them. Therefore, the importance of small business enterprises cannot be over emphasized. Small business enterprises make a larger contribution pro rata to the economy and, with efficient control and management techniques, can make the benefit they bring much greater.

Small and medium scale enterprises, according to López & Aybar (2000), accelerate rural development while decreasing urban immigration and the problems of congestion in large cities, this is because they have less competition by serving dispersed local markets; are closer to their resources; and are cheaper to establish. In the Rural areas entrepreneurs are attracted to invest thus discouraging rural-urban migration and making way for an even development. SMEs also contribute to domestic capital formation, play a value-adding role, mobilize private savings and harness them for productive purposes. There is general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits (Advani 1997). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries as SMEs provide employment and income to a large portion of the urban labour force and are a significant source of total output (Aryeetey 2001). It is also estimated that SMEs generate about 50 per cent of national output and provide about 60 per cent of employment to Ghanaians

López & Aybar (2000) sees SMEs as a quasi-sponge for urban employment and a provider of inexpensive consumer goods with little or no import content, serving an important pressure-releasing and welfare-augmenting function. SMEs also contribute to long-term industrial growth by producing an increasing number of firms that grow up and out of the small-scale sector. The emergence of wholly modern small/medium-scale Ghanaian industries is likely to be a prerequisite for any enduring industrialization.

Other contributions made by SMEs to the economy, according to Hendy (2003), include being able to remain profitable even in turbulent conditions because they are accustomed to operating in highly fragmented and heterogeneous markets, They can also serve a special role in creating social capital (that is, they are often ‘entrenched’ in local communities). Another advantage is that, because they are fast and flexible, and close to their customers, they can be a competitive spur to large firms. With respect to output growth, they perform important sub-contract functions; and they can perform an important import substitution role, while others are exporters.

SMEs have been an important tool of economic development in Ghana. The future of any growing economy such as Ghana’s depends on the entrepreneurial energy of vibrant SMEs because many large businesses start out as SMEs. Many authors believe that SMEs are the starting point of development in the economy moving towards industrialization. SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula & Quartey 2000). SMEs are more labour intensive than larger firms are, and therefore have lower capital costs associated with job creation. They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued that small-scale production units can promote a more equitable distribution of income than large firms can. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula & Quartey 2000).

López & Aybar (2000), for example, sees the SMEs sector as very important in that it enhances the contribution of the private sector and provides the critical building blocks for industrialization and sustainable economic growth.

SMEs broaden the base of participation in society, decentralize economic power and gives people a stake in the society’s future. Given that a large proportion of Ghana’s population relies either directly or indirectly on small and medium enterprises for survival, their importance cannot be overemphasized.

A major contribution made by SMEs is in the area of employment (Yaobin 2007). SMEs are a key source of new jobs, innovation, economic dynamism and greater social inclusion in the world. They play an important role in secondary labour markets (that is, they offer a high amount of employment in casual, part-time, low training, low-skilled jobs); they are an invaluable source of 'entrepreneurship' and employment growth. Findings from a study carried out by Chu *et al.* (2008) suggest that people consider entrepreneurship as an avenue leading to job security and improving their livelihood. They also regard business ownership as a means of controlling their destiny and deriving self-satisfaction. Being more labour intensive, SME expansion is more likely to boost employment than large enterprises where expansion means a higher degree of automation and machinery. Hence, SME subsidization will lead to poverty alleviation (Beck *et al.* 2005). From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods.

Furthermore, SMEs tend to utilize mainly local raw materials that would otherwise be neglected and have less foreign exchange. They mobilize and utilize financial resources that are otherwise dormant like family savings. SMEs by their activities promote indigenous know-how.

2.3 Taxation of SMEs

Fiscal policy is one of the main components of macro-economic policy and its tasks have been considered in a double context: first, the core of fiscal policy; and second, the consistency with the monetary policy (Holban 2007). In general terms, the choice of tax policy to employ depends on the use of one or both of two groups of instruments: the first one being the use of special tax preferences; and the other incentives to support start-up and growth of small companies. The incentives include the lowering of corporate income tax rates, special tax exemptions and relief for small businesses. The fundamental purpose of taxation is to raise revenue effectively, through measures that suit each country's circumstances and administrative capacity. In fulfilling the revenue function, a well-designed tax system should be efficient in minimizing the distortionary impact on resource allocation, and be equitable in its impact on different groups in society (Bolnick 2004; Gbadago & Awunyo-Vitor 2015). It is important that the country's situation is properly analyzed before employing any tax policy in order to have a properly working tax system. This is because many of the difficulties with the tax authorities are the consequence of poorly conceived tax policies and a lack of certainty regarding future policy changes. The objective of a tax policy should be to achieve collection cost savings while minimizing the revenue loss, disruption to the economy, and the inequity and capriciousness of the tax burden.

For an economy such as Ghana that is still in the throes of a recession, the tax regime must be versatile enough to encourage savings, stimulate investment and reward social responsibility and research funding. To widen the tax net, policy makers must never forget the urgency to provide infrastructure; create jobs and reduce unemployment; expand the productive sectors of the economy; stimulate exports; and substantially raise public revenues (Awunyo-Vitor 2015**).** Hence, tax policies should aim to bring all taxable adults into the tax net with a graduated rate that should ensure that the well-off pay their own share while the low income earners are given savings-enhancing incentives.

An effective and efficient tax administration system is integral to any country's well-being. It is as a result of this that Baurer (2005) stated that the tax administration must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. The tax administration must balance its educational and assistance role with its enforcement role.

2.4 Tax Policy and Level of Voluntary Compliance among SMEs

Small taxpayers under the regular system of taxation are discriminated against since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises' profit margin. It also increases the Government's tax revenue, since the simplified provisions for small and medium enterprises reduce the size of the informal economy and the number of non-complying registered taxpayers (Vasak 2008). Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert a serious burden on their operations. An overly complex regulatory system and tax regime, or one opaque in its administration and enforcement, makes tax compliance unduly burdensome and often has a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009). This results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses.

3. Methodology

The total sample size for the study was 70 SMEs. Convenience sampling was used to sample the SMEs. Data was collected from respondents using a well-structured questionnaire containing both closed and opened ended questions. The questionnaire was pre- tested, refined to suit the research context and finally administered to the target sample through personal contact by the researcher. The questionnaire used the Likert scale to enable the ranking of the response for easy assessment and analysis.

The questionnaire was divided into sections that were used to collect data and information on the followings: a) the types of taxes SMEs in the Kumasi Metropolis pay; b) perception of SMEs on tax compliance; and c) challenges SMEs encounter in complying with their tax payment obligations. Data collected from the field was coded, cleaned, and analyzed using descriptive statistics. In addition, the Relative Importance Index (RII) was employed to assess challenges the respondents faced with regards to tax compliance in the Kumasi Metropolis. The analysis was done with the help of the statistical package for service solution (SPSS).

4. Results and discussion

4.1 Type of taxes paid by respondents in KMA

Table 1 below shows the types of taxes that are being paid by respondents. It shows that 88 of our respondents pay income tax representing 36.8% of the total number of respondents, 90 of the respondents pay KMA levy representing 37.7% of the total number of respondents, 56 of the respondents pay VAT representing 23.4% of the total number of respondents and only 5 of the respondents pay property tax representing 2.1% of the total number of respondents.

Table 1, Type of taxes paid by respondents (multiple response analysis)

Type of tax paid	Frequency	Percentage (%)
Income tax	88	36.8
KMA levy	90	37.7
Value Added Tax (VAT)	56	23.4
Property tax	5	2.1
Total	239	100

SOURCE: FIELD SURVEY 2015

Most respondents pay income tax (36.8%) and the KMA levy (37.7%) because they are the most common taxes respondents know of, and are charged by the Internal Revenue Service (IRS) and KMA respectively. While a few respondents pay property tax (2.1%), the number of respondents who pay VAT (23.4%) is due to the fact that some of the respondents do not have knowledge that they pay for it as it is mostly paid together with other taxes and it is relatively smaller in amount as compared to the income tax. The few who pay property tax (2.1%) is due to the fact that most of the respondents are not the owners of the places where they do business as most of them almost always rent the place therefore having the real owners of the place pay for the property tax. The income tax and VAT are collected by IRS while KMA levy and property tax are collected by KMA. The payment of income tax and VAT by the respondents conform to the type of taxes that are supposed to be paid by SMEs according to IRS. For example, according to IRS, SMEs are supposed to pay income tax, VAT and customs tax. Customs tax, as we have seen, has not been listed by respondents as part of what they pay because this tax is paid by users of sea and air ports including land borders which our respondents do not use in their businesses.

4.2 Perception of respondents on Tax Compliance in KMA

Table 2 shows that 64 of the respondents representing 91.4 per cent of the total number of respondents think tax compliance is compulsory with the remaining 6 respondents representing 8.6 per cent of the total number of respondents thinking tax compliance is not compulsory. The majority of the respondents (91.4%) thinking tax compliance is compulsory is due to the fact that many of the respondents said if they do not pay their shops would be locked down and they would be out of business.

Table 2. Respondents' perception of whether tax compliance is compulsory

Response	Frequency	Percentage
Yes	64	91.4
No	6	8.6
Total	70	100

SOURCE: FIELD SURVEY 2015

4.3 Respondents' perception of tax non-compliance being punishable

Table 3 above shows that 65 of the respondents representing 92.9 per cent of the total number of respondents know that tax non-compliance is punishable by law. Whilst the remaining 5 respondents representing 7.1 per cent of the total number of respondents do not know. Most of the respondents' (92.9%) knowledge that non-compliance is punishable by law may be due to personal experience for non-compliance or from witnessing the consequences for non-compliance by others.

Table 3. Respondents' perception on tax non-compliance being punishable

Response	Frequency	Percentage
Yes	65	92.9
No	5	7.1
Total	100	100.0

SOURCE: FIELD SURVEY 2015

4.4 Respondents level of tax education

From Table 4 below, 63 respondents representing 90 per cent of the total number of respondents indicated that they have not had any form of tax education while the remaining 7 respondents representing 10 per cent of the total number of respondents have had some form of tax education. The few respondents who had some form of tax education aquired it through personal education from tax agents and electronic media (radio and television).

Table 4. Have respondents had any form of tax education?

Response	Frequency	Percentage %
Yes	7	10
No	63	90
Total	70	100

SOURCE: FIELD SURVEY, 2015

4.5 Regularity with which respondents pay their taxes in KMA

Table 5 shows that 63 respondents representing 90 per cent of the total number of respondents regularly pay their tax, with 4 respondents representing 5.7 per cent of the total number of respondents irregularly paying their tax and 3 respondents representing 4.3 per cent of the total number of respondents saying they pay their taxes once in a while.

Table 5. Regularity with which respondents pay their taxes in KMA

Regularity	Frequency	Percentage
Regular	63	90
Irregular	4	5.7
Once in a while	3	4.3
Total	70	100

SOURCE: FIELD SURVEY 2015

From Table 3 it was observed that the majority of the respondents (92.9%) are aware that businesses that do not pay tax can be punished and that tax payment is compulsory. This resulted in most of the respondents paying their tax regularly when if fall due (Table 5). These results obtained confirm the findings of López & Aybar (2000) who observed high tax compliance among the Ghanaian self-employed because of the sanctions imposed on those who do not comply with their tax obligations. This finding also supports Franzoni's (2001) findings that there is evidence of a relationship between sanctions and tax compliance. This also confirms the findings of Fischer *et al*. (1992) that deterrence has a greater general positive effect on compliance.

4.6 Respondents ranking of the amount paid as tax in KMA

Table 6 shows that 58 respondents representing 82.9% of the total number of respondents think that the amount they pay as tax is high; 11 respondents representing 15.7% of the total number of respondents think it is moderate; and one respondent representing 1.4% of the total number of respondents thinks the amount paid as tax to KMA is low. The majority of respondents (82.9%) ranking the tax they pay as high reflects the fact that the KMA tax (which most of them do pay) has been increased by more than 100% over the past years.

Table 6. Ranking of the amount paid by respondents as tax in KMA

Rank	Frequency	Perception %
Low	1	1.4
Moderate	11	15.7
High	58	82.9
Total	70	100

SOURCE: FIELD SURVEY, 2015

It also conforms to the findings of Twerefou *et al.* (2009) that, due to the very few SMEs that are taxed, they often pay higher taxes to make up for the number who do not pay tax. A few of the respondents (15.7% and 1.4% representing moderate and low respectively) think the tax they pay is moderate and low because some taxes which are constant for a reasonable length of time e.g. KMA tax has to be increased at a point in time to meet the rising changes in the economy. They think the increment will last for a reasonable length of time as it usually does.

4.7 Constraints faced by SMEs in complying with their tax obligations

Table 7 indicates that 60 respondents ranked high tax as the most important constraint they face in complying with their tax obligations, followed by 39 respondents who ranked the procedure of payment as an important constraint, not knowing where to pay and not knowing who to pay to were ranked as the least most of the respondents (60) cited high tax rate as the main problem SMEs face in complying with their tax obligations.

Table 7. Constraints faced by respondents in complying with their tax obligations

Ranking	Constraints: Procedure of payment (Frequency)	High tax	Not knowing where to pay	Not knowing who to pay to
Most important	10	60	5	3
Important	39	8	4	4
Slightly important	1	2	13	6
Least important	20	0	48	57
Total	70	70	70	70

SOURCE: FIELD SURVEY 2015

This agrees with the finding of Awunyo-Vitor & Mbawuni (2015) and Atawodi & Ojeka (2012) who observed that high tax rate is the main cause of tax non-compliance among SMEs in Nigeria. This is also supported by the findings of Ačevska (2002), who, from a study of Macedonian SMEs, found that the most serious institutional barriers for Macedonian SMEs are the high taxes. This observation is further supported by the finding of Lavinia & Alecxandrina (2006) in Romania who reported that the high tax rate is the most significant difficulty faced by entrepreneurs.

4.8 Factors that could promote voluntary tax compliance

From Table 8, 98 per cent of respondents (with a mean of 4.89) agreed that a reduction in the tax amount would serve as a source of motivation for them to pay their tax; 95% of respondents (with a mean of 4.55) agreed that the use of taxes for the intended purpose (development) would serve as a source of motivation for them to pay their tax; 85 per cent of the total number of respondents (with a mean of 3.98) agreed that the avoidance of tax penalties was a motivation for them to pay their tax; 83 per cent of the total number of respondents (with a mean response of 3.91) agreed that tax education would help encourage the payment of tax; 80 per cent of respondents (with a mean response of 3.87) agreed that an easy and simple tax procedure would encourage tax compliance; 75 per cent of respondents (each with mean responses of 3.70 and 3.55) agreed that the integrity of the tax collectors (that is, if they were not corrupt) and frequent visits by tax collectors respectively would encourage tax compliance; 70 per cent of respondents (with a mean response of 3.55) agreed that a lesser tax clearance cost would encourage tax compliance; while 55 per cent of respondents (with mean responses of 3.45 and 3.25) agreed that social acceptance and business formalization would help encourage tax compliance. Most respondents agreed that the reduction in the tax amount; the use of taxes for the intended (development) purpose; the penalties on tax non-compliance; tax education; and easy and simple tax procedures were the top factors that could encourage tax compliance. This concurs with OECD's (2010) findings that another avenue for making tax compliance easy is effective education of tax payers by way of communicating in plain language; easy accessible websites; easy tax forms; more automatic tax; accessibility of personal relevant information; and simplification of the tax system and reduction of rules. With penalties on tax non-compliance the findings of this study is being complemented by the findings of Fischer et al. (1992) that deterrence has a greater general positive effect on tax compliance. It can also be seen that most SMEs are of the opinion that reduced tax rates will encourage tax compliance. This also agrees with the findings of Atawodi & Ojeka (2012), Ačevska (2002), and Lavinia & Alecxandrina (2006) who observed that a high tax rate is the main cause of tax non-compliance among SMEs.

Table 8. Factors that could promote voluntary tax compliance

Motivation for Compliance	%Disagree	%Neutral	%Agree	Mean
Reduction in tax amount	-	2	98	4.89
Business formalization	20	25	55	3.25
Avoid tax penalties	5	10	85	3.98
Tax clearance cost	25	5	70	3.55
Easy and simple tax procedures	15	5	80	3.87
Tax education	7	10	83	3.91
Integrity of tax collectors (they are not corrupt)	15	10	75	3.70
Tax used for intended purpose (development)	-	5	95	4.55
Frequent visits of tax collectors	25	-	75	3.55

SOURCE: FIELD SURVEY, 2015

5. Summary and Conclusion

This research was aimed at evaluating the factors that encourage tax compliance among small scale business operators in the Kumasi Metropolis of Ghana. The research that taxes paid by respondents include; income tax, KMA levy, VAT and property tax. The study also showed that most of the respondents are aware that tax compliance is obligatory (91.4%) and non-compliance is punishable (92.9%) by law. The study also revealed that majority of the respondents have not had any form of tax education. However, a large number of respondents pay their taxes regularly. Most respondents ranked the taxes they pay as high. A large proportion also indicated the amount paid including compliance cost as the major constraints to tax compliance.

The majority of respondents were of the opinion that a reduction in the taxable amount, coupled with the use of taxes for the intended purposes, as well as penalty enforcement on non-compliance would promote voluntary tax compliance.

Based on the findings of the study it can be concluded that most of the respondents are aware that tax compliance is mandatory and non-compliance is punishable by law. High tax is a major constraint to SMEs' tax compliance obligations and there was low tax education amongst SMEs. It can also be concluded that some of the motivational factors for voluntary tax compliance for SMEs include a reduction in tax amount; using taxes for the intended purposes (development); penalties for tax non-compliance; and tax education.

Recommendation

From the study, it is recommended that the government reduce the amount of taxes paid by SMEs and widen the tax net so as to reduce the amount paid per person/enterprise but increase the number paying so as to motivate tax compliance. SMEs should be given proper tax education on the essence of paying tax and their taxes should be properly accounted for. The penalties for tax non-compliance should be maintained or revised upward while the government should try to easy up and simplify the tax procedure to make the payment of taxes less cumbersome.

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