

An Assessment of Knowledge and Perception of Tax Obligation among Small Traders in the Obuasi Municipality of Ghana

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Abstract

The survey assessed the knowledge and perceptual experience of tax obligation among small traders in the Obuasi Municipality of Ghana. The survey utilized a survey method integrating both quantitative and qualitative research methods. The survey employed a multi-stage sampling process to select 400 respondents. An interview schedule was used for the data collection. The study findings, respondents were asked if they were well-informed as to why they should pay the tax, 296 respondents forming 74% said no they were not well informed as to why they should pay the income tax to the state and 104 respondents said yes they were well informed as to why they should pay income tax, 296 (74%) respondents said they do not 'enjoy' the benefits of paying tax, 342 (88.5%) of the respondents said yes their perception on how government spends their tax influenced them to comply with their tax obligation and 104 (26%) said no there was no influence of how government spend their tax on their tax obligation. Regarding the payment of Income Tax to the Internal Revenue Service, 282 respondents representing 70.5% did not pay income tax while 118 representing 29.9% of the respondents did pay income tax. The study concluded that small traders in the Obuasi Municipality have less knowledge on their tax obligation to involve enthusiastically with the tax process, their perception on how government spends their tax influenced them to comply with their tax obligation and majority of the respondents do not pay their personal income tax thereby affecting the revenue base of the country. It is recommended that Ghana Revenue Authority in conjunction with state institutions, and civil society organisations should hold more regular and well-publicised public-awareness workshops and campaigns to the general public and there must be the introduction of a formal tax education in the early stages.

Keywords: Revenue mobilisation, tax obligation, Income tax, small traders, tax education

1.0 Introduction

Increasing domestic revenue for development is a cardinal objective for every government across the globe. Every country requires adequate funds to offer social amenities and infrastructures, among other matters, for its populace and safeguard good governance. Taxation is an imperative instrument for building and sustaining national economies. Developing nations require to increase their tax-to-GDP ratios in order to decrease budget deficits, improve the services they offer, and enhance the effectiveness of their tax structures.

Mobilising revenue is an approach for governments to fashion fiscal space, deliver indispensable public services, and decrease foreign aid and single resource reliance. However, the domestic tax bases in most African countries are challenged by widespread tax avoidance and evasion (IMF 2011). The challenge of inadequate domestic revenue mobilization carries significant policy repercussions for most developing countries since domestic revenue production has not improved considerably notwithstanding the many tax policies that various governments have produced.

Understanding the necessity for tax revenue for good governance and to embark on developmental projects is the reason why Ghana colonial government instituted the introduction of the income tax collection in 1943 under the Income Tax Ordinance 1943 (Ordinance No. 27). The practice has subsequently sustained through an evolutionary process which now puts the tax mobilisation under the administration of the Internal Revenue Service, established by an act of parliament, the Internal Revenue Act, 2000 (Act 592), and now integrated with VAT and CEPS to form the Ghana Revenue Authority in 2009.

Though it is challenging to find precise figures on the informal sector, some statistics show that in Africa, about 78 percent of non-agricultural employment and 61 percent of urban employment is in the informal sector, and an enormous 93 percent of new jobs are created in the informal sector (Chen, 2011). In Ghana, about 80 percent of the working-age population is engaged in the informal sector, leaving only 20 per cent or so in formal employment (Oduro, 2009).

According to the Ghana Living Standard Survey (GLSS) 2000, the economy of Ghana is invariably dominated by the activities of enterprises in the informal sector. In practice, the collection of taxes from the informal sector is challenging, as there are limited records of accounts, countless individuals earn little income, and workers are time and again invisible to the authorities. Numerous persons have attributed the poor performance of the informal sector to evasion of tax, particularly with respect to the small traders, which results from lack of

compliance by the prospective taxpayers. Aryee (2007) noted that the informal sector have been the worst income tax evaders. The evasion takes three forms, namely, non-declaration of income, under declaration and inflation of deductions from income.

Tax official from the Ghana Revenue Authority regularly put in vigorous efforts in getting the self-employed to honour their tax obligations and sometimes tax officers had to lock up shops and stores as a strategy to get the proprietors pay their tax obligation. This study therefore, assesses knowledge and perception of tax obligation among small traders in the Obuasi Municipality of Ghana.

2.0 Literature Review

2.2 Small Traders' Knowledge Level on their Tax Obligation

The influence of knowledge level of tax obligation has been established in countless researches. Previous studies have demonstrated that common tax knowledge has a significant association with the taxpayers' capacity to comprehend and appreciate the laws and guidelines of taxation, and their ability to comply with them Singh (2003). Assumed indication that tax knowledge influence the comprehension of taxpayers, an understandable elucidation that has been produced by researchers, including Singh, (2003), Eriksen & Fallan, (1996).

Eriksen and Fallan (1996) claimed that 'knowledge about taxation law is presumed to be important for preferences and attitudes towards taxation. There is little research that explicitly looks at how attitude towards taxation is determined by specific knowledge of tax regulations. The research done by Eriksen and Fallan has shown the meaning of tax education in a taxation arrangement. They suggested that fiscal knowledge correlates with attitudes towards tax and tax behaviour can be ameliorated by a sounder understanding of tax laws. The survey was conducted through quasi-experimentation with pre-testing and post-testing of two student groups in Norway. The outcomes of the survey hinted that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion. The outcome of the study affirms the rule of the attitudes being affected by better tax knowledge and establishes that it holds other attitude dimensions as easily as the fairness of progressive tax which was analysed by Robert et al., (1994).

This result supported previous study performed by Lewis (1982) where low tax knowledge correlates with negative attitude toward taxation. 'Tax attitudes can be improved through better tax knowledge' (Eriksen & Fallan, 1996) and thus this will in turn increase compliance and reduce the tendency to evade taxes. Collins, Milliron & Toy (1992) however, established a counter result in their work in the United States from a random mail survey of 700 households from telephone directories. Out of 220 usable responses, Collins et al., found that tax knowledge and the level of education were negatively correlated with compliance behaviour. Moreover, knowledge about taxation law is accepted by (Collin et al., 1992) to be of importance for preferences and attitudes towards taxation.

However, there is less research that has obviously studied how attitudes towards taxation are influenced by precise knowledge of tax rules and their economic effects. A number of prior studies (Vogel, 1974; Spicer and Lundstedt, 1976; Song and Yarbrough, 1978; Kinsey and Grasmick, 1993) have taken into account the general level of education of the taxpayers as an additional variable, but this indirect method is based on the assumption that knowledge about taxation increases with the length of education, independent of the educational content. Since there are many people with less formal instruction or even those do not have any qualification, who have more proficient knowledge about tax income than those with a higher education qualification.

2.5 Extent of Tax Compliance among Small Traders

Tax compliance has been an essential topic of research in a large number of developers and a routine of developing nations. Every country has its own styles for handling tax compliance levels and each has diverse tax laws and regulations, the factors impacting tax compliance behaviour give the impression to vary among countries. Structural factors such as sparse infrastructure, low levels of education, lack of systems in place to identify taxpayers, and weak and arbitrary enforcement of tax laws are aggravated by fragile and ineffective tax institutions, all of which contribute to the growth of the informal sector (Schneider and Enste, 2002). The shadow economy is fundamentally unrecorded; consequently a quantity of people who earn incomes are not taxed, creating significant gaps in the tax base. Informal urban employment absorbs as much as 61% of the urban labour force in Africa (Flemming, 2000).

Considerable parts of total urban incomes in various countries are normally found in the informal sector, 30% in Burundi, 44% in Madagascar, 58% in Senegal, and 68% in Mali (ILO, 1988). The inability of governments to establish systems to detect incomes in the informal sector has resulted in overburdening those in the official sector with high tax rates to make up for revenue shortfalls. Growth of the shadow economy reduces state revenues, which in turn reduce the quality and quantity of publicly provided goods and services. Due to revenue shortfalls, firms and people in the official economic system will have to pay higher tax charge per units. These higher tax charge per units, combined with deteriorating public services, provide further incentives to join the shadow economy (Fambon, 2006).

In practice, the collection of taxes from the informal sector is tough, as there are few records of accounts, a lot of people earn very little income, and workers are time and again invisible to the tax authorities as many works from their homes, work at undefined places or are part of a long chain of production. Owing to factors such as these, it is problematic for tax authorities to determine how much tax, if any, should be paid (Carroll, 2011). In the informal sector, level of income (used to determine tax rate) is hardly ever established through the records of accounts. In Ghana's informal sector, tax officials visit individual businesses make a visual assessment of their income, based on the type of business, location, size of the shop and so on. This is a scaled assessment system method that leaves relatively a bit of room for reading. It could signify that a seamstress, in a wooden shack, with 20 customers per week (and thus a comparatively high income), will yield significantly less than another seamstress, in a concrete structure, who accepts only two customers per week and can barely cover her operating costs (Carroll, 2011). It is therefore very important that tax policy makers have to analyse how best to bring the informal taxpayers into the assessment process on a long-term basis to widen the tax net.

3.0 Methodology

3.1 Research design

The study used survey method to appreciate some of the detailed problems, have an idea and to locate individuals under consideration. Survey method is used to collect data on existing phenomenon with the purpose of employing the data to make more applicable and appropriate recommendations to improve and enhance the current conditions and practices. The survey is used to describe the characteristics of a population.

3.2 Profile of Study Area

Obuasi Municipal Assembly was carved out of the erstwhile Adansi West District Assembly on the strength of executive instruments (E. I.) 15 of December, 2003 and Legislative Instrument L. I. 1795 of 17th March, 2007. The Municipality is located between latitude 5.35^{0c} N and 5.65^{0c} N and longitude 6.35^{0c} N and 6.90^{0c} N. It covers a land area of 162.4sqkm. There are 53 communities in the Municipality, which share 30 electoral areas. The Municipality is located in the southern part of the Ashanti Region and has a rather undulating topography. The climate is of the semi-equatorial type with a double rainfall regime. The population of the Municipality is estimated at 168,641 consisting 87,626 females and 81,015 males using the 2010 Housing and Population Census as a base (www.districtsinghana.com).

3.3 Study Population

The constituent population of the study comprised all individuals who were presently residing in Obuasi Municipality who were small traders doing their business at Obuasi Municipality.

3.4 Sample Size and Sampling Technique

A total of 400 small scale traders was used for this study. A multi-stage procedure was adopted. Purposive sampling was used to select the small scale traders. Cluster sampling technique was used to choose the small traders in Obuasi Municipality. The cluster sampling was chosen because the population was very large and spread over a wide geographical area like Obuasi Municipality. Small traders within the selected clusters were listed and samples of them are chosen randomly.

3.5 Research Instrument

An interview schedule was the main research instrument used in the study because of the nature of the investigation and the socioeconomic-demographic characteristics of the study population.

4.0 Results and Discussion

This section explains the findings of the study obtained from the data gathered. The data was analysed using the appropriate methods to answer the research questions. A total number of 400 interview schedules were administered to the small traders in the Obuasi Municipality and all the 400 interview schedules were valid for the analysis which yielded 100% of respondents' rate.

4.1 Demographic Background of the Respondents

Regarding the respondents' gender, 282 (70.5%) of the respondents were females and 118 (29.5) of the respondents were males. Therefore, females dominate the small trading business in Obuasi Municipality. Regarding the respondents' age, those within the age range of 41-50 years were 124 (31%), respondents within the age range of 31-40 years were 106 (26.5%), and those within the age range of 20-30 years were 90 (22.5%) whereas those below 20 years were 58 (14.5%). As regards to the respondents' marital status, 286 (71.5%) respondents who were majority were married, 92 (23%) respondents were single, 14 (3.5%) and 8 (2%) were divorced and widowed respectively. The majority of the respondents were Christians representing 306 (76.5%) of the respondents and 94

(23.5%) were Moslems. On the subject of the respondents' educational level, 278 respondents representing 69.5% had basic education, 108 respondents representing 27% had secondary education, whereas those with no formal education were 14 representing 3.5%. Concerning respondents' monthly income, 286 (71%) respondents earned between 401-600GHC, respondents who earned between 200-400 GHC were 102 and those earned below 200 GHC were 12 (3%). Thus, all the respondents fell within the class of individuals to pay income tax to the commonwealth.

Table 4.1: Demographic characteristics of Small traders

| Variable | N=400 Frequency | Percentage |
|------------------------------|--------------------|------------|
| Gender | | |
| Male | 118 | 29.5 |
| Female | 282 | 70.5 |
| Age | | |
| Below 20 years | 58 | 14.5 |
| 20-30 years | 90 | 22.5 |
| 31-40 years | 106 | 26.5 |
| 41-50 years | 124 | 31 |
| Above 50 years | 22 | 5.5 |
| Marital Status | | |
| Single | 92 | 23 |
| Married | 286 | 71.5 |
| Divorced | 14 | 3.5 |
| Widowed | 8 | 2 |
| Religious Affiliation | | |
| Christians | 306 | 76.5 |
| Moslem | 94 | 23.5 |
| Educational level | | |
| Secondary | 108 | 27 |
| Basic | 278 | 69.5 |
| No formal education | 14 | 3.5 |
| Monthly Income | | |
| Below 200 GHC | 12 | 3 |
| 200-400 GHC | 102 | 22.5 |
| 401-600 GHC | 286 | 71.5 |

Source: Field Survey, 2015

4.2 Knowledge Level on Tax Obligation

Respondents were also asked about the familiarity of paying income tax to the state and from Table 4.2, more than half 268 (67%) of the respondent's survey were aware that they have to pay tax to the state whereas 132 (33%) respondents were not aware to pay tax. Tax knowledge has a substantial association with the taxpayers' capacity to know and appreciate the laws and guidelines of taxation.

Table 4.2: Respondents' Knowledge on Income tax

| Description | Frequency | Percentage |
|-------------|-----------|------------|
| Yes | 268 | 67 |
| No | 132 | 33 |
| Total | 400 | 100 |

Source: Field Survey, 2015

Respondents were asked if they were well-informed as to why they should pay the tax, 296 respondents forming 74% said no they were not well informed as to why they should pay the income tax to the state and 104 respondents said yes they were well-informed as to why they should pay income tax. There is low awareness on the respondents' part on why they should pay income tax. In order to increase levels of tax compliance, Richardson, 2006: Kirchler et al., 2008, assumed that tax knowledge plays the significant role.

Table 4.3: Well-informed on Income tax

| Description | Frequency | Percentage |
|-------------|-----------|------------|
| Yes | 104 | 26 |
| No | 296 | 74 |
| Total | 400 | 100 |

Source: Field Survey, 2015

The knowledge of tax reliefs and incentives among the small traders indicated that almost all the respondents 368 (92%) did not have any knowledge about tax relief, whereas only 32 (8%) respondents indicated yes they had knowledge on tax reliefs and incentives. Small traders can apply for tax reliefs and incentive under Internal Revenue Service Act 2000 Act 592 section 39. The Act provides that the self-employed is granted personal reliefs and allowances to reduce the assessable income, these reliefs are available to the self-employed in any year of assessment. Singh, (2003) and Eriksen & Fallan, (1996) presumed indication that tax knowledge influences the understanding of taxpayers and therefore, a reasonable explanation and education must be provided by tax officials to the taxpayers and the general public.

Table 4.4: Knowledge on tax relief and incentive

| Description | Frequency | Percentage |
|-------------|-----------|------------|
| Yes | 32 | 8 |
| No | 368 | 92 |
| Total | 400 | 100 |

Source: Field Survey, 2015

4.3 Perception on Government Spending of Tax

The respondents were asked if they do 'enjoy' the benefit of paying taxes to the state and according to Table 4.5, 296 (74%) respondents said they do not 'enjoy' the benefits of paying, tax owing to the fact that they do not see good sanitation and hygienic markets with the required infrastructure such as clean toilets and clinics. It is established from this results/ findings that when taxpayers perceive that the government is spending too much on unnecessary and unprofitable ventures, with taxpayers' money, they feel deceived and attempt to evade.

Table 4.5: Respondents' view on benefit of tax payment

| Description | Frequency | Percentage |
|-------------|-----------|------------|
| Yes | 104 | 26 |
| No | 296 | 74 |
| Total | 400 | 100 |

Source: Field Survey, 2015

Respondents were asked about their perception on whether government spending influenced them to comply with their tax obligation, 342 (88.5%) of the respondents said yes their perception on how government spends their tax influenced them to comply with their tax obligation and 104 (26%) said no there was no influence of how governments spend their tax on their tax obligation. This study finding supports a similar research done in Tanzania by Fjeldstad et al., (2009) who concluded that there is an evidence that citizens' attitudes and taxpaying behaviours changed significantly after service provision enhanced and a more pleasant and affectionate technique of tax collection was instituted.

Table 4.6: Influence of government tax spending on tax obligation

| Description | Frequency | Percentage |
|-------------|-----------|------------|
| Yes | 342 | 88.5 |
| No | 58 | 14.5 |
| Total | 400 | 100 |

Source: Field Survey, 2015

4.4 Medium Used by Tax Officials to Educate Small Traders

Tax education or tax knowledge is very significant in evaluating the level of tax compliance of the small traders. The nature of tax education needs and involves adequate knowledge of existing tax laws and regulations in order to calculate actual income reporting, making correct deductions and relief claims. Respondents were asked to indicate the medium tax officials used to educate them and from Table 4.7, the majority of the respondents 264 (66%) said tax officials use radio/FM stations to carry out their education, 110 (27.5%) respondents indicated moving vans and 26 (6.5%) indicated that the tax officials use face to face approach to educating them.

Table 4.7: Medium used by tax official to educate smaller traders

| Responses | Sample Size | Response |
|--------------|-------------|----------|
| Radio/FM | 264 | 66 |
| Face to face | 26 | 6.5 |
| Moving Vans | 110 | 27.5 |
| Total | 70 | 70 |

Source: Field Survey, 2015

The respondents were asked to provide suggestions on how to improve public tax education and the crucial suggestions they provided include radio programmes in local languages, organising public forum, gathering with various securities industry associations and small traders on market days, and education on record holding.

4.5 Tax Compliance among Small Traders

Dispensing with the subject on respondents' keeping records of their monthly income accounts, almost all the respondents 378 (94.5) stated they did not maintain any records of their income accounts while only 22 (5.5%) of the respondents did keep records of their monthly income reports. This finding confirms a related study done by Carroll (2011) which posited that there are few records of accounts among small business and concluded that it was a problem for tax authorities to determine how much tax, if any, should be paid by the small traders.

Table 4.8: Records keeping among respondents

| Description | Frequency | Percentage |
|-------------|-----------|------------|
| Yes | 22 | 5.5 |
| No | 378 | 94.5 |
| Total | 400 | 100 |

Source: Field Survey, 2015

National taxes in Ghana include personal income tax (PIT) and value-added tax (VAT). Local taxes include basic rate (head tax), property rate, market toll and hawkers' license. This analysis was done to ascertain which organisation the small traders paid their taxes to. The small traders who pay money to the IRS implies that the money they pay is considered as income tax because the IRS charges tax on individuals' incomes. If the small traders pay their taxes to the Obuasi Municipal Assembly, it implies that the small traders pay market levy or other rates but not income tax.

Table 4.9: Small traders' tax compliance

| Description | Frequency N=400 | Percentage |
|---------------------------|--------------------|------------|
| Municipal Assembly | | |
| Yes | 388 | 97 |
| No | 12 | 3 |
| IRS | | |
| Yes | 118 | 29.9 |
| No | 282 | 70.5 |

Source: Field Survey, 2015

According to Table 4.9, 388 (97%) of the respondents did pay market levy and other rates imposed by the municipal Assembly, whereas 12 (3%) did not pay any revenue to the municipal assembly. Regarding the payment of Income Tax to the Internal Revenue Service, 282 respondents representing 70.5% did not pay income tax while 118 representing 29.9% of the respondents did pay income tax. The findings further boost a study conducted by Flemming (2000) who stipulated that the informal sector is basically unrecorded; consequently a quantity of people who earn incomes are not taxed, creating significant gaps in the tax base.

5.1 Conclusion

Based on the study findings, it can be concluded that small traders in the Obuasi Municipality have less knowledge on their tax obligation to involve enthusiastically with the tax process. Their perception on how government spends their tax influenced them to comply with their tax obligation. The majority of the respondents do not pay their personal income tax, thereby affecting the revenue base of the country, in spite of the fact tax payment plays an important role in a country's progress and socioeconomic and political development.

5.2 Recommendations

Based on the findings of the study, the following recommendations were made:

- Ghana Revenue Authority in conjunction with relevant national bodies, district assemblies and civil society organisations should hold more regular and well-publicised public-awareness workshops and campaigns to educate the general public on issues concerning taxes.
- The Ghana Revenue Authority must look into making the taxes and levies paid by the informal sector reasonable either by consolidating or streamlining some of the rules and making the assessment scales flawless and more accessible. Thus a proper and fair bases for assessing income tax from the informal sector should be developed.
- All stakeholders must come together to ensure better transparency and accountability. There must be more public communication on how the tax was collected and from whom, and on how the money is spent by the government and advertise actual visible and useful developmental projects done with the use of tax payers' money.
- The Ghana Revenue Authority must set up systems for disseminating information among those in the informal sector and organise workshops and training courses on record keeping and other business-related matters.

- There must be the introduction of a formal tax education in the early stages, such as schools. This is because the tax education to students can help and influence the attitude of tax compliance behaviour.

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