

## STUDIES ON TAX STAMP ADMINISTRATION BY THE GHANA REVENUE

### AUTHORITY: A CASE STUDY IN WA MUNICIPALITY

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### ABSTRACT

The informal sector is reported to be hard to tax which presupposes that there is compliance problem amongst small business operators within the sector. The main purpose of the research was to study Tax Stamp administration by the Ghana Revenue Authority (GRA) in the Wa Municipality of the Upper West Region of Ghana. Specifically, the study intended to ascertain the awareness level of knowledge of business operators concerning the Tax Stamp, measure the level of compliance and identify major challenges small businesses face in the payment of the Tax Stamp. The researchers employed a convenient sampling procedure which is a non-probability sampling technique to ensure a fair and broad representation of the sample. A sample size of 200 respondents was therefore drawn from the population of small-scale business operators. Both qualitative and quantitative research methods were used to conduct the research. There was generally a high awareness of the presence of the Tax Stamp and what it was meant for. Majority of the small-scale business operators representing 82.5% of the sample affirm their awareness of the Tax Stamp. Tax officials were the major source of information on the Tax Stamp. The majority of respondents (67.39%) reported that their main source of information on the Tax Stamp has been the frequent visit of tax officials. The majority of respondents (59%) buy the Tax Stamp regularly. The survey revealed that 54.9% of the informal business operators cited expensiveness of the Tax Stamp as their main challenge in complying with the levy. The GRA should provide adequate logistics to tax administrators. The rates of the Tax Stamp should be revised downwards to make it affordable. The government should maintain a sustained tax awareness campaign throughout the country. It is anticipated that the research work will help find out the level of knowledge of small business owners concerning the Tax Stamp, the extent to which small business owners are complying with revenue collecting agencies toward the purchase of Tax Stamps, the effectiveness of measures adopted to enhance compliance for the Tax Stamp, the major difficulties encountered during the purchase of the Tax Stamps, as well as ways of improving compliance and collection of revenue through the Tax Stamp System.

**KEYWORDS:** Tax Stamp, Ghana Revenue Authority, Small Scale Business & Informal Sector

### INTRODUCTION

In Ghana and other countries in sub-Saharan Africa, the informal sector is one of the sectors which has a vast potential for needed domestic revenue mobilization. According to the Institute of Statistical, Social and Economic Research (ISSER, 2003), “the main source of employment in Ghana is the informal sector. The sector provides employment opportunities for at least 80% of the labor force”. It is again established that the informal sector accounts for about 22% of Ghana’s real GDP (ISSER, 2003). The Tax Stamp system was introduced for the informal sector business entrepreneurs who are mainly small and medium sector self-employed individuals. However, despite the huge potentials of

revenue mobilization that abound the informal sector in Ghana, a seemingly substantial tax gap exists between the tax that is potentially collectable and that which is actually collected. One of the major reasons for the tax gap is non-compliance by taxpayers and potential taxpayers in the informal sector. This study is intended to assess Tax Stamp administration by the Ghana revenue authority in the Wa Municipality of the Upper West Region of Ghana.

The Tax Stamp system was introduced by the Internal Revenue (Amendment) Regulations, 2004, and came into effect on Tuesday the 1st of February, 2005 by LI 1803 of 2004. The Tax Stamp was introduced in an attempt to improve the contribution of self-employed tax collection. This is a tax collected from small-scale self-employed persons in the informal sector on a quarterly basis. The Tax Stamp system allows for easy identification and taxation of small-scale self-employed persons in the informal sector with respect to business type such as persons operating in kiosks, on Table-tops, identifiable groups such as hairdressers, dressmakers and tailors, butchers, market traders, chop bar and cooked food sellers, artisans such as masons carpenters, welders, and mechanics amongst others.

The introduction of the Tax Stamp was based purposely on an effort to improve the contribution of self-employed tax revenue to the national treasury. The Tax Stamp was re-launched on 28th September 2006. The GRA indicated that since the re-launch of the Tax Stamp in 2006, there has been progressed in the collection of the revenue from the informal sector. Despite the improvement, there still exists a substantial tax gap between the tax that is supposed to be collected and the tax that is actually collected. Therefore it is still believed that compliance can further be enhanced to ensure the maximum collection of taxes from the informal sector if appropriate strategies are instituted. Again, the informal sector is reported to be hard-to-tax, which presupposes that there is compliance problem amongst small-scale business operators within the sector.

Furthermore, the informal sector in Ghana like anywhere else is a sector that is composed of a varied set of businesses, individuals, backgrounds, and beliefs. Thus the sector is dynamic. These various informal business groups have varied perceptions of taxation ensuing from their cultural affiliations or even their political and social antecedents. These perceptions, in turn, persuade their views and attitudes towards tax compliance. Granted that taxpayers' perceptions influence their approach towards tax compliance, it can be concluded that it is vital to focus attention on changing taxpayers' perceptions towards taxation so as to achieve a more positive attitude concerning tax compliance.

According to (Ayee, 2007) tax evasion and fraud are among the most sinister forms of criminality that plague the Ghanaian society and that millions of cedis are diverted every day from the national income by tax criminals. In recent years, taxation of small and medium enterprises (SMEs) has attracted increasing attention in both developed and developing countries alike. The increased attention to SMEs also reflects a mounting emphasis on their potentially significant role in nurturing innovation, employment and growth, least in the service sector that is increasingly important in both developed and developing countries.

Considering the importance of the sector in revenue generation in Ghana, the study sought to explore the compliance level of business operators within the sector towards the Tax Stamp system

## **OBJECTIVES OF THE STUDY**

To examine the compliance level by small business owners in the Upper West Region of Ghana.

## METHODS

The exploratory design was used. According to (Babbie et al, 2002), exploration is done for three main reasons namely; to satisfy the researchers' curiosity and desire for better understanding; to test the feasibility of undertaking a more extensive study, and to develop the methods to be employed for any subsequent study. The main purpose of this study is more inclined toward the desire to seek a better understanding of the situation about Tax Stamp administration in the informal sector in the Wa Municipality

The design also enabled the use of both qualitative and quantitative information from respondents. Quantitative information included volumes of trade, amount of Tax Stamp bought, and frequency of payment of taxes among others. Qualitative information on the other hand, included largely the views and opinions of respondents on why they pay their taxes, difficulties encountered with tax officials, ways of improving the informal sector tax collection mechanisms among others.

The target population of this study was the small business owners in Wa. It included all persons classified by the GRA as small or informal businesses including but not limited to the following; chop bar operators, liquor stores, hairdressing saloons, tailor shops, barbering saloons, Tabletop businesses, Mobile phone dealers, and other petty traders. These represent the bulk of the informal sector taxpayers who hitherto were left out of the tax net and for whom the Tax Stamp was introduced.

Since the total number of informal businesses in the area was not known, the researchers employed a convenient sampling procedure which is a non-probability sampling technique to ensure a fair and broad representation of the sample. In view of the fact that the researchers were faced with resources and time constraints, the method would offer one of the best means of collecting primary data from that group of respondents for the study as it is economical and provides the quickest way to obtain a large number of responses.

This technique allowed the researchers to select 200 respondents. The respondents were selected based on their willingness to participate in the study and their type of enterprise. This ensured that the respondents were not limited to only one or a few informal businesses. The procedure also allowed the researchers to select respondents competent enough to express their candid opinion on the various issues to be discussed without any major hindrance.

In view of the time and research, the study employed the use of questionnaires and archival documentation to gather both primary and secondary data for the study. Questionnaires provided the researchers with the quickest and most reliable responses from study participants. In some cases where respondents cannot respond to a questionnaire, it was converted into an interview schedule which was administered by the researchers.

Data obtained from the field were presented and analyzed using tables and charts. The presentation and analysis focused on the background information of the respondents, level of knowledge of the Tax Stamp, level of compliance and the efficacy of measures to improve the collection of the Tax Stamp and finally, the difficulties encountered in the collection of the Tax Stamp.

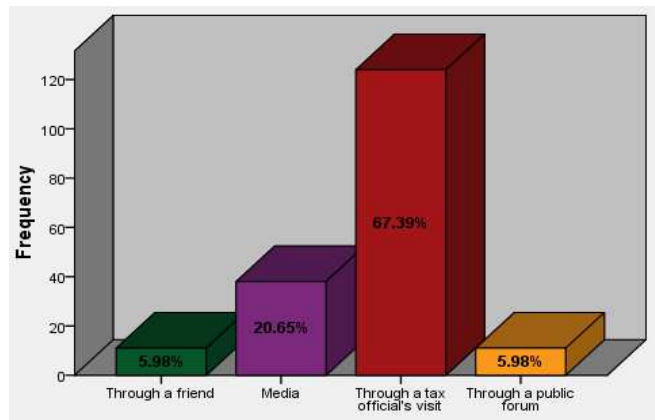
## RESULTS AND DISCUSSIONS

Data and information generated in this research through the use of questionnaires were subjected to critical analysis and evaluation using statistical tables and charts for interpretation and discussion. Administered questionnaires

were examined to check completeness, accuracy, and consistency of responses in order to detect and eliminate errors. Processed data were analyzed both quantitatively and qualitatively.

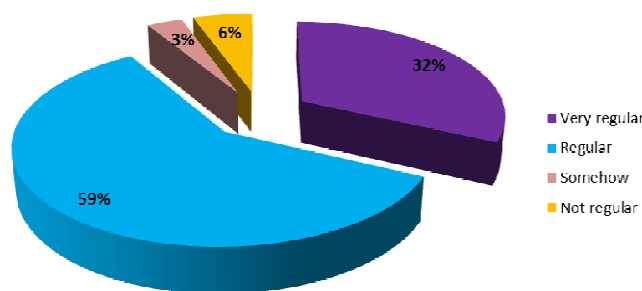
The study explored the level of knowledge of small business enterprise owners about the Tax Stamp. The data gathered indicated that 82.5% of the business operators answered in the affirmative to the question of whether they had any prior knowledge of the Tax Stamp relative to 18.5 of the respondents who dissented in their response. A follow-up question was to determine the respondents' sources of information about the Tax Stamp.

The majority of respondents (67.39%) reported that their main source of information on the Tax Stamp has been the frequent visit of tax officials to their enterprises. Approximately 6% of the respondents respectively depended on friends and public forums for information on the Tax Stamp. Meanwhile, the media served as a source of information on the Tax Stamp for approximately 21% of the respondents. The responses portray the enormous role tax officials are playing in Wa as their frequent visits promoted knowledge of Tax Stamp among 67.39% of the respondents. The level of awareness about Tax Stamp and taxation in general, is considerably high. This is shown in Figure 1.



**Figure 1: Source Information on Tax Stamp**

The study also found out from respondent their compliance to paying the Tax Stamp and how effective the measures used in Tax Stamp collection has been. Out of the 184 respondents, only 32 reported that they buy the Tax Stamp very regularly. However, the majority (59%) buys the Tax Stamp regularly. This is shown in Figure 2.



**Figure 2: Regularity of Tax Stamp Purchase**

In looking at how regularity of Tax Stamp purchase is influenced by the source of information on Tax Stamp, a cross-tabulation was done. The results from the Table 1 portray that all the respondents who obtained information from their friends were regular buyers of Tax Stamp. The majority of those who obtained information from the media and tax

officials, 50% and 63.7% respectively were also regular in purchasing Tax Stamp. None of those who obtained information about Tax Stamp from the tax officials were regular buyers of Tax Stamp. Meanwhile, 18.4% of those who received information on Tax Stamp was not regular in buying Tax Stamp. Those who had information through public forum were more likely to purchase Tax Stamp very regularly as 72.7% of them bought Tax Stamp very regularly. However, as many as three of the 11 respondents, who obtained information from a public forum, was not regular at buying the Tax Stamp. This is shown in Table 1.

**Table 1: Source of Tax Stamp Information by Regularity of Tax Stamp Purchase**

Variable		Regularity of Tax Stamp purchase				Total
		Very Regular	Regular	Some-How	Not Regular	
Source of Tax Stamp info	Through a friend	0(0.0)	11(100.0)	0(0.0)	0(0.0)	11(100.0)
	Media	12(31.6)	19(50.0)	0(0.0)	7(18.4)	38(100.0)
	Through a tax official's visit	39(31.5)	79(63.7)	6(4.8)	0(0.0)	124(100.0)
	Through public forum	8(72.7)	0(0.0)	0(0.0)	3(27.3)	11(100.0)
<b>Total</b>		<b>59(32.1)</b>	<b>109(59.2)</b>	<b>6(3.3)</b>	<b>10(5.4)</b>	<b>184(100.0)</b>

Another cross tabulation was done to find out how regular each category of small business enterprise operators purchases the Tax Stamp. The results as portrayed in Table 2 indicate that the majority of traders (61.4%) were regular buyers of Tax Stamp. Approximately 33% of the traders bought Tax Stamp very regularly. Dressmaker and Tailors were very regular at purchasing Tax Stamp as the majority (51%) bought the Tax Stamp very regularly. However, four (4) of them were not regular Tax Stamp buyers. All the pharmacists and the hairdressers/barbers interviewed were just regular buyers of the Tax Stamp. Meanwhile, the photographers interviewed were not buying the Tax Stamp regularly. This is shown in Table 2.

**Table 2: Regularity of Tax Stamp Purchase by Type of Enterprise**

Variable Type of Small Enterprise	Regularity of Tax Stamp purchase				Total
	Very Regular	Regular	Somehow	Not Regular	
Trading	33(32.7)	62(61.4)	6(5.9)	-	101(100)
Dress making/ Tailor	26(51.0)	21(41.2)	-	4(7.8)	51(100)
Pharmacy	-	6(100)	-	-	6(100)
Hair dressing/ barbering	-	20(100)	-	-	20(100)
Photography	-	-	-	6(100)	6(100)

The study also enquired from the respondents as to how much Tax Stamp they buy per quarter. The amount reported ranged between GH¢10 and GH¢25. Of the total 184 respondents, 42.18% bought GH¢10 worth of Tax Stamp quarterly, 35.37% bought GH¢15, and only 22.45 respondents bought GH¢25 worth of Tax Stamp. Looking at the percentage trend it could be realized that the number of respondents reduces as the amount of Tax Stamp purchased increases. This is an indication that majority of small business enterprise operators buy below GH¢25 worth of Tax Stamp quarterly as portrayed in Table 3.

**Table 3: Amount of Tax Stamp Purchased Per Quarter**

Amount GH¢	Frequency	Percentage
10	78	42.18
15	65	35.37
25	41	22.45
<b>Total</b>	<b>184</b>	<b>100.0</b>

The study also as one of its objectives sought from respondents the difficulties they face in buying Tax Stamp. Though the respondents responded that they all buy the Tax Stamp, almost all of them reported having difficulties with the purchase of Tax Stamp. Thus 154 (83.2%) responded yes when asked whether they face any difficulties in the purchase of Tax Stamp. The study went on to enquire from the respondents what kind of difficulties they face in the purchase of the Tax Stamp.

For the 154 respondents who reported of having difficulties in the purchase of Tax Stamp, two difficulties were readily mentioned. They believe the Tax Stamp was expensive and they are often pressured by tax officials. However, as many as 101 respondents representing approximately 55% of the respondents believed that the Tax Stamp was expensive. Those who reported pressure from tax officials as a difficulty constituted 28.8% of the respondents. This is shown in Table 4.

**Table 4: Challenges in Buying Tax Stamp**

Challenge	Frequency	Percentage
Expensive	101	54.9
Pressure from tax officials	53	28.8
No difficulty	30	16.3
<b>Total</b>	<b>184</b>	<b>100.0</b>

In the light of these difficulties, the study asked respondents to suggest ways to help improve the purchase of Tax Stamp. Measures suggested included intensive tax education, reduction of Tax Stamp price, training of tax officials and proper use of tax revenue. Many of the respondents, though not majority (46.7%) believed that intensification of tax education can improve Tax Stamp purchase. Forty-nine respondents (26.7%) were arguing for a reduction of Tax Stamp price as a measure to improve Tax Stamp collection. Training of tax officials also came up, as 28 respondents believed that when tax officials are properly trained to enforce tax collection, it can improve Tax Stamp purchase. Some 21 respondents had the impression that proper use of tax revenue can be an avenue to improve Tax Stamp purchase. This gives an indication that when people are sure that their taxes will be put to proper use, they will be more likely and willing to pay their taxes. This is shown in Table 5.

**Table 5: Suggestions to Improve the Patronage of Tax Stamp**

Suggestion	Frequency	Percentage
Intensive tax education	86	46.7
Reduction of Tax Stamp price	49	26.7
Train tax officials	28	15.2
Proper use of tax revenue	21	11.4
<b>Total</b>	<b>184</b>	<b>100</b>

## CONCLUSIONS

Taxing citizens have always posed problems for many nations especially the developing ones. But the need for money from taxation cannot be understated. Governments of nations, rich and poor, rely on tax revenue to support their respective economies. In the developed countries tax evasion is one of the most grievous of crimes a citizen or a business can ever commit. As such, harsh punitive measures are put in place to ensure maximum tax compliance. As part of the effort to increase revenue in the country for development, strategies to ensure maximum tax collection have been contemplated and implemented in Ghana. The most ingenious of these measures is the introduction of a sticker or a Tax Stamp for small and medium sector taxpayers. This was seen as prudent because for public sector workers and recognized business, tax collection was relatively easy. However, people felt the informal sector businesses were not been appropriately taxed. That is they were either overtaxed or regularly under taxed with the latter being the likely case. The Tax Stamps was therefore introduced to ensure that the allegations of over and under taxation would be solved or reduced. This study was therefore undertaken to examine the administration of the Tax Stamp System in the Wa Municipality. The study assessed the level of knowledge of the nuances of the Tax Stamp as well as their level of compliance. The study also investigated the challenges in the payment and collection of the Tax Stamp. Using a descriptive survey method, respondents in the informal sector in designated areas of Wa were identified and used for the study. A total of 184 respondents out of the estimated 200 were used for the study. They included persons such as shop owners, dressmakers, and hairdressers. A questionnaire was used to collect their views and opinions; however, in some cases, the questionnaires were converted into interview schedules and administered as such. The data collected were analyzed using the SPSS software as a tool for processing. The analysis involved presenting data in tables, figures, and charts, interpreting and discussing the themes according to the research questions posed.

Our findings indicate that the Tax Stamp concept was indeed a stroke of a genius for the Ghana Revenue Agency. Although the study was limited to the opinions and attitudes towards it, it could be inferred that tax revenue through the Tax Stamp method has indeed improved. The concept has made taxation less cumbersome and more transparent to the hitherto the illiterate and ignorant taxpayer in the informal sector. The mode of the collection seems to be very simplified and quite efficient. The regularity and quarterly nature of it have also resulted in a situation where taxpayers have developed tax awareness, which makes it easy to collect taxes from them. In all, it can be concluded that the attitude of informal taxpayers toward the Tax Stamp is generally positive. It can therefore, be supposed that this positive attitude has translated into the regular payment of their taxes. It can also be concluded that through the efforts of the tax officials, awareness of the Tax Stamp is very high. In addition to this, there are some problems with the collection of Tax Stamps. These include low wages, corruption, inadequate logistics, and complaints or the extortion by tax officials. These problems need urgent attention to improve compliance and make taxation efficient in the country.

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