

# **Tax Administration in Ghana: Perceived Challenges**

**ROUND 5 AFROBAROMETER SURVEY**

**Tuesday, August 6, 2013**



# BRIEF ON THE AFROBAROMETER



## What is the Afrobarometer?

- = The Afrobarometer (AB) is a comparative series of public opinion surveys that measure public attitudes toward democracy, governance, the economy, leadership, identity, and other related issues
- = The AB is an independent, non-partisan, African-based network of researchers
- = The first round of surveys took place in 1999-2001 in 12 countries. The Network is now conducting “Round 5” surveys in up to 35 countries during 2011-2012
- = **Purpose:** To measure popular perspectives on the social, political, and economic environments in each country where it is implemented and across Africa
- = **Goal:** To give the public a *voice* in policy making processes by providing high-quality public opinion data to policy-makers, policy advocates and civil society organizations, academics, media, donors and investors, and ordinary Africans

= **Round 1, 1999-2001, 12 countries**

- *Botswana, Lesotho, Malawi, Namibia, South Africa, Zambia, Zimbabwe, Ghana, Mali, Nigeria, Tanzania, and Uganda.*

= **Round 2, 2002-2003, 16 countries**

- *All Round 1 countries together with Cape Verde, Kenya, Mozambique, and Senegal.*

= **Round 3, 2005-2006, 18 countries**

- *All Round 2 countries together with Benin, and Madagascar.*

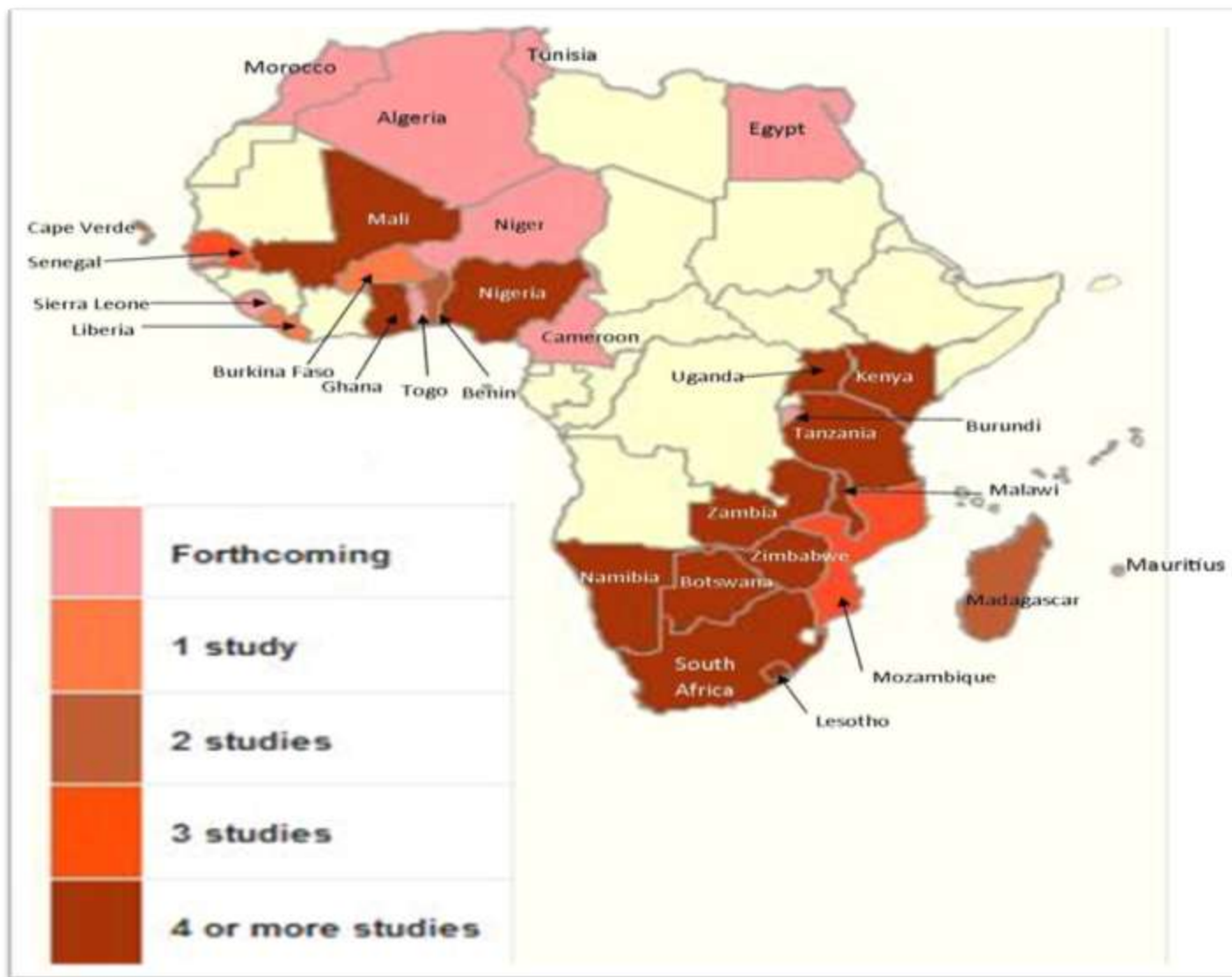
= **Round 4, 2008-2009, 20 countries**

- *All Round 3 countries together with Burkina Faso, and Liberia.*

= **Round 5, 2011-2013, 35 countries targeted**

- *All Round 4 countries together with Algeria, Burundi, Cameroon, Cote d'Ivoire, Guinea, Mauritius, Morocco, Niger, Togo, Tunisia, Sierra Leone, Sudan, Swaziland, Egypt and Ethiopia.*

# Country Coverage: 1999-2012



# Who is Afrobarometer?

A Pan-African Network of opinion survey researchers and analysts:

- = In each country there is a **National Partner** responsible for survey implementation and advocacy. In Ghana, the National Partner is CDD-Ghana
- = **Four Core Partners** provide technical assistance and Network management:
  - *Center for Democratic Development (CDD), Ghana*
  - *Institute for Development Studies (IDS), University of Nairobi, Kenya*
  - *Institute for Empirical Research in Political Economy (IREEP), Benin*
- = Two **Support Units** for capacity building and quality assurance
  - *Michigan State University*
  - *University of Cape Town*
- = Round 5 **Core Funders** include
  - *DFID*
  - *SIDA*
  - *USAID*
  - *Mo Ibrahim Foundation*

- = Nationally representative sample of adult citizens
  - *All respondents are randomly selected.*
  - *Every adult citizen has an equal and known chance of being selected.*
- = Face-to-face interviews in the language of the respondent's choice.
- = Standard survey instrument across all countries for comparability.
- = The survey interviewed 2,400 adult Ghanaians. A sample of this size yields results with a margin of error of  $\pm 2.0\%$  at the 95% confidence level.
- = Field work for Round 5 in Ghana was conducted between May 9 and June 1 in 2012.
- = Afrobarometer's work in Ghana is coordinated by [CDD-Ghana] and field work was carried out by Practical Sampling International (PSI-Nigeria/Ghana in collaboration with CDD-Ghana.

## Survey Demographics

|  | Weighted  | Un-weighted |
|--|-----------|-------------|
| <b>AGE</b>   |           |             |
| Mean Age   | 37 years  | 37 years    |
| Youngest Respondent  | 18 years  | 18 years    |
| Oldest Respondent  | 100 years | 100 years   |
| 18 – 30 years  | 45%       | 44%         |
| 31 – 45 years  | 30%       | 30%         |
| 46 – 60 years  | 16%       | 16%         |
| 60 years and above   | 9%        | 10%         |
| <b>GENDER</b>  |           |             |
| Male   | 50%       | 50%         |
| Female   | 50%       | 50%         |
| <b>EDUCATION</b>   |           |             |
| None/Informal  | 21%       | 23%         |
| Primary completed / Some primary school  | 37%       | 37%         |
| Secondary completed / Some secondary school  | 32%       | 31%         |
| Higher (Post-secondary / Univ. / Some Univ.)   | 10%       | 9%          |
| <b>Note:</b> Some primary school, 15% for both un-weighted and Weighted results. Some secondary school, 15% for both un-weighted and Weighted results. |           |             |



|                            | Weighted | Un-weighted |
|----------------------------|----------|-------------|
| <b>REGION/PROVINCE</b>     |          |             |
| Western                    | 9.5%     | 9.7%        |
| Central                    | 8.7%     | 8.7%        |
| Greater Accra              | 18.6%    | 15.7%       |
| Volta                      | 8.6%     | 9.7%        |
| Eastern                    | 10.6%    | 11.0%       |
| Ashanti                    | 19.5%    | 18.3%       |
| Brong-Ahafo                | 9.0%     | 9.3%        |
| Northern                   | 8.9%     | 10.3%       |
| Upper East                 | 4.0%     | 4.7%        |
| Upper west                 | 2.6%     | 2.7%        |
| <b>SETTLEMENT LOCATION</b> |          |             |
| Urban                      | 54%      | 48%         |
| Rural                      | 46%      | 52%         |

# **Ghana's Tax System: Evolution & Reform**

- = A democratic country must not only hold periodic elections but must also provide for the security and welfare of its citizens.
- = These activities and facilities are typically funded from taxes.
- = Taxation is therefore an important factor in raising revenue for government expenditures. It is also establishes a social contract between citizens (taxpayers) and the state/government (spending agencies) .

## A History of Reform

- = Since the beginning of the Fourth Republic in 1992, various tax reforms have been undertaken:
  - The introduction of Value-Added Taxes in 1995, which was withdrawn as a result of widespread protests and reintroduced in 1998 after a comprehensive education of citizens.
  - The National Health Insurance Levy, which was created in 2003.
  - Special fees on commodities and services, such as petroleum and communication taxes.
  - Corporate and personal income tax reforms to restructure thresholds, widen the tax base and introduce measures that encourage payment by small scale self-employed business persons.
  - The integration of the Internal Revenue Service, the VAT Service and the Customs, Excise and Preventive Service into a single agency – Ghana Revenue Authority in 2009.
- = Despite these reforms, questions about the fairness and transparency of the Ghanaian tax system remain.

= This presentation, drawn from the findings of Ghana Afrobarometer Round 5 survey, covers the following:

- Popular knowledge of tax obligations;
- Popular attitudes toward taxation;
- Opinions on the country's tax system;
- Non-compliance with tax obligations among citizens
- Factors promoting non-compliance with tax obligations
- Conclusion and recommendations

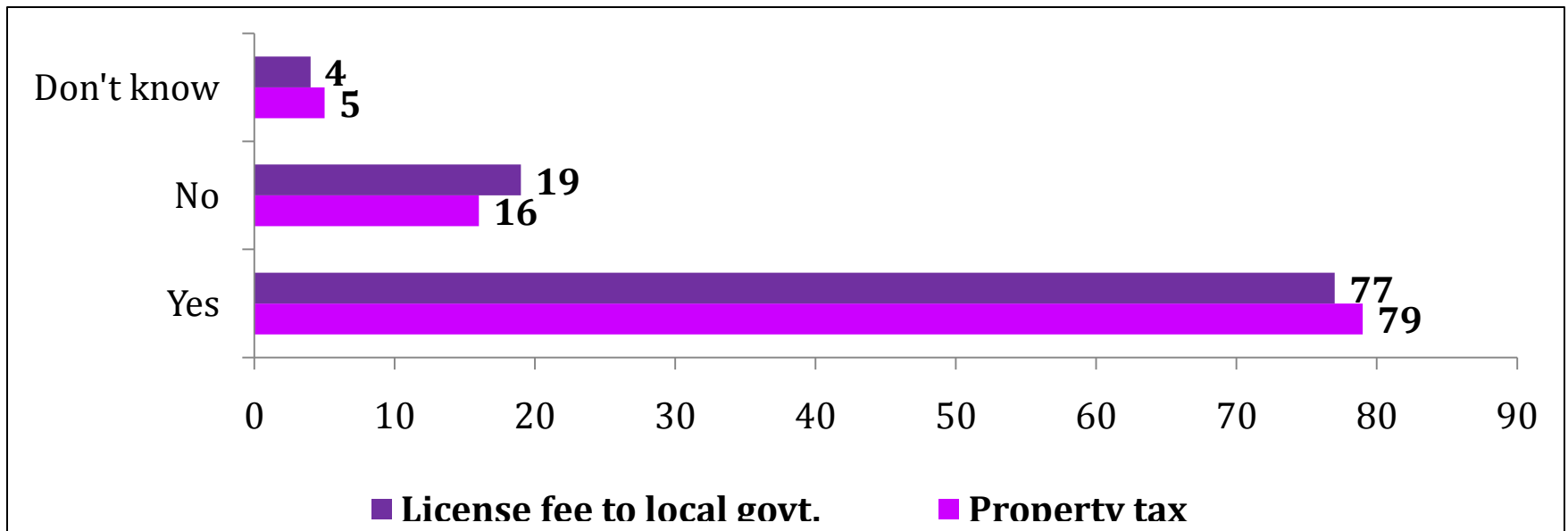
# POPULAR KNOWLEDGE OF TAX OBLIGATIONS

# Popular Knowledge of Tax Obligations

**In general, most people know that they are required to pay specific taxes.**

= Majority (**79%**) know the country's tax laws require the payment of property rates or taxes while **16%** think otherwise.

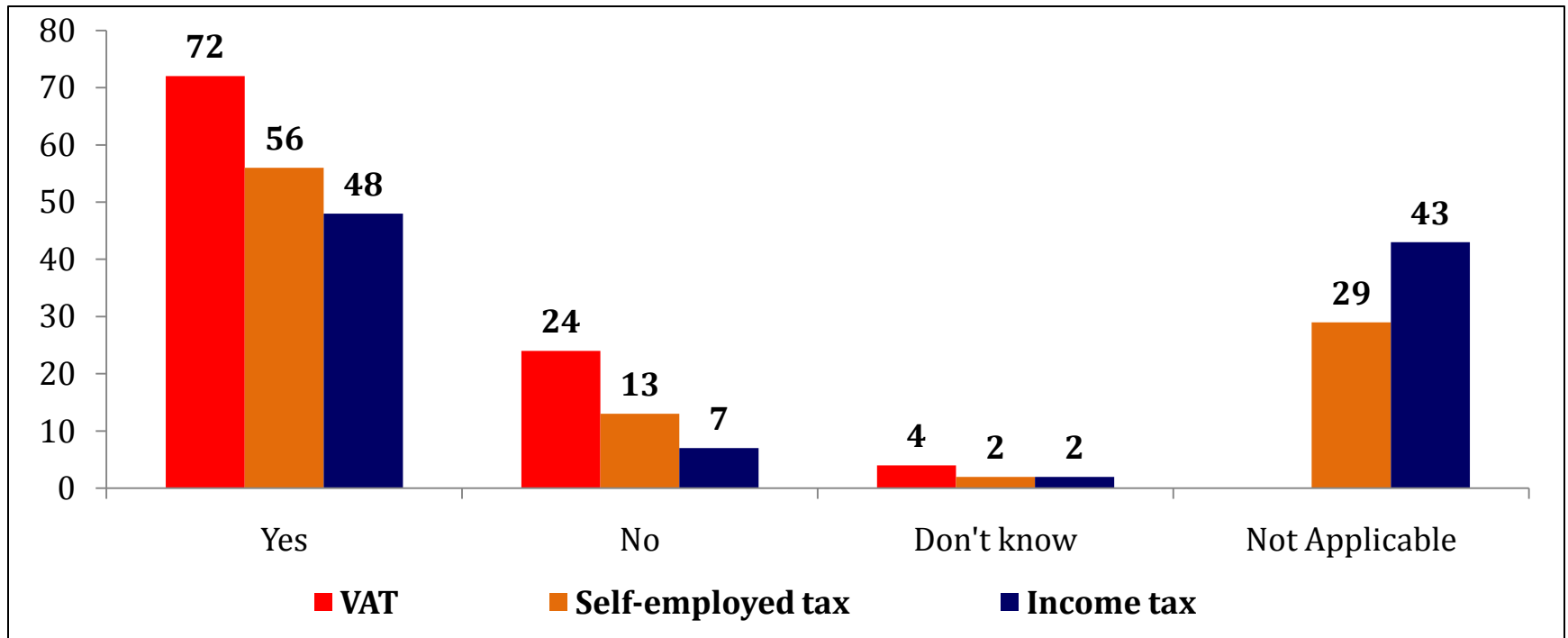
= Also, **77%** know they have to pay license fees to local government but **19%** do not think so.



**Question:** Regardless of whether you are able to pay them, are you required to pay each of the following, or haven't you been able to find out about this: [1] Property rates or taxes [2] License fees to local government, for example, for a bicycle, cart, business or market stall.

# Popular Knowledge of Tax Obligations

= Majority know people are required to pay VAT (72 %); self-employed tax (56%); and income taxes on their wages (48%).



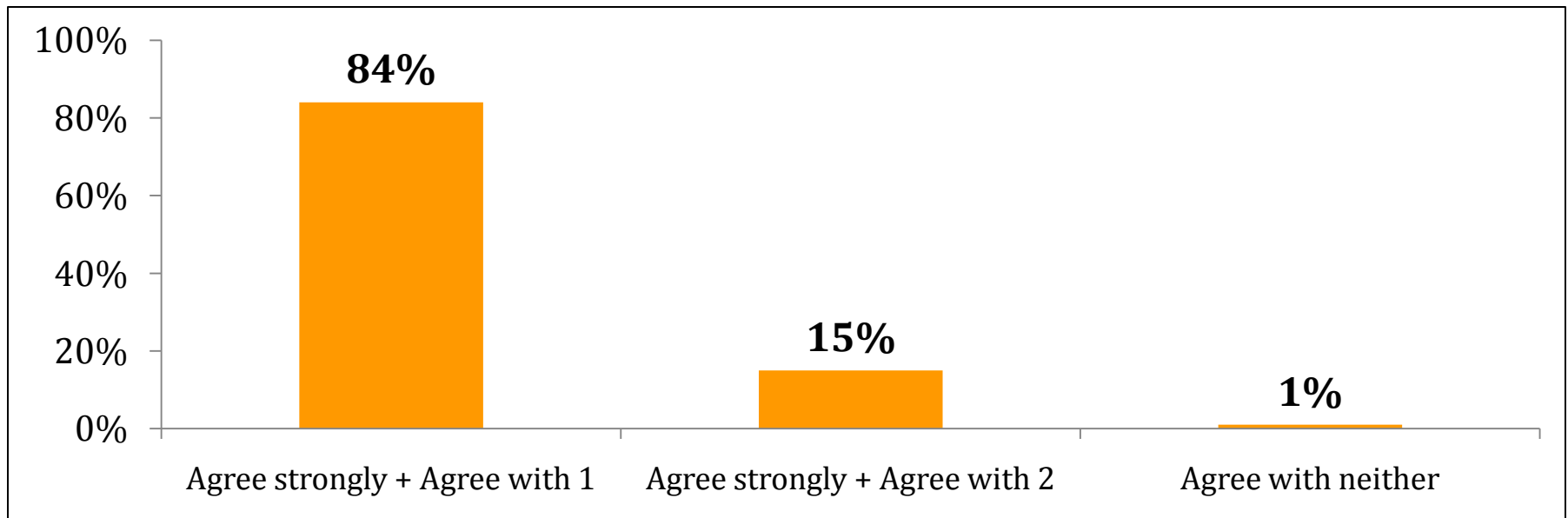
**Question:** Regardless of whether you are able to pay them, are you required to pay each of the following, or haven't you been able to find out about this: [3] Value added tax (VAT) on the food or goods that you buy from shops or traders [4] If you have paid employment, are you required to pay an income tax, that is, a tax deducted from your wages by your employer? [5] If you are self employed, are you required to pay a tax on the earnings from your business or job?



# POPULAR ATTITUDES TOWARD TAXATION

**Notionally, Ghanaians are generally favorably disposed towards paying taxes, particularly for more public services.**

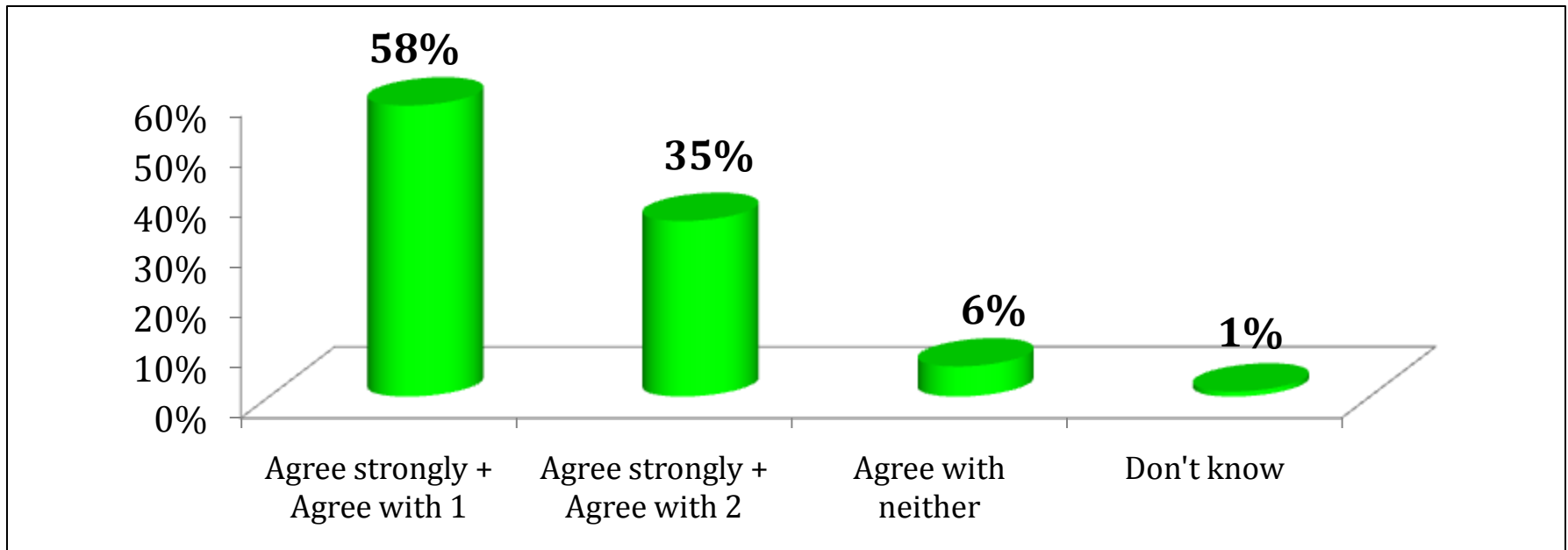
- = Overwhelming majority (**84%**) “*strongly agree or agree*” that citizens ought to pay taxes to support government development efforts.
- = Only **15%** think government should look elsewhere for funds for development.



**Question:** Which of the following statements is closest to your view? Choose Statement 1 or Statement 2: [1] It is important to obey the government in power, no matter who you voted for. [2] The government can find enough resources for development from other sources without having to tax the people.

Indeed, the proposition of paying “high taxes for more developments” appears to be more attractive than “lower taxes for fewer developments”.

A small majority (**58%**) “*strongly agree or agree*” to paying higher taxes for more government services, while **35%** prefer lower taxes, even if government services will decline.



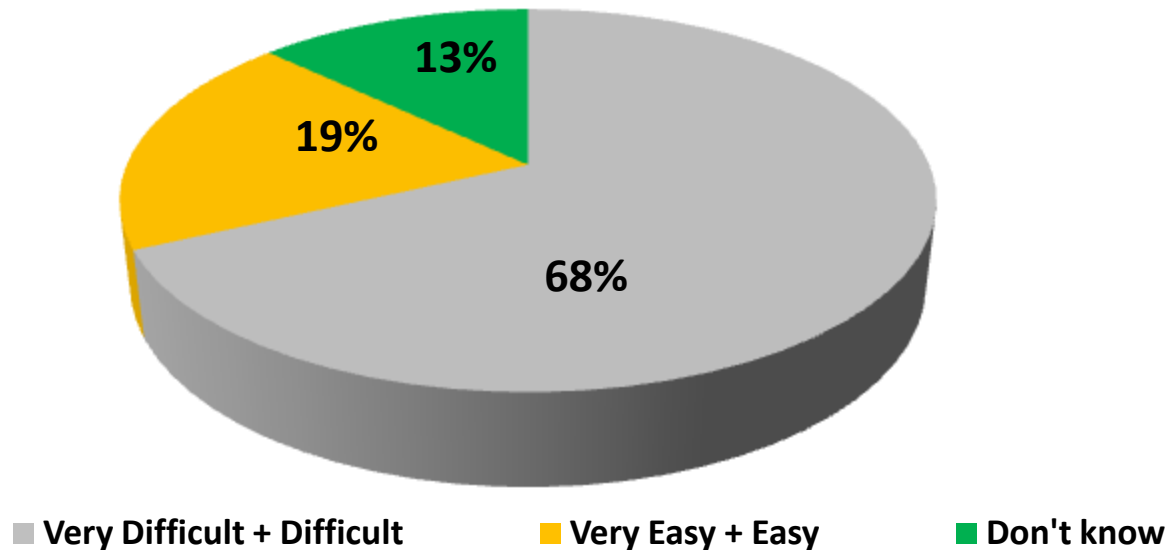
**Question:** Which of the following statements is closest to your view? Choose Statement 1 or Statement 2: [1] It is better to pay higher taxes, if it means that there will be more services provided by government. [2] It is better to pay lower taxes, even if it means there will be fewer services provided by government.

# OPINIONS ON THE COUNTRY'S TAX SYSTEM

# Opinions on the Country's Tax System

**Citizens generally perceive difficulties in accessing tax obligation information.**

- = A strong majority (**68%**) claim it is *"very difficult or difficult"* to find out what taxes or fees one is supposed to pay to the government. About a fifth (**19%**) however said it is *"very easy or easy"*.
- = A little over a tenth (**13%**) do not know whether it is difficult or easy.

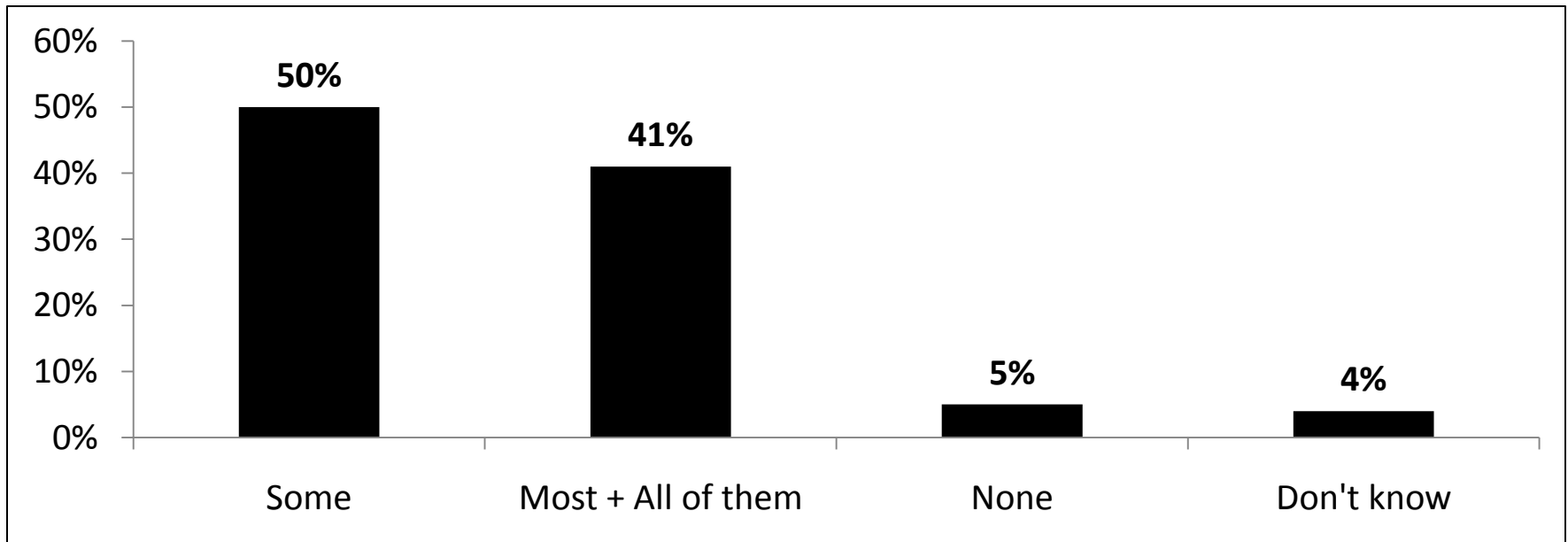


**Question:** Based on your experience, how easy or difficult is it to do each of the following: To find out what taxes and fees you are supposed to pay to the government?

# Opinions on the Country's Tax System

**People perceive lack of transparency and integrity in the country's tax administration.**

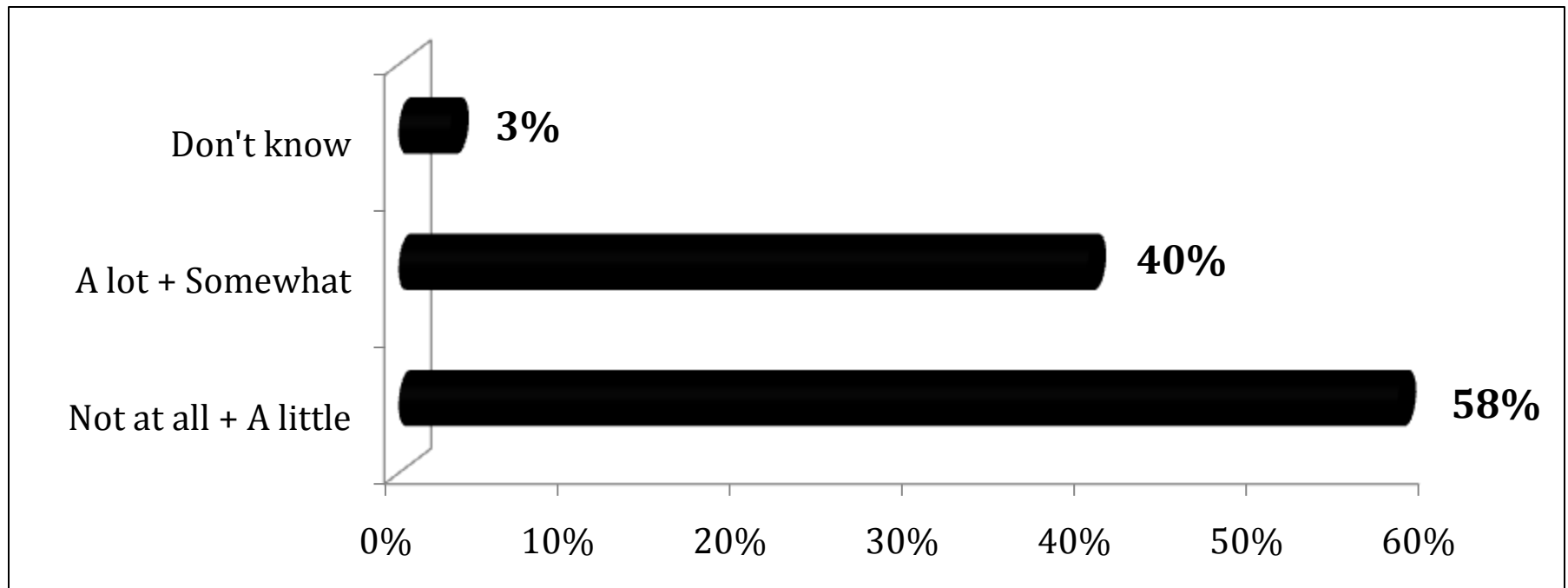
- = **Forty-one percent** perceive that "*most or all*" tax officials are involved in corruption.
- = Another **50%** also believe "*some*" tax officials are involved in corruption.



**Question:** How many of the following people do you think are involved in corruption, or haven't you heard enough about them to say: Tax Officials (i.e. Ghana Revenue Authority Officials)

# Opinions on the Country's Tax System

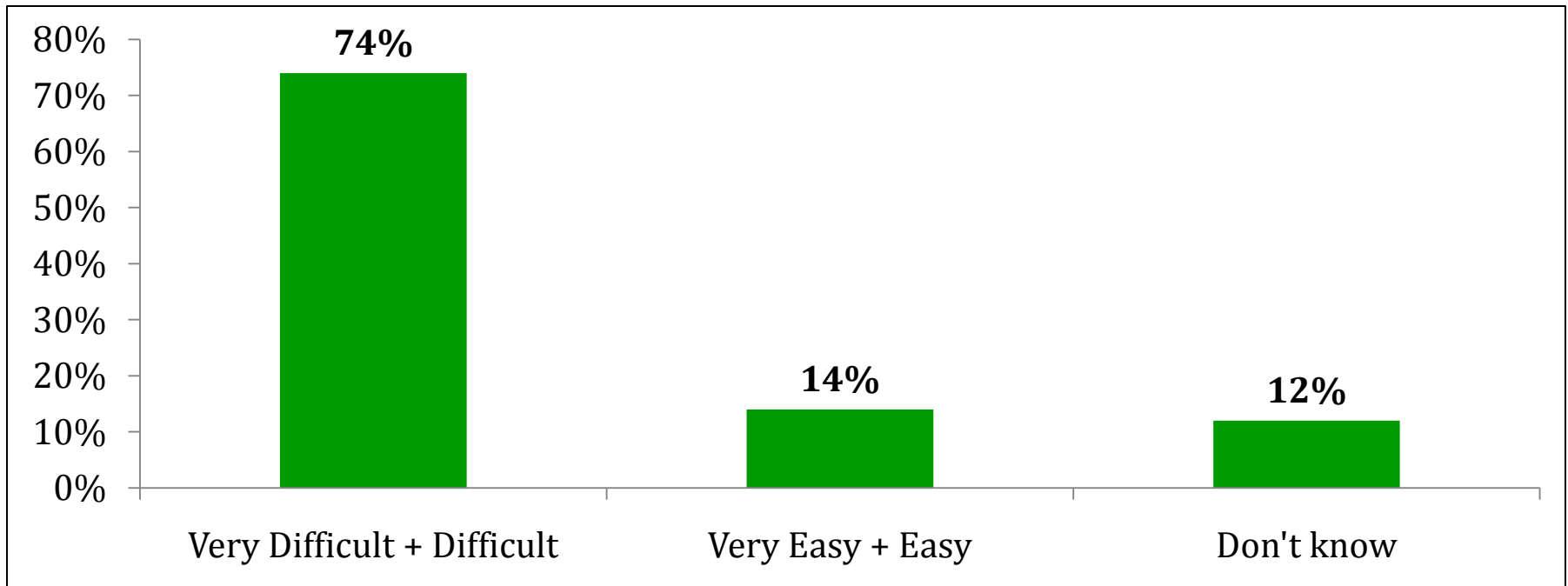
- = Majority of people (**58%**) have little or no trust at all in the Ghana Revenue Authority (GRA).
- = A lower percentage (**40%**) express "*some or a lot*" of trust in the GRA.



**Question:** How much do you trust each of the following, or haven't you heard enough about them to say: The Tax Department (i.e. Ghana Revenue Authority)

## Opinions on the Country's Tax System

- = Three-quarters of Ghanaians (**74%**) claim it is “*very difficult or difficult*” to ascertain how government applies tax revenues and user fees.
- = Only **14%** believe it is “*very easy or easy*”
- = Another **12%** said they didn't know whether it is easy or difficult.



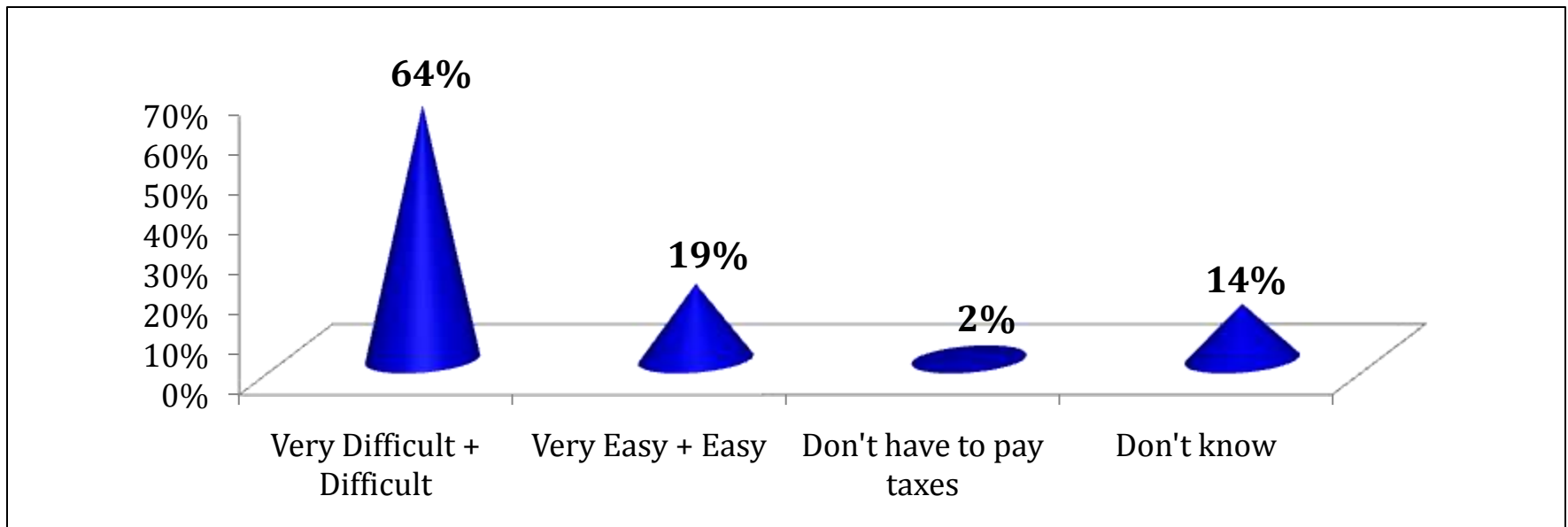
**Question:** Based on your experience, how easy or difficult is it to do each of the following: To find out how government uses the revenues from people's taxes and fees?



# Opinions on the Country's Tax System

**Popular rating of the Ghana Revenue Authority's ability to detect tax dodgers is quite high.**

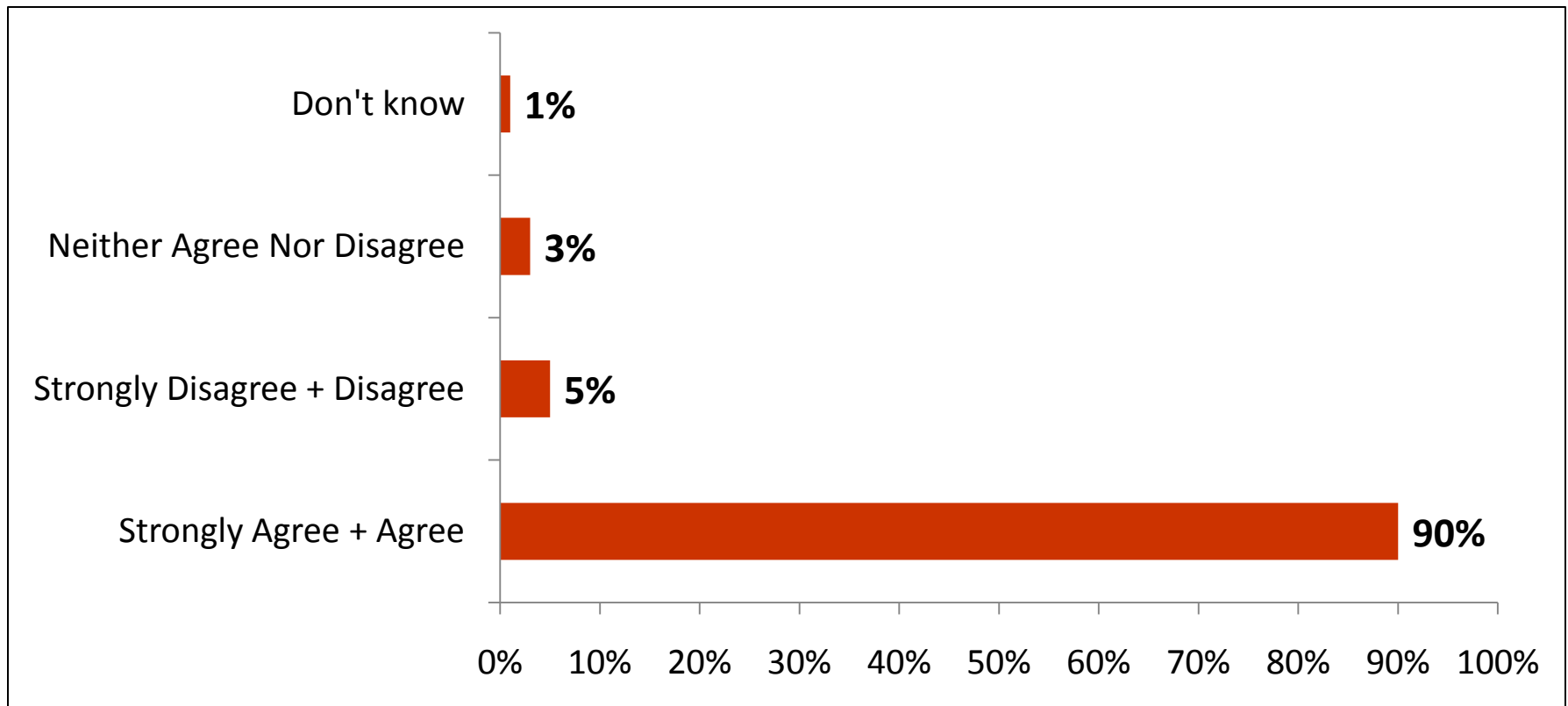
- = Majority of Ghanaians (**64%**) think it is "*very difficult or difficult*" to evade income and property taxes. However, **19%** think it is "*very easy or easy*" to evade taxes.
- = Less than a fifth (**14%**) do not know whether engaging in such criminal conduct is difficult or easy.



**Question:** Based on your experience, how easy or difficult is it to do each of the following: To avoid paying the income or property taxes that you owe to government?

# Opinions on the Country's Tax System

= An absolute majority (**90%**) “*strongly agree or agree*” that the Ghana Revenue Authority has the legal mandate to make people pay taxes.

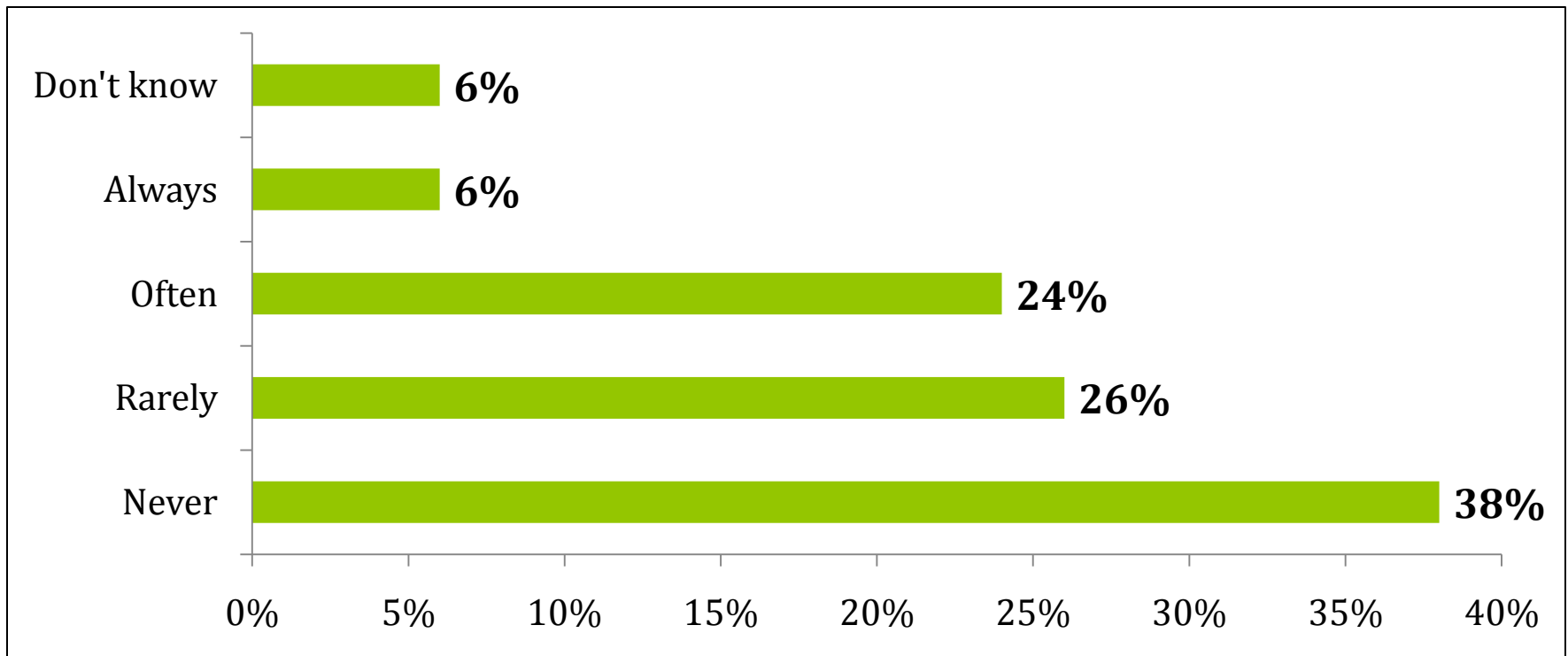


**Question:** For each of the following statements, please tell me whether you disagree or agree: The Ghana Revenue Authority always have the right to make people pay taxes.

# Opinions on the Country's Tax System

Nearly two-thirds of those interviewed (**64%**) believe fellow citizens “*never or rarely*” avoid paying the taxes they owe the state.

However, about a third (**30%**) think people “*often or always*” evade tax.



**Question:** In your opinion, how often, in this country: Do people avoid paying the taxes that they owe the government?

# **NON-COMPLIANCE WITH TAX OBLIGATIONS AMONG CITIZENS**

# Non-compliance with Tax Obligations among Citizens

**Some Ghanaians engage in tax evasion whilst others are ready to do so if they get the opportunity .**

- = Majority of Ghanaians (**75%**) said they will never refuse paying taxes or fees they owed to the state.
- = However, **15%** who never evaded taxes/fees owed the state are ever ready to do so if they get the opportunity.
- = About a tenth (**8%**) said they evaded taxes/fees owed the state in year preceding the survey (i.e. 2011).

## Compliance (or non-compliance) with tax obligations

|   |     |
|---|-----|
| No [Would never do this]                    | 75% |
| No [Would do if had the chance]             | 15% |
| Yes [Once or twice + Several times + Often] | 8%  |
| Don't know                                  | 1%  |

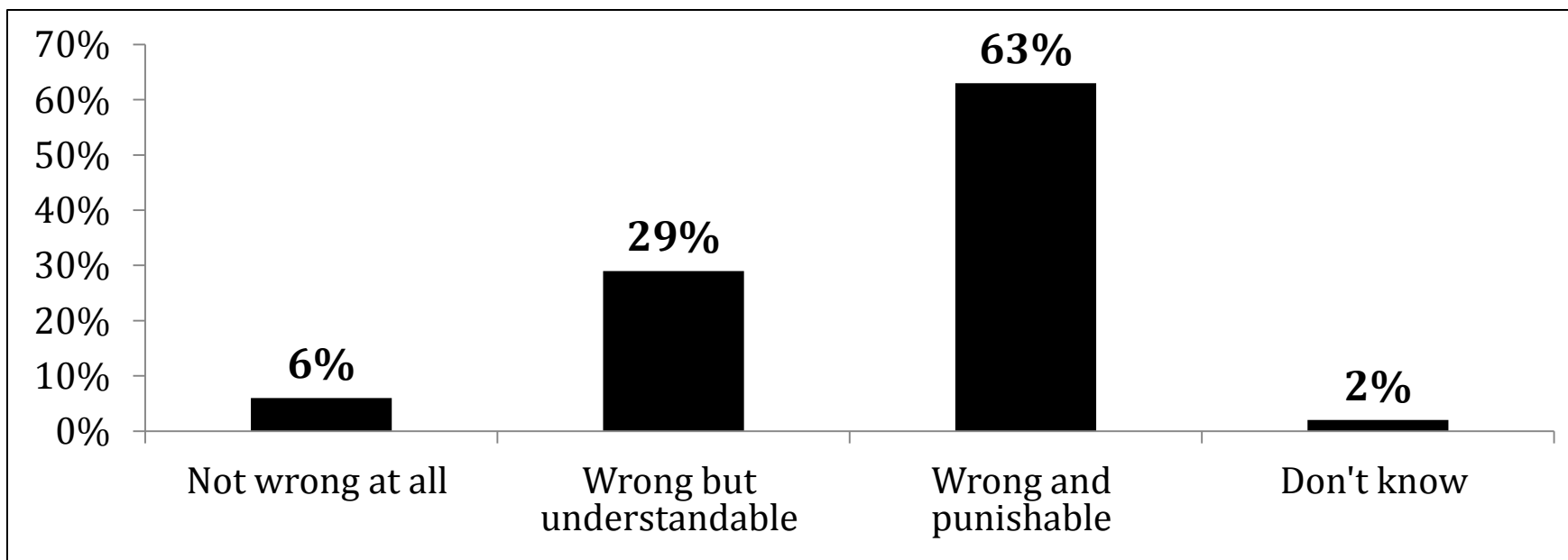
*Source: Ghana Afrobarometer survey 2012*

**Question:** Here is a list of actions that people sometimes take as citizens. For each of these, please tell me whether you, personally, have done any of these things during the past year: Refused to pay a tax or fee to government.

# Non-compliance with Tax Obligations among Citizens

**Some Ghanaians do not consider tax evasion as a criminal offence.**

- = A majority (**63%**) say tax evasion is *“wrong and punishable”*.
- = But a sizeable minority (**35%**) says it is *“not wrong at all or wrong but understandable”* to evade taxes.



**Question:** I am now going to ask you about a range of different actions that some people take. For each of the following, please tell me whether you think the action is not wrong at all, wrong but understandable, or wrong and punishable:  
Not paying the taxes they owe on their income .

# **FACTORS PROMOTING NON-COMPLIANCE WITH TAX OBLIGATIONS**

# Factors Promoting Non-compliance with Tax Obligations

- = Those interviewed reasoned that the following structural factors are the reasons why some people avoid paying the taxes/fees that they owe the state:
- Taxes too high (**25%**);
  - Taxes not affordable to people (**21%**);
  - Poor government service delivery (**14%**);
  - Wasteful use of tax money by government (**10%**);
  - Unfair tax system (**9%**);
  - Stealing of tax money by government officials (**4%**); and
  - Tax defaulters being sure they will not be caught (**3%**).

**Question:** What do you think is the main reason that some people avoid paying government the taxes and fees that they owe?



# Factors Promoting Non-compliance with Tax Obligations

According to the evidence (via logistics regression analysis):

1. A hundred percent increase in the perception that taxes are **high or unaffordable** significantly increases tax evasion or readiness to evade taxes by **48.9%**.
2. A hundred percent increase in the perception that the tax system is **unfair** significantly increases tax evasion or preparedness to evade taxes by **101%**.
3. A hundred percent increase in the perception that **tax officials are corrupt** significantly increases tax evasion or readiness to evade taxes by **18.8%**.
4. By contrast, a hundred percent increase in **formal education** significantly lowers tax evasion or readiness to evade taxes by **12.8%**.

# Factors Promoting Non-compliance with Tax Obligations

## Logistic Regression Model Estimates

|                                    | Coeff. (B) | p-value | Exp (B)      | Percentage Change |
|------------------------------------|------------|---------|--------------|-------------------|
| Constant                           | -1.574     | 0.000   | 0.207        |                   |
| High/unaffordable taxes            | 0.398      | 0.015   | <b>1.489</b> | <b>48.9</b>       |
| Unfair tax system                  | 0.698      | 0.001   | <b>2.010</b> | <b>101.0</b>      |
| Poor government services           | -0.015     | 0.940   | 0.985        | -1.5              |
| Waste taxes                        | 0.130      | 0.556   | 1.139        | 13.9              |
| Tax officials perceived as corrupt | 0.172      | 0.008   | <b>1.188</b> | <b>18.8</b>       |
| Male gender                        | 0.042      | 0.688   | 1.043        | 4.3               |
| Education                          | -0.138     | 0.024   | <b>0.872</b> | <b>-12.8</b>      |
| Urban residents                    | 0.108      | 0.318   | 1.114        | 11.4              |

**Note:** Constant only model = -2 Log likelihood = 2328.307; Full model = -2 Log likelihood = 2295.443; Model Chi-square = 32.864 with p-value = 0.000; Hosmer and Lemeshow goodness-of-fit test Chi-square = 7.301 with p-value = 0.505; and Nagelkerke  $R^2 = 0.023$ . The percentage change for each factor is calculated as follows:  $[100*(Exp(B) - 1)]$ .

# CONCLUSION

1. Our analysis corroborates the perception that people will be disposed to evading taxes if they believe the rates are too high, the system of collecting money is unfair and tax officials are corrupt.
2. The analysis also shows that people with formal educations are less likely to evade taxes.

# RECOMMENDATIONS

**We recommend that the government restructures its tax system and administration to:**

1. Ensure that people are not required to pay amounts that would overstretch their budgets.
2. Reduce perceptions of inequality that encourage people to evade or consider evading taxes owed the state.
3. Plug loopholes that make it easier for tax officials to engage in corrupt practices.
4. Increase the transparency of the Ghana Revenue Authority and the government budget process to ensure that people understand how the government collects and uses the tax money it collects.

5. The government should also consider educating citizens on the need to pay taxes and/or fees. The Ghana Revenue Authority could collaborate with the National Commission for Civic Education and Information Services Department to provide such a course.



**VISIT**

**[www.afrobarometer.org](http://www.afrobarometer.org)**

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**THANK YOU**

