https://damaacademia.com/fme/ June 2021 Pages: 01-26 Volume 3 | Issue 6

Investigating the Effect of Tax on the Sustainability of SMEs in Ga-West Municipal Assembly

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Abstract

Small and medium enterprises play an important role in transitional economies due to some of their special features: minimum bureaucracy, flexibility, quick adaptation; and special functions: creating of additional working places, active promotion of innovations, creating a competitive environment. Different policy incentives are able to influence the development and growth of the SME sector. However, creating proper taxation policies can be of crucial factors in this process. Based on the main objective of the study, the researcher specifically examined the relationship between tax and SME sustainability in the Ga-West Municipal Assembly. A quantitative analysis was carried out on fifty (50) responses gathered. The empirical evidence of the study indicated that the objectives of the study were achieved. Empirically, the study examined the effect of tax on the sustainability of SMEs in Ga-West Municipal Assembly. It became evident that the development and operation of SMEs have economic impact on the national economic development. The study established that there is a relationship between taxation and SMEs survival. Also results of the study indicated that tax has a negative effect on the sustainability of SMEs in Ghana.

Keywords: Tax Theory, Public Financial Administration, Economic management, Sustainability of SMEs, Development Economics

1.0 INTRODUCTION

This chapter provides the background of the study, problem statement, research objectives, research question, research hypotheses, significance, scope and limitation, organization of the study, and the profile of the Ga-West Municipality.

1.1 Background of the study

Micro, Small and Medium Scale Enterprises (SMEs) are said to play important role in economic development. SMEs are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines (Carsamer, 2009). Empirically, studies have shown that, small and medium enterprises make up 97% of most economies (Ariyo, 2005). In addition, SMEs tend to be the primary driver for job creation as they are labour intensive and employ more labour per unit capita than larger enterprises thereby creating more jobs in the economy. This is also evident in developing countries like Ghana as it is estimated that SMEs employ about 35% of labour (Mensah & Rolland, 2004). Holban (2007) opined that taxation can contribute to development and to 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 incentive for more employment and for an efficient and lasting use of natural resources; finally, it should be able to reallocate income. But in the case of SMEs, tax authorities must take into consideration their income and need for survival in imposing the taxes. Operationally, it is expedient that enough profit is allowed them for the purpose of expanding 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. Significantly, the development of small and medium enterprises is greatly affected by the level of taxation, its administration and compliance: the higher the tax rate is, or the greater the efforts to fulfil taxation requirements are, as well as to check how those requirements are met, the lower the initiatives are for SMEs to perform well.

Therefore, maintaining the balance between tax rate, compliance costs, tax administrating and economic development should be a main goal of every tax policy (Stem & Barbour, 2005). Small and Medium Enterprises' (SMEs) ability to grow depends highly on their potential to invest in innovation. Against this background, the consistently repeated conception of SMEs about their problems regarding the effect of multiple taxes is a priority area of concern, which if not properly addressed, can endanger

the survival and growth of the sector. In the light of the foregoing, this research attempts to make an assessment of the effect of tax on the sustainability of small and medium enterprises (SMEs) in Ghana.

1.2 Problem Statement

Small and medium enterprises (SMEs) are an important force for economic development and industrialization in poor countries (McIntyre &Dallago, 2003). Unfortunately, Kolstad, Nygaard, and Felstad, (2006) indicated that taxes are considered as a major problem for both young and old firms. Therefore, taxation has shown a way towards impacting small and medium enterprises. In Ghana, Abor and Quartey (2010) emphasized that tax burden is a major problem as many business organizations are not favoured by the tax systems and policies in place. Apart from the contribution that taxation can make towards the Gross Domestic Product (GDP) in general, much attention is also needed to the side effects of tax towards the growth of SMEs. Some businesses in Ghana are already collapsing while majority are still struggling to meet up with high tax rates to ensure their businesses exist.

Affo, Effah and Ibrahim (2012) emphasized that the problem of SMEs in Ghana having to pay taxes from income to excise tax had posed a challenge to them as it offers them no breathing space. Results of a study conducted by Bateman (2007) also indicated that 90% of business owners admitted that taxes were a huge constraint to their businesses, as they claim taxes are high and do not allow new businesses to cover up initial cost. Generally, SMEs in Ghana are faced with the problem of multiple taxation, high tax rates, complex tax regulations and lack of proper enlightenment or education about tax related issues which is a worm eating deeply and the large chunk of revenues generated by these SMEs for their growth and survival. These have caused the collapse of Small and Medium Scale Enterprises (SMEs). Additionally, there is very limited empirical documentation in the area of taxation impact in the informal sector of Ghana as most of the research studies looked at the challenges faced by SMEs. The foregoing formed the basis for this study which seeks to fill this research gap. The study therefore seeks to examine effect of tax on the sustainability of SMEs in the Ga-West Municipal Assembly.

1.3 Research Objectives

The main objective of the study is to examine the effect of tax on the sustainability of SMEs in Ga-West Municipal Assembly. The specific objectives of the study are:

(1) To examine the relationship between tax and operating cost of SMEs.
(2) To determine the factors that affect tax compliance by SMEs in Ga-West Municipal Assembly
(3) To identify the challenges facing the growth of SMEs in Ga-West Municipal Assembly

1.4 Research Question

The questions to be addressed are:

1. Is there a relationship between tax and operating cost of SMEs in Ga-West Municipal Assembly?
2. What are the factors that affect tax compliance by SMEs in Ga-West Municipal Assembly?
3. What are the challenges facing the growth of SMEs in Ga-West Municipal Assembly?

1.5 Research Hypotheses

The sustainability of SMEs as a variable or indicator in the study consists of profitability/revenue, operating cost, expansion, investment, price, stock, innovation and research. The following hypotheses will be tested:

H_{01}: There exists a significant positive relationship between tax and profitability.
H_{02}: There exists a significant positive relationship between tax and operating cost.
H_{03}: There is a significant positive relationship between tax and expansion.
H_{04}: There is a significant positive relationship between tax and investment.

1.6 Significance of the study

In developing countries, the government has to play an active role in promoting economic growth and development because private initiative and capital are limited. As such fiscal policy in relation to taxation has become important instrument in promoting growth and development in such economies. The findings from this study will help to highlight those areas where there are significant strategic

considerations which will be of great benefit to management of the SMEs. The results of this study would hopefully be significant in the sense that it will enable managers of SMEs to better understand how the implementation of taxation policies can be harnessed to improve the sustainability of SMEs in Ghana. Furthermore, the study will be of immense benefit to policy makers in the country. Finally, the study would add to existing knowledge as a secondary source of information.

1.7 Scope and Limitation of the Study

For the purposes of avoiding overly generalization of the results of this study, it is imperative to state the scope of the study. This research focuses mainly on the effect of taxes on sustainability of SMEs in Ghana. The study only touches on tax in Ghana and how it can affect SMEs' sustainability. The empirical data was collected in only Ga-West Municipal Assembly due to limited time to meet deadline for submission. The major challenge in this research relates to data collection. Most respondents were unwilling to provide information because of the perception they hold about research works.

1.8 Organization of the Study

The study is divided into five main chapters; introduction, literature review, methodology, results and discussions, conclusions and recommendations. The background of the study, problem statement, objectives, research hypothesis, significance of the study, scope of the study, the organization of the study as well as profile of the Ga-West Municipality were included in chapter one. Chapter two was dedicated to literature review on the subject matter and reviewed research studies previously undertaken. It also draws relevance of such studies to the current study and recommendations in such studies for the future. Chapter three described the overview of the methodology that was employed in the study. It dealt with the research design, population of the study, sample and sampling technique, sources of data, research instrument, data analysis technique, validity and reliability. Ethical considerations were also looked at in this chapter. Chapter four presents the empirical results and findings on the topic with detailed discussions regarding the effect of marketing orientation on customer satisfaction and service quality. Chapter five concluded with summaries on the findings of the study and provided brief conclusions and outlined recommendations suggested by the researcher

1.9 Profile of Ga West Municipal Assembly

The Ga West Municipal Assembly was established by Legislative Instrument (L.I) 1858 on November 2007. The Ga-West Municipal Assembly is gateway to Accra on the Kumasi-Accra route. The Municipality lies within latitude 50°48' North, 5°39 North and longitude 0°12 West and 0°22 West. It shares common boundaries with Ga East and Accra Metropolitan Assembly to the East, Akuapem South to the North and Ga-South to the South and West. It occupies a land area of approximately 305.4sq km with about 193 communities. Both Ga-East and Ga-South were created out of the then Ga District now Ga-West Municipal Assembly. The estimated population for Ga-West Municipality for the year 2010 is 217,091 with a growth rate of 3.4%. Female population represents 49.9% of the total population whilst male population is 50.1%.

Agriculture, industry and commerce are the three major economic activities in the district. Agriculture supports about 55 percent of the economically active population in the Municipality directly through farming, livestock development, fisheries, and distribution of farm produce and provision of services to the sector. The Municipality consists of 25 electoral areas. Assembly is made up of 25 elected members, 11 appointed members, 1 Member of Parliament and the Municipal Chief Executive. There are also 25 Unit Committees in the Municipality (Ministry of Finance and Economic Planning, 2013)

2.0 LITERATURE REVIEW

This chapter reviews literature on relevant issues to provide a theoretical background for the research. The review presents and discusses the theory of taxation, characteristics of a good tax system, purpose and theory of business growth. Other issues that have been captured in this chapter include tax policy and the growth of SMEs, Ghanaian tax system, significance of tax in national development, overview of small and medium enterprises in Ghana, characteristics of SMEs in developing countries and sources of finance available to SMEs. The area of customer satisfaction with empirical studies is also discussed.

2.1 Theory of Tax

The subject of tax has raised considerable attentions and concerns across many countries to build a civilized country with a strong and sound economy is the desire of every country (Moore, 2008). There have been efforts to comprehend the concept of taxation using different theoretical perspective. The increased attention paid to taxation has therefore brought significant definitions of taxation. Fundamentally, taxation has been suggested by many research studies as a critical success indicator in many countries in the world, as taxation defines the driving forces and the unique characteristics of the country which determine the performance of the economy (Prichard, 2010). According to Eftekhari (2009) taxation has always been an issue for the government and taxpayer alike from the early years of civilization. The issue of taxation has generated a lot of controversy and several political conflicts over time. According to its importance, several economic theories have been proposed to run an effective system.

Osita (2004) identified taxation as a compulsory levy by government through its various agencies on the income, capital or consumption of its subjects. Omagor and Mubiru (2008) indicated that tax is a legally compulsory transfer of money from the public to the government mainly as a source of government revenue while Balunywa et al. (2010) argue that tax is a payment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the tax payer. According to Mulooki and Mugisha (2012) a tax is an involuntary payment by a person referred to as a tax payer therefore taxes are distinguished by their compulsory nature and by lack of relationships between the amount paid and the values of the basic services received by the tax payers. Taxes are essential (World Bank, 2014). Economists have put forward many theories of tax at different times to guide the state as to how justice or equity in taxation can be achieved. The main theories or principles in brief, are:

Benefit Theory: According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits people and corporate bodies derive from the activities of the state, the more they should pay to the government. This principle has been subjected to severe criticism on the following grounds: Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived it will be against the basic principle of the tax. A tax, as it is known, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid pro quo in the case of a tax. Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual or corporate body every year. Thirdly, if the principle is applied in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If more is derived from the poor by way of taxes, it is against the principle of justice?

The Cost-of-Service Theory: Some economists were of the opinion that if the state charges actual cost of the service rends from the people, it will satisfy the idea of equity or justice in taxation. The cost-of-service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine. But most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined.

Ability to Pay Theory: The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter. It seems that if the taxes are levied on this principle as stated above, then justice can be achieved.

However, there are some difficulties in implementation and the definition of ability to pay. Economists are not unanimous as to what should be the exact measure of a person's ability to pay. The main viewpoints advanced in this connection are as follows:

Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is outrightly rejected on the ground that if a person earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, if another person earns income and buys property, he will be subjected to taxation. Is this not

absurd and unjustifiable that a person, earning large income is exempted from taxes whereas another person with small income is taxed?

Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and vice versa. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family.

Income as the Basics: Most economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay of a person.

2.1.1 Characteristics of a Good Tax System

Ali-Nakyea (2008), citing Adam Smith, in his book "The Wealth of Nations" in which the attributes of taxation are captioned as "canons of taxation." states four significant attributes which were relevant in the time of Adam Smith and which are still relevant today. Fundamentally, a good tax system should be fair to the people who are required to pay it. The subjects of every state are to contribute their quota by way of taxes to support the government nearly as possible in proportion to their respective abilities. Ability to pay refers to the economic resources under a person's ownership and control. For example, income taxes are based on a person's inflow of economic resources during the year, whereas Value Added Tax and other Indirect Taxes are based on a person's consumption of resources represented by the purchase of goods and services. Rent Tax on the other hand, is based on a person's accumulation of resources in the form of landed property (Ali-Nakyea, 2008).

Secondly, people should be able to determine their true tax liability with a fair degree of accuracy. Tax payers should be clear in their minds as to how much tax they owe and how much is payable at any point in time. There should be no ambiguities and tax administrators must have no discretionary powers as to how much to demand, that is, the tax administrator is not to squeeze out more than necessary. Additionally, the time of payment, the manner of payment, the amount to be paid, the place of payment as well as all rights and obligations under the laws must be known to both the tax administrator and the tax payer. It can be said that the Internal Revenue Service, the administrator of direct taxes in Ghana issues tax assessments that categorically states all the aspects of the rights and obligations as already said (Ali-Nakyea, 2008).

Additionally, a good tax should be convenient for the government to administer and for the people to pay. Perhaps the most important characteristic of this canon is that tax payers must not overly suffer in order to comply with the tax laws. Every tax must be levied in a manner that will make it convenient for the contributor to pay. The method of collecting the tax should be such that the majority of the tax payers would understand and routinely comply. The collection method should not overly intrude on tax payers' privacy but should offer minimal opportunity for non-compliance (Ali-Nakyea, 2008). Moreover, a good tax should be economical to the government. The administrative cost of collecting and enforcing the tax should be reasonable in comparison with the total revenue generated by the tax. Every tax ought to be so contrived as both to take and keep out of the pockets of the people as little as possible over and above what it brings into the Consolidated Fund (Ali-Nakyea, 2008). Bird (2005) indicated that most developing countries including Ghana are extremely focused on economic growth in both the private and public sectors.

Even in primarily market-based economies, governments need to acquire assets for public sector capital formation and development related expenditures. There appears to be no limit to the tax gadgetry used in different countries to stimulate economic growth. These countries encourage foreign direct investment to stimulate economic growth through the use of tax incentives and many developing countries impose higher taxes on retained profits than on distributed profit in order to encourage distribution (Bird, 2005). However, the effectiveness of some of the policies especially of incentives remains uncertain because there is still insufficient data to link such policies with growth performance.

In addition, the use of tax instrument to enhance economic stability is important in developing countries because this enables them to ensure elasticity with respect to changes in the value of money and income levels. If tax yields rise when national income rises, governments have less need to rely on

deficit financing to maintain and expand the level of public sector activity in a growing economy (Bird, 2005). The distributional role of taxes is another important purpose of tax system. Disparities in income can block development and increase demands for government social spending. The main redistributive tax in most tax systems is personal income tax (Zee, 2005). In practice, the personal income tax in developing countries is far from being progressive since there is large disparities in incomes between the rich and poor. These disparities are compounded by the influence of the rich, who may end up paying fewer taxes due to numerous exemptions or favours from the government.

2.1.2 Purpose of Tax

The imposition and collection of taxes is simply one of the policy instruments used to achieve governmental social and economic goals. The objectives of tax policy are similar to those of public policy in developing countries and overlap with the purposes of the tax system or the purpose of most governments. Edgar and Sandler (2005) revealed that there are five purposes for collecting revenue through taxes: to give government power to allocate resources; to enable government to provide/support social development; to stabilize the economy; to constitute and define the market place; and to encourage optimal economic growth. Furthermore, three of these are of greatest urgency in developing countries: economic growth; internal and external stability; and ensuring that incomes are distributed appropriately.

Bird (2005) indicated that most developing countries including Ghana are extremely focused on economic growth in both the private and public sectors. Even in primarily market-based economies, governments need to acquire assets for public sector capital formation and development related expenditures. There appears to be no limit to the tax gadgetry used in different countries to stimulate economic growth. These countries encourage foreign direct investment to stimulate economic growth through the use of tax incentives and many developing countries impose higher taxes on retained profits than on distributed profit in order to encourage distribution (Bird, 2005). However, the effectiveness of some of the policies especially of incentives remains uncertain because there is still insufficient data to link such policies with growth performance.

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2.1.3 Theory of Business Growth

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2006) is Gibrat's law of proportionate effect (LPE). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. By implication it would mean that large firms are preferable in context of private sector development given that they create more employment than small firms. Churchill and Lewis (1983) as cited in Olawale and Garvwe (2010) on the other hand claim that as a new small firm start and develops, it moves through some growth stages, such with its own distractive characteristics. He also identified the stages of growth as; existence, survival, success, take off and resource maturity. In each stage of development as different set of factors is critical to the firm's survival and success the Churchill Lewis model gives an insight into the dynamics of SMEs growth including the distinguishing characteristics, problems and requirements of growing SMEs and explains business growth process amongst SMEs. The precise moment in time in which a start-up venture becomes a new business has not yet been theoretically determined. However, the ideal of business survival could be equated with a firm that has fully completed the transaction to stage - two organizations in the five stages of small business growth.

Additionally, tax as an expense and when hiked reduces the profitability of small businesses (Mulooki&Mugisha, 2012). Balunywa et al. (2010) argue that profitability is a function of all the expenses made during a particular accounting year period among which taxation is inclusive while Turyahebwa, Sunday, Byamukama, Aluonzi, Yahaya, and Novembrieta (2013) states that profitability is crucial indicator for determining the financial position of the enterprise. Through taxation, the government takes away financial capital from people, which they would otherwise use for business expansion. They further asserted that, one of the most frequent arguments against high income tax is that it destroys the incentive to business people and employees to work harder and more efficiently. It also revealed that small business owners were inclined to run their businesses informally in fear of being caught thus making tax implementation difficult (Najeeb, 2010).

2.1.4 Tax Policy and the Growth of SMEs

There are many factors that can influence the development of small and medium enterprises in the economy. The most frequently mentioned among them are: state support of the sector, proper legislative support and mechanisms of its fulfilment, access to financial resources and investment incentives. However, one of the most important factors that promotes development and growth of small and medium enterprises is the taxation system. According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. 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 a micro enterprise historically reduce the size of the shadow 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 serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost. As stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labour income taxes and social contributions (International Tax Dialogue 2007).

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have 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) and 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, and the 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 (Weichenrieder, 2007). Among the factors militating against SME tax compliance rate are: high tax rates, low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Others according to Yaobin, (2007) are double taxation, no professional tax consultancy, weak tax planning, high taxation cost.

The World Bank has influenced many countries in reforming their tax policies (World Bank, 2007). According to Ddumba-Ssentamu (2004) governments carry out tax reforms to suit medium to long term economic objectives for example creating an enabling environment for businesses to thrive. A good tax policy will depend on effective tax administration to raise the revenue (Kayaga, 2007). Moore (2007) further

asks three questions regarding tax policy: How much money should government gather as tax? How should the tax burden be distributed among actual or potential taxpayers? How can the potential adverse economic costs of taxation be contained or minimized? According to Balunywa et al. (2010) taxation policies are enacted by the government to promote small business enterprises. Despite the fact that the policies were enacted to promote small business enterprises, they have continued to perform poorly (Kiiza, 2005). Most small business enterprises do not survive for more than one year (Wannenburg, Drotsky&De Jager, 2009). Moving the argument along Rooks, Szirmai, and Sserwanga (2009) research argues that many of these businesses do not live more than a year. Tax policy should target the creation of conducive environment and assistance in which small businesses can expand their activities

2.1.5 The Ghanaian Tax System

There are two main types of taxes levied by the government of Ghana; these are direct and indirect taxes. Examples of direct taxes are personal income taxes, company taxes, capital gain taxes, toll taxes, poll taxes, gift taxes and property taxes. Indirect taxes on the other hand include Value Added Taxes (VAT), Tariffs, and import and export duties. Direct Taxes have two major components which are individual income tax and corporate tax. The other direct taxes, including capital gains, property and rent taxes, contribute very little revenue due to extremely weak enforcement. Ghana's income tax system which is influenced by that of the United Kingdom (Thuronyi, 2003) falls under the common law legal system. Individual income tax is a progressive tax with a top rate of 25%, while the corporate tax rate has been significantly reduced over the past few years from 32.5% in 2001 to 25% in 2006. Principal legislation regarding direct taxation is the Income Tax Act 592 (2000) which comprises Personal Income Tax (PIT) and Corporate Income Tax / Profit Tax (CIT). The act was amended by Amendment 622 (2002).

The Act sets out tax policy as well as tax procedures.Personal income tax in Ghana has always been progressive, thus tax rates are graduated with higher income earners paying more tax. The progressive rates are divided into six bands with tax rates set between 5 and 25 per cent. Tax payments of employees are withheld monthly. All resident individuals in receipt of business, investment or employment income accruing in, derived from, brought into or received in Ghana are liable to pay income tax. Over the years other taxes and duties were added to the income tax. These were Minerals Duty in 1952, Betting Tax in 1952, and Casino Revenue Tax in 1955. These reductions in the corporate tax rate, coupled with improved ease of compliance, were reflected in Ghana's gains in the World Bank Doing Business survey, climbing from 83rd position to 77th position in a League of 175 countries. Ghana was for that period among the top ten movers in the World Bank Doing Business survey (Prichard&Bentum, 2009).

In revenue terms, corporate taxes and individual income taxes comprise almost identical shares of the total tax take, which is the end result of steady gains in the area of individual income taxation. For individual income taxes the overwhelming share (88.7% in 2007) comes from withholding taxes on formal sector wages (PAYE), with only tiny share accruing from the self-employed, which encompasses most of the informal sector and many professional occupations, such as consultants. Arguably the most glaring weakness of the direct tax system is the almost total failure to tax property or rental income. While this failure is common across most of sub-Saharan Africa, it nonetheless represents a major revenue loss, and erodes the redistributive capacity of the tax system. The housing market in Accra in particular is dominated by rental properties, while rental prices and property values are remarkably high given the relatively low-incomes of most citizens (Cooperative Housing Foundation [CHF], 2004). As such taxation of rental incomes and property could yield potentially very significant additional revenues, which some estimate at as much as 1-2% of GDP. Property taxation would have the added advantage of implicitly clarifying ownership, which would represent a major success given that land tenure disputes are a source of major conflicts in Ghana, and one of the major causes of inefficiency and high costs in the property and real estate markets (CHF, 2004).

Indirect taxes and for that matter taxes on goods and services mainly composed of the VAT and excise taxes, the latter of which have declined consistently over time (Prichard&Bentum, 2009). The VAT was initially introduced to replace the existing sales tax in 1995 under significant pressure from the IMF, which was concerned about high levels of indebtedness in the aftermath of huge expenditure increases

surrounding the 1992 election. Because of the looming fiscal crisis, it was introduced at a relatively high rate of 17.5%, with somewhat less public education that might have been desirable, and without the support of the opposition, which was boycotting parliament over alleged electoral irregularities. The consequence of these three factors was the outbreak of massive street demonstrations against the tax, with the protests becoming incorporated into broader demands for political liberalization. The government eventually revoked the tax and only reintroduced it three years later at the much lower rate of 10% (Osei, 2000).

The rate was subsequently increased to 12.5% in 1999, but was earmarked for the newly created Ghana Education Trust (GET) Fund in order to secure political support. In 2003 the rate was effectively further increased to 15%, though political concerns led the government to go so far as to identify it as an independent tax item, the National Health Insurance Levy (NHIL), which was earmarked for funding a new health insurance scheme (Osei&Quartey, 2005). Though smaller in absolute terms, the most volatile element of indirect taxation has been the share of petroleum taxes in total revenue. Currently, the new rate of 17.5 per cent has taken effect which followed the presidential assent given the VAT Act 2013 (Act 870) on December 30, 2013, and its subsequent gazetting the following day. Under the regime, the standard rate which was 12.5 per cent, moved up to 15 per cent, while the National Health Insurance Levy (NHIL) remained at two-and-half per cent (Boadu, 2014).

The reach of the VAT is significantly wider than income tax, as it is, in principle, levied on all forms of consumption. Because the VAT is levied on every transaction along the value chain, even goods that are not taxed at the final point of sale may carry a significant tax component that was levied at an earlier stage (Prichard&Bentum, 2009). That said it is worth noting various factors that reduce the tax burden on lower income taxpayers. First, the Value Added Tax Act contains a fairly wide range of exemptions primarily on basic consumption goods, which reduces the burden on lower income taxpayers. Likewise, in 2008 there were 46,842 traders registered (up from 30,377 in 2006), of whom 36,000 filed tax returns, which represents only a fraction of the total number of businesses in the country (Prichard & Bentum, 2009). In an effort to bring small traders into the tax net the government introduced the VAT Flat Rate Scheme (VFRS) in September 2007 at a flat rate of 3% of turnover. In principle every trader is meant to be registered, irrespective of the VAT threshold, though the VAT Service estimates that only about 26.4% of potential informal sector traders are currently registered.

2.1.6 The Significance of Tax in National Development

Countries use taxes for many purposes. Taxes are used to raise revenues to fund government services, to correct market imperfections, and to encourage or discourage certain types of behaviour (Bird & Zolt, 2005). Thus, taxes of all forms could be levied to achieve national goals such as economic stability, equity, economic growth and protectionism. It could as well be employed to mobilize revenue into the nation's coffers as reserves. On the economic stability, for example, wild fluctuations (ups and downs) in prices are very harmful for the development of the economy of the country. Declining prices, for example, as witnessed during the recent Global Financial crisis, causes depression which leads to a fall in company profits, savings, investments, employment and the Gross Domestic Product (GDP). Taxation therefore supports the Government's goals by ensuring that the public finances are sustainable, contributing to a stable environment that promotes economic growth. This environment is important in building a stronger, more enterprising economy and a fairer society, extending economic opportunity and supporting those most in need to ensure that rising national prosperity is shared by all (Thuronyi, 2003 in Pleuffer&Weißert, 2006).

Though economic growth could be attained through the employment of taxation, the excessive use of taxation may be counterproductive (Baafi, 2010). For example, if tariffs on food imports including rice, edible oil, and fish and poultry products are astronomically increased as has been the case, the effects trickle down to affect consumers. Currently, there has been a drastic increase in the Roads and Bridge tolls which is still hanging over commuters. Price hikes of water (pure water) and alcoholic beverages including 'Akpeteshie' having been taxed 20%. Tariffs on electricity and water are also up and also to be pushed down the throat of the ordinary man on the street. All these tax initiatives go a long way to further reduce incomes. Because of low incomes and mass unemployment in our society, we must carefully levy taxes and skew it towards equity.

Taxation could be to strive towards equitable distribution of income to create peace and harmony in the society by bridging the gap between the rich and the poor (Baafi, 2010). Progressive forms of taxation could be used for that matter. Ali-Nakyea (2008) summarized the role of taxation in the national economy. He emphasized that taxation raises revenue to defray the cost of services provided by the state; reduce inequality arising from the distribution of wealth; restrain consumption of certain types of goods; protect indigenous industries, and controls the country's economy.

2.1.7 The Overview of Small and Medium Enterprises in Ghana

The issue of what constitutes a small or medium enterprise is a major concern in the literature. There have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise (Kayanula&Quartey, 2000). In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer 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 SMEs (Kayanula&Quartey, 2000).

The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the "fixed asset and number of employees" criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding Ten Million Ghana Cedis (GH¢10,000,000). The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a Ten Million Ghana Cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions out- dated (Kayanula&Quartey, 2000).

A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper. The survey report classified firms into: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5-29 employees; (iii) medium enterprise, 30 – 99 employees; (iv) large enterprise, 100 and more employees (Teal, 2002). Small and Medium Enterprises (SMEs) in Ghana have been acknowledged to face many obstacles in their development and this is often linked to the absence of a clear vision of the roles in development and the clear lack of a credible policy framework and distinct credible interventions to promote their growth and expansion. It may be noted that local entrepreneurship was not seriously promoted in Ghana in the colonial period and in the early 1960s, small-scale enterprises were seen as political threats.

State involvement in import-substituting industries was the approach of the President of the First Republic in his bid to modernize the economy. Due to the heavy importation of raw materials and intermediate goods, the cost of development became high with pressure on the foreign exchange situation, which led to the enactment of the Exchange Control Act in 1961. Import licensing was introduced with quantitative restrictions, high tariffs and administrative restrictions on prices. The Export Promotion Council was established in 1969 to improve exports in the economy including non-traditional goods. This was certainly not an environment that was supportive of small enterprises.

2.1.8 Characteristics of SMEs in Developing Countries

Fisher and Reuber, (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sector of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation.

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher &Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries,

and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets. In Ghana, SMEs can be categorized into urban and rural enterprises. The former can be sub-divided into "organized" and "unorganized" enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ few or in some cases no salaried workers (Kayanula&Quartey, 2000). They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include: soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics (Kayanula&Quartey, 2000).

Majority of SMEs are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned SMEs often have difficulty accessing finance. Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans (Abor&Biekpe, 2006).

Measures of enterprise efficiency vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises. It is often argued that SMEs are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them.

2.1.9 Sources of Finance available to SMEs

Due to the establishment of modern enterprise systems and thorough structural reforms of the market economy, there are lots of opportunities contained in the market, but it also has many unexpected risks, particularly for the small to medium-sized enterprise (SMEs) which have limited resources to resist in this treacherous environment. To survive and adapt to the environment for a SME is to maintain its advantage in meticulous daily management and even more important is to have a long-term view of strategic thinking especially in financial strategy. A good finance strategy can help SMEs to set up and expand their operations, develop and also invest, (OECD, 2006). Making a finance strategy is very significant to a company; the company has to consider both internal conditions and external environmental problems and even other factors which are related to the company. However, the SME has its particular characteristics, it is not suitable to adopt the same action with a large company; it is better to create a strategy which fits to the company according to its demand. Finding a proper financial strategy for a developing SME, not only can help SMEs to reinforce its essence, the more important is the sustainability of its development. Sources of finance to SMEs include equity finance, venture capital and debt finance.

i) Equity Finance

Under equity financing, the shareholder sells part of corporate control to introduce a new shareholder to raise the capital in the business (Watson, et al., 2007). The enterprise does not need to pay the interest on principal if the capital is received from equity financing and the new shareholder can share the profit from enterprise as well. Equity financing includes stock issuance, allotment and debt for equity swap. Some features of equity financing, are: stock equity is firms first right of its property, it is the base

for enterprise to absorb the civil liability and to assume responsibility for firm's own profits and losses (Watson, et al., 2007).

Furthermore, it is also the base for investors to control the enterprise and to distribute the profit. Certainly, there are some advantages of equity financing that help enterprises in investment and management. Equity financing builds a good system in corporate governance structure, which consists of shareholders meeting, board of directors, board of supervisors and executives. It is effective in decreasing the risk of management. In the modern finance theory, stock market is also called open market; it means that the standardization of financial products and dealing in a trading area with an extensive institutionalization. In financial translation, publicity and availability of information are important; and that is why the stock market is better than loan market in both competitiveness of capital price and publicity of information (Watson, et al., 2007).

ii) Venture capital

Venture capital is the fund which is collected by private placement and set as the type of organization; invest to unlisted small and medium-sized newly emerging enterprises. Venture capital is different from mutual fund, unit trust and securities investment fund. It has its features in operating of investment and collection, such as, venture capital absorbs the venture with enterprise; the venture capitalist needs to cooperate closely with entrepreneur and help the firm to make a plan. Management is part of investment. Venture capital is an investment in long-term and poor flowability. The venture capitalist and entrepreneur become a common destiny once they invest. Venture capital is high risk and requires the venture capitalist with specialized skill, and need to achieve specialization and programmed in choosing the project, tend to avoid the risk. Before inspecting the financial index, the venture capitalist pays more attention in market prospect, development strategy and managing quality. Sharing the bonus from enterprise is not the purpose of venture capital, they make it as a return by increasing the capital when they are exiting; the time for exiting is always when it goes on public or sell it (Watson, Newby, &Mahuka, 2007).

iii) Debt Finance

Debt financing is also called bond financing. It is one of the ways which the firm can raise money for enterprise's external finance. Debt can also be conducted and fitted to the requirement of issuing companies and investors' capital (Watson, et al., 2007). It is included long-term bank loans, short-term financing (such as bills, debt receivable, and letters of credit), enterprise bond and short-term financial bonds, also long-term bond financing, finance lease, discount government loans, government loan, loans from international financial organizations and private bond fund. The first expense an enterprise needs to pay is the interest on capital which it receives from debt financing and the principal on the debt will be paid to creditor at maturity. The purpose for debt financing is to solve the problem of deficiency in working capital rather than the expenditure under the capital account.

Debt financing can be described by two features. The received capital from debt financing is only for using, it is not the property of the enterprise, and the firm needs to pay interest and the principal. Compared to equity financing, except some specific situations that debt financing may bring creditor the problem of intervention or controlling, debt financing does not grant the lender control in the business. However, debt financing has its advantage for helping the firm in investment and management. The lenders have ability to collect and analyze the state of investment and can also conduct long-term investigations and oversee the enterprise to avoid the moral hazard. The function of the creditor's right is when firm can pay off the debt, the firm will hold the corporate control, whereas of the enterprise cannot offer the debt, the corporate control will be turned to lender (Watson, et al., 2007).

2.1.10 General Barriers to SME Development

Despite the various economic reforms and programmes established by the government to facilitate, promote and assist SMEs to accelerate growth and job creation in developing countries like Ghana, SMEs still face a variety of limitations which affect their ability to achieve their full potential. According to Kayanula&Quarey (2000), SMEs development is held back by a number of constraints such as:

Finance: Access to finance continued to be a leading problem faced by SMEs in Ghana. The government of Ghana's business policy paper in May 2001 stated that, about 80% of SMEs operators started their businesses with their own capital with sometimes minimal help from relatives and friends. The banks requirement of collateral such as land, house, cars from SME operators to guarantee loans given are beyond the reach of most entrepreneurs. This collateral demands stems from the perception of high risk associated with SMEs and the view that most of them are one man owned businesses which have no future of continuous operation once the owner dies. As a result, SMEs often cannot obtain long term loans from financial institutions.

Labour Market: This is considered as a less important problem to SMEs in view of the widespread underemployment or unemployment. Simple technology is normally used by SMEs which does not require highly skilled labour, however where the jobs demand skilled labour and there are no supplies of them, this could create a problem which can limit the specialization opportunities. In the end, it will raise the cost and reduce the flexibility in managing operations.

Equipment, Information and Technology: The difficulties in gaining access to appropriate information on available techniques and technologies are eminent among SMEs. The lack of technical know-how and the use of obsolete equipment and machinery often hinder the smooth running or development of SMEs. This is especially true for the new entrepreneur who is starting a business in terms of the available information and the technical know-how but for the already established entrepreneur, new technologies tend to be something non existing or unavailable. These problems limit SMEs competiveness, innovations and expansion of business.

Markets: SMEs often find it very competitive to compete within the local market which they operate since they have limited access to the needed infrastructure like energy, transportation, communication facilities, modern equipment and machinery and the expertise to compete with the big firms. These problems result in inefficient distribution channels which impose a limitation to the market access for SMEs. The influx of imported product substitutes on the market makes it even more difficult for the local manufacturing SMEs to gain a niche of the market available. Enterprise performance on the international product market is no longer a function of price alone as competitive performance is now a function of reliability which involves getting the right products of the best quality and of the required quantity at a competitive price to the right place at the demanded time. In practice, large firms find it difficult meeting these market conditions, let alone SMEs. The inability of most SMEs to design, package, distribute and market their products which must conform to the required international standards and the needed certification, limits SMEs to have the total access to the international markets.

Regulatory Constraints: Although wide ranges of structural reforms have been made which have led to some improvements, there are still more rigid regulations which create severe challenges to SME's development. The high cost of licensing and registration requirements for start-up firms coupled with delays in court proceedings and legal claim settlements can impose undue and unnecessary burdens on SMEs which in turn affects its operations. The Word Bank Doing Business Report (2006) stated that, it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favours larger companies while the lack of protection for property rights limits SMEs access to foreign technologies (Kayanula&Quartey, 2000).

Managerial Constraint: The lack or scarcity of managerial talents, skills and know how places significant limitations on SMEs development. Even though SMEs tend to attract motivated managers, they can hardly compete with big companies. The lack of support services or their relatively higher cost can oppose SMEs effort to improve their management because consulting firms often are not equipped with appropriate cost-effective management solutions for SMEs. However, despite the numerous institutions providing training and advisory services, there is still a skills gap among the SMEs sector as a whole (Kayanula& Quartey,2000).

Institutional Constraint: The wide range of SMEs interests and lack of organization limit their capacity to defend effectively their collective interest and participation in civil society. Associations providing a voice for the interest of SMEs in the policy making process have had a limited role compared to those larger companies. Moreover, the potential economies of collaborative arrangements in production and sales among SMEs have not been adequately explored, creating a very minimal

interdependence among SMEs while on the part of large-scale enterprises as purchasers of output, either for sale, as final goods or to be used as intermediate inputs is also very limited (Kayanula& Quartey,2000).

2.2 Empirical Studies on the effects of Taxation on SMEs

Adebisi and Gbegi (2013) investigated the effect of multiple taxation on the performance of small and medium scale enterprises. They observed that over the years, small and medium scale enterprises had been an avenue of job creation and the empowerment of Nigeria's citizens, providing about 50% of all jobs in Nigeria and also for local capital formation. However, the mortality rate of these small firms was very high. Among the factors responsible for these untimely close-ups were tax related issues, ranging from multiple taxation to enormous tax burdens. The study therefore examined the effect of multiple taxation on SMEs survival. The study involved a survey research design with a population of 91. The researchers derived their sample size to arrive at 74 and a self-administered questionnaire was used to collect data. These data were quantitatively analysed with simple percentages and tested the research hypothesis with ANOVA. Findings revealed that multiple taxation had negative effect on SMEs' survival and the relationship between SMEs' size and their ability to pay taxes was significant. The study therefore recommended that government should come up with a uniform tax policy that would favour the development of SMEs in Nigeria and government should put into consideration the size of SMEs when setting tax policies.

Mungaya, Mbwambo and Tripathi (2012) examined the impact of tax on Small and Medium Enterprises (SMEs) in Tanzania. It was their candid opinion that alignment of the tax system to the environment specific SME growth needs can be considered an important agenda for the policy makers. Keeping this issue at focus, the study aimed to explore the managers'/ executive officers' perception of tax-system effectiveness in promoting SMEs growth in the Country. The study was based on the survey of 120 managers/ Executive officers of the selected SMEs in the Shinyanga Municipal region in Tanzania. The survey was administered using questionnaire and interview with the selected respondents. Data was analysed by descriptive analysis method and findings were presented in terms of frequencies and percentage analysis. Results of the study indicate that majority of the respondents perceive the adverse impact of existing tax policies on the growth of SMEs and suggest for reforming the tax policies in the Country. The findings would help the stakeholders in designing measures to align the tax-system to SMEs in a more effective manner.

Mukhlis, Utomo and Soesetyo (2014) investigated the factors that affect tax compliance by SME entrepreneurs. The study also aimed at designing a tax compliance model through tax education for SME entrepreneurs. The study was done through qualitative and quantitative approaches. The object of study was SME entrepreneurs operating in the handicraft field districts/cities in East Java. The results of the study showed that tax compliance can be built through tax fairness formed through the life of the entrepreneurs themselves. Also, tax fairness can be built through increasing the understanding about taxes for the SME entrepreneur. This understanding is dealing with the benefits associated with tax rates and tax penalties, tax type, tax administration, and the tax service. In improving the understanding of taxation, it is necessary to give education for the SME businesses primarily through socialization in the form of formal or informal. Based on the results of data analysis, it can be concluded that basically the SME entrepreneurs are able to understand their tax obligations when there is an aspect of fairness and tax benefits that can be received in real terms by SME entrepreneurs. The relevant suggestions are needed to do educational activities through dissemination of taxation and tax benefits for the continuity of SMEs entrepreneurs in East Java, Indonesia.

Summary

Small and medium enterprises play an important role in transitional economies due to some of their special features: minimum bureaucracy, flexibility, quick adaptation; and special functions: creating of additional working places, active promotion of innovations, creating a competitive environment. Different policy incentives are able to influence the development and growth of the SME sector. However, creating proper taxation policies can be of crucial factors in this process.

3.0 RESEARCH METHODOLOGY

This chapter deals with the research design, population of the study, sample and sampling technique, source of data, method of data collection, instrumentation, statistical analysis, validity and reliability of the data collection procedure.

3.1 Research Design

The two basic methodological philosophies to which different studies might naturally lend themselves are the qualitative and the quantitative methods. Whilst qualitative research is about exploring issues, understanding phenomena and answering questions by analysing and making sense of unstructured more descriptively, quantitative research more often draws inferences based on statistical procedures and often makes use of graphs and figures in its analysis (Ghauri&Grönhaug, 2005). In the study of research methods, the quantitative method expresses the assumptions of the positivist paradigm that tells that behaviour can be described through objective facts. This study aims at determining the correlation between identified variables.

The quantitative method is supportive in studies where some kind of explanation is sought to describe the cause of change in social facts, basically through the means of objective measurement and quantitative analysis. The quantitative method is a more powerful tool to calculate the magnitude of the relationship with added accuracy (Uma, 2006). Therefore, the researcher considers the quantitative survey method to be an appropriate tool for assessing the effect of tax on the sustainability of SMEs.

3.2 Population of the Study

Asika (2000) defines the population of a research as "all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher". A research population according to Ghauri and Gronhaug (2005) relate to the total universe of units from which the sample is to be selected. The target population for the study consists of SMEs in the Ga-West Municipality. The SMEs in the Ga-West Municipality was chosen due to the fact that from 2010 to 2012 their activities have generated revenue of GH¢1,309,631.14 in 2010 and GH¢1,670,221.32 in 2011. In 2012, the Assembly experienced a drop in IGF from GH¢1,670,221.32 in 2011 to GH¢1,621,142.87 (Ministry of Finance and Economic Planning, 2013). The Assembly generated GH¢ 863,760 representing 39.5 per cent of the estimated internally generated fund of GH¢ 2,189,149, for the first-quarter. The Ga-West Municipality is the second largest of the six Municipalities and Districts in Greater Accra Region. This implies that the activities of SMEs in the Ga-West Municipality are significant to economic development of the economy.

3.3 Sample and Sampling Technique

Bless and Higson-Smith (2000) defines a sample as "a sub-set of a population which must have properties which make it representative of the whole". Similarly, Bryman and Bell (2003) refer to samples as the population that is selected for investigation. Samples involve collecting information from a portion of the larger group, and on this basis, infer something about the larger group (population). The sample frame for the survey included SMEs in Ga-West Municipality. For the purpose of this research, a non-probability sampling technique thus, convenience sampling method was used to select the respondents.

This method was chosen because it was difficult to obtain a sampling frame for SMEs. In addition, convenience sampling provides easy access to the respondents, practical, and quick (Nachmias&Nachmias, 2008). Generally, the SMEs in Ga-West are categorized into retail and provision shop owners, food vendors, spare parts dealers, crops and fruits sellers, wax prints and dress dealers, engineering, mechanical and electrical services, carpentry shops, communication services, salons as well as transport operators. Based on these categories a sample size of fifty (50) was considered. The sample size was divided into ten (10) that is, five (5) per category.

3.4 Sources of Data

There are two different kinds of data; primary and secondary. The primary data was obtained through the administration of questionnaire. The structured questionnaire was the tool which was purposively distributed among SMEs in the Ga-West Municipal Assembly. The researcher used this mode

of data collection due to the fact that, it was easy for participants to be convinced and encouraged to complete the questionnaires as cited by Zikmund (2003). It was also easy for the researcher to approach participants. Secondary data from books, journals, dissertations and information from the internet were obtained to supplement the primary data.

3.5 Research Instrument

A self-developed questionnaire was designed as an instrument for the study. This has been attached as Appendix. The structured questionnaire is closed-ended in which the researcher provides a choice of answers. The questionnaire was divided into four different sections. Section 'A' included biographical questions, such as age, gender, highest level of education and number of years in business. Section 'B' of the questionnaire deals with tax effect on SMEs' sustainability while Section 'C' consists of factors affecting SMEs compliance to taxes in Ghana. The section 'D' also measures the growth of SMEs in the Ga-West Municipality. The scales in sections 'B' and 'C' were measured using Likert scales (strongly agree, agree, neutral, disagree, and strongly disagree).

3.6 Data Analysis

Data collected were transformed into more suitable format for analysis. After data processing, the Statistical Package for Social Science (SPSS) was used for the data analysis. The use of descriptive and inferential statistics as a statistical tool was included. To examine the hypotheses established in chapter one of the study, correlation analysis was used to test the hypotheses of this study. The general goals behind using the correlation analysis were to learn more about the relationship between the independent variables and a dependent variable, also to investigate the functional relationships between independent and dependent variables, in order to understand what might be causing the variation in the dependent variable.

3.7 Validity and Reliability

According to Ghauri and Grönhaug (2005), reliability refers to stability of measurement and relates to the absence of random errors of measurements (Ghauri&Grönhaug, 2005). Reliability measure demonstrates that the operations of the study such as data collection procedures could be repeated, with the same results. The researcher pre-tested the research instruments to determine their suitability and clarity for the study. In view of this, the researcher used a convenient sample of 5 participants for that purpose. Based on the results of the pre-testing, it was observed that participants did not have problem with the items on the research instruments used in the study.

Regarding reliability of primary data collected, the researcher stated in the questionnaire that the research was for academic purposes, did not ask respondents to give their names, there was no reward associated with responding to the questionnaire and it was fully voluntary. This was to instil confidence in respondents to give reliable responses. Further the researcher eliminated responses with excessively missing data from other analysis. In relation to secondary data of the data was collected from credible sources. Hence the information the researcher analysed in this study represents the exact data obtained from the field.

3.8 Ethical Consideration in Research

The researcher took steps to guarantee the ethical acceptability of the study. Specifically, confidentiality of information provided by the participants was assured. Also, anonymity of participants was enforced. In line with this, the researcher's instructed participants not to write their names on the questionnaire. Finally, respondents were made aware that participation in the study was voluntary.

4.0 RESULTS & DTA DISCUSSIONS

The study investigated effect of tax on the sustainability of SMEs in Ga-West Municipal Assembly. The analysis in the study was done using the Statistical Package for Social Science (SPSS). The analysis in the study is presented by means of correlation analysis.

4.1 Demographic Characteristics of Respondents

The demographic characteristics of respondents have been presented in Table 1.

Table 1: Characteristics of Respondents

Variables		*Frequency*	*Percent*
Age: (Years)	18-27	2	4.0
	28-37	19	38.0
	38-47	24	48.0
	48-57	5	10.0
	58 and over	0	0.0
Gender:	Male	28	56.0
	Female	22	44.0
Level of Education:	WASSCE	27	54.0
	HND	13	26.0
	First Degree	6	12.0
	Master's Degree	4	8.0
	PhD	0	0.0
Length of Business:	Less than 1year	0	0.0
	1-5 years	7	14.0
	6-10 years	32	64.0
	Above 10 years	11	22.0
Source of Finance	Self-Financing	25	50.0
	Bank Loans	9	18.0
	Funds from Relatives	3	6.0
	Loans from MFIs	13	26.0
Business Registered	Yes	50	100.0
	No	0	0.0
Where Registered	GRA	48	96.0
	GWMA	2	4.0
	AMA	0	0.0
	GRA and GWMA	0	0.0
Total Number of Respondents (N=50)			

Source: Field Data Analysis, 2015

The researcher administered 50 questionnaires which were retrieved and used for the analysis. The distributions of frequencies and percentages for each of the demographic variables in Table 1 shows majority of the respondents in the study were males constituting 56.0% of all the respondents while the 44.0% were females. This means that more males are in the categories of SMEs selected for the study. Respondents who were between 38 and 47 years make up 48.0% of the entire respondents. Those who were 28-37 years old constitutes 38.0%, however, 48-57 and 18-27 comprise 10.0% and 4.0% respectively. Thus, younger people are more into these businesses than the older people. Also, in terms of educational qualification, majority of the respondents representing 54.0% were WASSCE holders. Respondents who were holders of Higher National Diploma (HND) constitute 26.0% while those who had Bachelors' Degree make up 12.0%. Master's Degree holders constitute the least (8.0%) of all the educational qualification. There was no response for Doctorate degree. It can be deduced that highly educated people are not much involved in these businesses

In relation to sources of finance, 50.0% stated that their source of finance was self-financing which implies that they financed their own business operations, 26.0% indicated that they obtained loans from Microfinance Institutions as a source of finance while 18.0% stated that they used bank loans while the remaining 6.0% stated that they obtained support from relatives. With regards to experience in business, 64.0% of the respondents indicated that they have been in business for 6-10 years, 22.0% stated above 10

years while 14.0% of the respondents stated 1-5 years. From the analysis, it was realised that all the respondents, were all tax registered. They explained that they have been paying tax to both GRA and Ga-West Municipal Assembly. Finally, 96.0% of the respondents were registered with Ghana Revenue Authority (GRA) while 4.0% were registered with the Municipal Assembly. This implies that SMEs in the municipality are registered for tax purposes.

4.2 Relationship between Tax and SMEs Sustainability

To determine the relationship between tax and SME sustainability in the Ga-West Municipal Assembly, the Pearson product-moment correlation coefficients for tax and SME sustainability measures were calculated and interpreted in terms of direction, magnitude and significance. Table 2 presents the correlation result. In determining the relationships between overall tax and SMEs sustainability a correlation analysis was performed. The correlation coefficient (Pearson's r) measured the strength of the relationship between the overall tax and four indicators of SMEs sustainability (profitability, operating cost, expansion and investment). The hypotheses tested were: (H_1) stated that there is significant positive relationship between tax and profitability; (H_2) there exist a significant positive relationship between tax and operating cost; (H_3) there exists a significant positive relationship between tax and expansion and (H_4) there exists a significant positive relationship between tax and investment (savings).

The analysis first started by analysing the correlation results between tax and profitability. The result of the correlation analysis shows a negative relationship between tax and profitability with a coefficient of 0.605 and p-value of 0.006. This implies that, if tax increases, it would cause profitability to decrease. Additionally, the correlation between tax and operating cost which was 0.644 with a p–value of 0.00 meaning that there was positive relationship between tax and operating cost. Furthermore, the correlation coefficient between tax and expansion (in terms of branches) was 0.535 with a p-value of 0.002. This shows that there is a negative relationship between tax and expansion. This implies that if the tax increases, it would reduce the rate of expansion. Finally, the correlation coefficient between tax and investment (savings) was 0.590 and a p-value of 0. 368. This implies there was no relationship between tax and investment.

Table 4.2: Correlation Matrix between Tax (Income Tax) and SME sustainability

Tax	Profitability	Operating Cost	Expansion	Investment
Correlation Coefficient	-.605 (**)	.644 (**)	-.535 (**)	.590 (**)
Significance	.006	.000	.002	. 368
N	50			

***Correlation is significant at the 0.10 level (2-tailed). Source: Field Data Analysis, 2015*

Based on the results, it can be concluded that there is a significant positive relationship between tax and operating cost and so the first hypothesis is accepted. Similarly, the second and third hypotheses are accepted. However, the fourth hypothesis is rejected.

4.3 Factors that Affect Tax Compliance by SMEs

Concerning the factors that affect tax compliance of SMEs in Ga-West Municipal Assembly, Table 3 shows that, majority of respondents agreed to the fact that fear of small and medium enterprises (SMEs) to report profit due to high tax payment has become one of the factors affecting their tax compliance. This was evidenced by (30.0%) of the respondents whereas (24.0%) indicated that the issue of cumbersome procedures in relation to registration and filing of tax is irritating while 20.0% of the respondents stated poor bookkeeping records has a significant impact on compliance attitudes of SMEs. 16.0% of the respondents agreed to the statement that waste and corruption of government officials affected tax compliance of SMEs. Moreover, 6.0% of the respondents indicated that improper deductions on returns affected tax compliance by SMEs. 4.0% of the respondents stated that accounting irregularities affect tax compliance of SMEs. Finding from Osamwonyi (2009) and Basil (2005) supported this finding that issue of

proper bookkeeping records, taxation and regulations have negatively influenced their compliance level towards taxes.

Table 3: Factors that Affect Tax Compliance by SMEs

	Frequency	Percent
Fear to report profit due to high tax payment	15	30.0
Improper Deductions on a Return	3	6.0
Accounting Irregularities	2	4.0
Waste and Corruption of Government Officials	8	16.0
Cumbersome Procedures	12	24.0
Poor Bookkeeping Records	10	20.0
Total	50	100.0

Source: Fieldwork, 2015

4.4 Challenges of SMEs in accessing credit from MFIs

Results of challenges facing SMEs in accessing credit are presented in Table 4. One of the most common challenges facing SMEs globally is access to financial resources and SMEs in the Ga-West Municipal Assembly are no exception. From the analysis, it was noted that 42.0% of the respondents strongly agree that limited access to finance has been a challenge to their growth and expansion. They explained that, the stringent requirements from financial institutions such as provision of collateral make it impossible for them to access funds from financial institutions. Also, interest rates applicable to the loans are very high.

Results of the study also indicated that, the high cost of registration requirements for start-up firms coupled with delays in court proceedings and legal claim settlements have imposed undue and unnecessary burdens on SMEs which in turn affect their operations. Evidently, this finding supported the finding of the Word Bank Doing Business Report (2006) which stated that, it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favours larger companies while the lack of protection for property rights limits SMEs access to foreign technologies (Kayanula and Quartey 2000).

Sixteen percent (16.0%) of the respondents agree to the statement that, lack of proper record keeping has been a constraint on the growth of SMEs. This finding agrees with Maseko and Manyani (2011) who stated that majority of SMEs (62%) attributed the challenges they faced in keeping proper accounting records to lack of accounting knowledge, 18% of SMEs indicated cost and time constraints as challenges while 12% cited lack of guidelines or specific accounting regulations for SMEs as contributing to challenges, they faced in keeping proper accounting records. 8% of the SMEs cited other challenges.

Also 12.0% of the respondents affirm to inadequate managerial knowledge and skills as challenge facing SME access to credit. The finding agrees with Kayanula and Quartey (2000) who indicated that, despite the numerous institutions providing training and advisory services, there is still a skills gap among the SMEs sector as a whole. It was realized from the analysis that (8.0%) of the respondents stated that lack of access to market for the goods and services have contributed to the challenges of SMEs within the Ga-West Municipal Assembly.

Table 4: Challenges facing the Growth of SMEs

Challenges	Frequency	Percent
Limited Access to Finance	21	42.0
Poor Bookkeeping Records	8	16.0
High Cost of Registration Requirements	11	22.0
Inadequate Managerial Knowledge and Skills	6	12.0
Access to Market	4	8.0
Total	50	100.0

Source: Fieldwork, 2014

4.5 Discussion of Results

The main objective of this study is to establish the relationships between tax and SMEs sustainability. The study found a negative relationship between tax and profit/revenue which implies that the profitability of SMEs is adversely affected as a result of taxation levied on their operation. The result is in line with previous researches such as Adebisi and Gbegi (2013) and Terkper (2003) who also found negative relationship between tax and profitability. In addition, the positive relationship between tax and operating cost suggested that an increase in taxes significantly have a correlation increase effect on their operational costs. The result is in line with previous researches such as Weichenrieder (2007) and Farzbod (2000) who indicated that small and medium sized businesses are affected disproportionately by operational costs when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses. The study revealed a negative relationship between tax and expansion of SMEs in relation to infrastructures, equipment and machinery. Also, the study found no significant relationship between tax and investment. The result however is in line with the study of Tomlin (2008) who found that the small and medium companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. This has adversely affected their investment levels in improving their business operations. The positive relationships between tax and prices of SMEs means that increases in taxes correspondingly affect prices of SMEs activities and the result is consistent with the study of Pitigala and Hoppe (2011) who found high taxation levels and compliance costs have significant implications for small businesses, reducing incentives to expand production, leading to higher prices.

The issue of factors affecting the SMEs tax compliance in the Ga-West Municipal Assembly has been associated with fear to report profit due to high tax payment, lack of tax education among SMEs, lack of co-operation of tax officials, waste and corruption of government officials, cumbersome procedure and poor bookkeeping records. The result however is in line with the study of Ojochogwu and Ojeka (2012) who asserted that tax is an important stream of revenue for government's development projects, however, tax compliance among SMEs is poor due to multiple of taxes and lack of proper enlightenment.

Furthering the discussion, the findings of the study revealed that, the challenges associated with SMEs and their failure has been widely assigned to limited access to finance, lack of proper record keeping, high cost of registration requirements, inadequate managerial knowledge and skills and access to market. These findings were in line with the empirical works of (Saleh&Ndubisi, 2006; Samad, 2007; Wang, 2003).

5.0 CONCLUSION AND RECOMMENDATIONS

This chapter deals with summary, recommendations and conclusions. Summary is based on the study objectives, conclusions based on the problem statement and recommendations based on the conclusions.

5.1. Summary of Major Findings

Based on the main objective of the study, the researcher specifically examined the relationship between tax and SME sustainability in the Ga-West Municipal Assembly. A quantitative analysis was carried out on fifty (50) responses gathered. The empirical evidence of the study indicated that the objectives of the study were achieved.

5.1.1 Relationship between Tax and SMEs Sustainability

The main objective of the study was achieved based on the findings. It was realized that there is no statistically significant relationship between tax and SMEs sustainability in Ga-West Municipal Assembly in the sense that the findings showed that profit/revenue has coefficient of 0.605 and p-value of 0.006. This means that an increase in tax would have adverse impact on profitability of SMEs. In the same direction, there exist a positive relationship between tax and operating cost having the coefficient of 0.644 with a p–value of 0.00. There is a negative relationship between tax and expansion indicating that an increase in tax would reduce the potentials of SMEs of expanding by establishing more branches. Furthermore, the correlation result between tax and expansion (in terms of branches) also shows a correlation coefficient of 0.535 and p-value of 0.002. Finally, it disclosed that investment has no relationship with tax having a coefficient of 0.590 and a p-value of 0.368.

5.1.2 Factors that affect tax compliance by SMEs in Ga-West Municipality

Empirically, the objective to examine the factors that affect tax compliance by SMEs in Ga-West Municipality was achieved. The study revealed that the critical factors influencing tax compliance by SMEs in Ga-West Municipality were lack of tax education among SMEs, lack of co-operation of tax officials, waste and corruption of government officials, cumbersome procedure and poor bookkeeping records. These factors have significantly contributed to the low tax revenue mobilization by the government. This agrees with findings from Osamwonyi (2009) and Basil (2005).

5.1.3 Challenges Facing the Growth of SMEs in Ga-West Municipal Assembly

Finally, the objective of identifying the challenges facing the growth of SMEs in Ga-West Municipal Assembly was practically achieved. It was discovered that limited access to finance, lack of proper record keeping, high cost of registration requirements, inadequate managerial knowledge and skills and access to market were challenges affecting the growth of SMEs in Ga-West Municipal Assembly. This supported the finding of the World Bank Doing Business Report (2006).

5.2 Conclusion

Empirically, the study examined the effect of tax on the sustainability of SMEs in Ga-West Municipal Assembly. It became evident that the development and operation of SMEs have economic impact on the national economic development. The study established that there is a relationship between taxation and SMEs survival. Also results of the study indicated that tax has a negative effect on the sustainability of SMEs in Ghana.

5.3 Recommendations

Based on the findings of the study the following recommendations are put forward to guide policy on SMEs.

- The government of Ghana through its revenue agency should draft policy document which contain strategies and plans of action for capacity building including tax competence issues. There is the need for all stakeholders to work together and develop harmonious tax policy which should benefit both government and SMEs.

- SMEs in Ghana are advised to maintain books of accounts summaries since it would help them to know their actual revenue and expenditure of their businesses. Basically, this would help to reduce the amount paid as tax since the tax imposed on them would be reflecting the true figure of their business' turnover.

- There should be a single tax for SMEs taxpayers. This would significantly assist to engineer the growth of SMEs in Ghana and reduce the burden of multiple taxation

- The GRA should educate SMEs on the need to pay taxes and how their tax liability is determined and the time process of the tax assessment throughout the country to avoid tax compliance. Taxes should be collected in relation to the sizes and profit of SMEs.

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