

Enhancing Revenue Mobilization in Ghana through Tax Compliance

*Address Given by Professor Newman Kwadwo Kusi Executive Director, Institute for Fiscal Studies
At the Ghana Tax Dialogue organized by OXFAM October 24, 2018 in Accra*

Ghana's tax/GDP (rebased) ratio currently sits below 13%. Not only is the country's tax revenue as a share of GDP low in absolute terms, it is also very low as a share of GDP relative to those of its African peers, pointing to the need to significantly increase tax revenue. Developing mechanisms to improve tax revenue has however become challenging on at least two fronts: (i) lack of good data on tax compliance; and (ii) difficulty in finding effective instruments for improving compliance, given the institutional constraints. One way to raise more tax revenue therefore is to improve the effectiveness of the tax administration system. Another important way is to improve tax compliance. This means strengthening the capacity and resources needed for better taxpayers' services and

enforcement, reviewing tax structures, and investing in skills and management systems needed to establish a productive tax system.

Another common feature of the tax system in Ghana is the small number of registered taxpayers. Paid workers and a relatively small number of medium sized and large enterprises account for the majority of taxpayers. Local government tax systems are often ignored in the country's tax reform work despite the fact that they affect more people than the national tax system. Extensive tax leakages in the form of exemptions and concessions are granted to a number of foreign companies and investors. This practice is increasingly eroding the tax base and undermining the legitimacy of the tax system.

Tax evasion and avoidance are massive in sectors like natural resource extraction, tourism, banking and finance sector, and telecommunications. This means that there is a large potential for higher domestic revenue, calling for the need to broaden the tax revenue base by improving the taxpaying culture to enhance compliance. It also implies a focus on building an effective tax system through tax policy reforms, capacity building of the tax administration and improved accountability.

Measuring tax compliance and evaluating its determinants is challenging in any context. Examining these issues in Ghana is particularly difficult due to the large size of the informal sector. Taxpayer surveys may be able to capture a representative sample of the population, but these rely on self-reports. Some businesses and individuals may be unwilling to report their registration and tax payment status accurately. But, such self-reported survey data can be particularly problematic when used to evaluate the causal effects of interventions designed to improve compliance. Again, official data, even if good, is restricted since it only captures individuals and businesses that are already formal in the tax net. This creates limitations in pushing tax formalization, an important compliance factor.

Another major challenge in raising tax revenue is finding effective instruments to improve compliance. Traditional approaches to combating tax evasion have generally focused on audit threats. While such threats may be effective in the short run, they need to be followed by actual audits in order to generate improvements in compliance in the long run. A problem with audit-based enforcement that

is particularly common in Ghana is misalignment of incentives. For audits to be effective, tax officials must have incentives to put forth monitoring efforts and behave honestly, but there are often failures on both fronts. Improving governance in the tax context has thus become challenging in the country.

To improve taxpayer compliance and curb tax avoidance and evasion, government must aim at modernizing and bolstering the effectiveness of the tax administration at national and district levels by reorganizing them along functional lines, building and integrating taxpayer databases and information technology, and requiring a tax identity number in all public financial transactions. To this end, serious attention should be paid to the issuing of tax identification numbers (TIN) to the self-employed, companies, etc. GRA must also build a database of all taxpayers, including their status (Ghanaians or residents), where they live or reside, the nature of work or business they do, how much money (estimate) they make in a year, etc. With this information, individuals and businesses can be taxed based on their total income, from whatever source earned.

Improving tax compliance also requires long-term efforts, beginning with strengthening the organization and management of GRA, implementing a robust collection system such as payment and withholding systems, and building capacity in core administration functions (registration, filing and payment enforcement, debt collection, audit, taxpayer services, and processing of appeals). A reform of the legal framework and judiciary is also required to ensure that the necessary powers, penalty regimes, and dispute resolution processes are in place.

Increasingly, information and communication technology is playing a critical role in compliance management: through automatic gathering of third-party information as a by-product of natural business processes; use of electronic invoices to facilitate real-time transaction monitoring and verification; and analysis of revenue risks.

GRA must also consider adopting comprehensive tax compliance strategies, often referred to as a “compliance program”. A tax compliance program is a high level plan that brings together in a single document a description of the most significant compliance risks identified in the tax system and setting out broad details of how the revenue agency intends to respond to those risks. The compliance program should be structured around the major taxpayer segments, for example, large businesses, medium-size enterprises, small and micro enterprises and individuals, and address compliance risks relevant to these segments. The success of the self-assessment system depends on the extent to which most taxpayers voluntarily comply with their obligations to register, keep proper records, file correct returns and pay tax on time without the intervention of a tax official. This should be underpinned by an administrative approach that ensures that voluntary compliance is optimized through simple laws and procedures, and risk-based verification programs. The objective is to achieve the widest possible impact on voluntary compliance across the taxpayer population.

To enhance tax collection from citizens and residents of the country, government must also embark on a program to educate the masses about the need for taxes.

The average person must be made to understand that the government cannot develop the country, provide all the services and undertake all the projects the people demand without money. These services and projects cannot be undertaken without the government generating money in the form of taxes from the people and businesses operating in the country. Sadly, many workers, self-employed people and companies pay little or no tax. Yet, they all demand services, one way or the other, from the government. Without adequate tax payments, not enough revenue can be generated to promote and maintain sustainable economic growth and development. Indeed, no country on this earth ever developed without an adequate tax base to fund its services and programs.

Taxpayer education assists and encourages taxpayers in meeting their tax obligations to the government. It also imparts knowledge as regards tax laws and compliance; changes taxpayers’ attitude towards taxation; and increases tax collection through voluntary compliance. Tax non-compliance may be unintentional, where the taxpayer is not aware of his/her tax obligation or fails to fulfill his/her tax obligations due to ignorance of the tax laws and procedures, or may be intentional due to the compliance attitudes. It is expected that, tax education will assist taxpayers to understand tax laws and procedures, the role of tax in national development, and especially to explain how and where the money collected is spent by the government to help create a positive tax compliance attitude. Taxpayer education provides necessary tax information and knowledge, particularly to small and medium enterprises in both the formal and

informal sector, which enables them to comply with their tax obligations and change their perceptions and attitudes towards tax compliance. It also makes taxpayers become more aware of their responsibility as well as the sanctions to be imposed if they are not compliant with the tax laws.

The launch of the Tax and Good Governance Advocacy Program in April this year in Cape Coast by the GRA was a welcome move to sensitize taxpayers on the need to pay their taxes to discharge their civic responsibility. The occasion afforded the Authority an opportunity to redouble its efforts at educating the taxpayer population to fully understand their rights and responsibilities regarding various tax policies and the need to honour them. It also provided an opportunity for some dignitaries in the region to file their tax returns as a symbol of discharging their tax responsibilities. The move also created an accessible and convenient location for other taxpayers to file their tax returns. This brought GRA services closer to taxpayers, made filing simpler and less costly, while demystifying the procedures for filing tax returns to increase compliance and enhance revenue generation.

A number of tax compliance measures have also been adopted by GRA, including the granting of tax amnesty; introducing electronic point of sale device (EPOSD); introducing excise tax stamp; withholding tax on VAT supplies and purchase by appointed agents; granting tax reliefs to young entrepreneurs; and rolling out the Total Revenue Integrated Processing System (TRIPS). GRA has also announced

that, with effect from April this year, persons without tax identification numbers (TIN) to enable it to credit them whenever they pay their taxes, cannot open a bank account, file a case in court, acquire a passport or obtain a driver's license, register a vehicle, clear goods in commercial quantities from the ports or register any title to land or any document. Other services for which a TIN is needed include registration of a company at the Registrar General's Department or any District Assembly office and receiving any payment from the Controller and Accountant General or a District Assembly in respect of a contract for the supply of any goods or provision of any services. All these are welcome decisions that would help ensure tax compliance in the country and support revenue mobilization.

To increase voluntary compliance with the filing of tax returns and paying taxes due, there is a need for the authorities to provide a level playing field. Extending good tax services to taxpayers, while strengthening audit and enforcement, is essential to increase voluntary compliance. Though such services exist in the taxation system, there is considerable scope for improvement.

The present system in the country whereby revenue agents walk about in some areas in the cities and towns to collect taxes in cash creates an opportunity for the agents to cheat the system and steal from taxpayers by conniving with them and/or issuing false tax receipts. This is not a good system for internal controls, record keeping and accountability. GRA must open more revenue offices throughout the country and/or establish relations with the banks and other

financial institutions to make it easier and efficient for people to pay their assessed taxes. It is indeed welcome news that the GRA is implementing an integrated tax administration system for self-help services such as online registration, filing and payment of taxes.

In conclusion, it needs to be recognized that taxation is not just an administrative task for governments and citizens. It is also about politics and power, and the way that authority is exercised in the country through public institutions.

Tax systems can potentially contribute to shape accountability relationships between the state and citizens. For taxation to have a positive effect on accountability and to ensure that tax issues are part of the public political agenda, taxes must be ‘felt’ by a majority of the population. However, if taxpayers feel that their tax payments are wasted, they will resist paying, i.e., they will not comply. The importance of broadening the tax revenue base and building a taxpayer culture should herefore not be underestimated. Mechanisms and strategies to strengthen the tax system and ensure full compliance have to be tailored to the economic, political and institutional factors in the country.



Residential Address

No. 13, 2nd Close, Airport Residential Area, Accra, Ghana

Postal Address

P.O. Box CT 11260, Cantonments, Accra, Ghana

+233 302 786 991

info@ifsghana.org

www.ifsghana.org