

Ghanaians willing to pay taxes but find it difficult to know how tax revenues are used

Afrobarometer Dispatch No. 440 | Isaac Newton Bortey

Summary

Taxes are enforced exactions, not voluntary contributions to the state. Fines and penalties are designed to ensure compliance with tax laws. In spite of these enforcement mechanisms, the willingness of citizens to pay taxes plays an important role in tax administration.

Revenues mobilized from taxes provide governments with the funds they need to provide public services and invest in development projects. While one might assume that seeing such services and projects would make citizens more willing to pay taxes, studies have found that this is not necessarily the case (Castro & Scartascini, 2015; Bergolo, Ceni, Cruces, Giacobasso, & Perez-Truglia, 2017). Instead, the willingness of citizens to settle tax liabilities has been found to be influenced by other factors, including their knowledge and understanding of tax rules and favourable perceptions of the effectiveness and fairness of the taxation system (Setyonugroho & Sardjono, 2013).

In Ghana, tax revenues have not matched rising public expenditures in recent years. From 2017 to 2018, government expenditures increased by 20%, while tax revenues grew by 17% (Ghana Statistical Service, 2020; Bank of Ghana, 2018).

The Ghana Revenue Authority (GRA) is responsible for administering tax laws via its Domestic Tax Revenue Division and Customs Division. To promote compliance, the GRA has instituted measures to make paying taxes easier and more convenient, including registration of all eligible taxpayers for a tax identification number (TIN) and the launch of an e-service portal for the payment of customs duties and other levies by importers and freight forwarders (Ghana Revenue Authority, 2020).

The GRA has also worked to enforce compliance, including by publishing a list of companies that had defaulted on their tax liabilities and closing down some of them (Ghana Revenue Authority, 2019a; Ghanaian Times, 2019).

In an effort to regularize tax affairs for defaulters and expand the tax base, the government announced a tax amnesty in 2018 allowing defaulters to clear their arrears without penalty, but the policy fell short of its target (Ghana Tax Authority, 2019b). In its 2021 budget statement to Parliament, the government announced an extension of interest waivers on defaulted taxes through September 2021 (Ministry of Finance, 2021).

But if compliance and enforcement measures alone do not ensure willingness to pay taxes, how might citizens' views on taxes inform the government's effort to collect needed revenues?

The most recent Afrobarometer survey in Ghana shows that most Ghanaians endorse taxation and are even willing to pay more in taxes to support the country's development. But they also say it's difficult to find out what taxes they owe and how tax revenues are used, and they see corruption in the GRA and tax evasion among their peers as widespread.

Afrobarometer surveys

Afrobarometer is a pan-African, nonpartisan survey research network that provides reliable data on African experiences and evaluations of democracy, governance, and quality of life. Seven rounds of surveys were completed in up to 38 countries between 1999 and 2018.

Round 8 surveys in 2019/2021 are planned in at least 35 countries. Afrobarometer conducts face-to-face interviews in the language of the respondent's choice with nationally representative samples.

The Afrobarometer team in Ghana, led by the Ghana Center for Democratic Development (CDD-Ghana), interviewed 2,400 adult Ghanaians between 16 September and 3 October 2019. A sample of this size yields country-level results with a margin of error of +/-2 percentage points at a 95% confidence level. Previous surveys were conducted in Ghana in 1999, 2002, 2005, 2008, 2012, 2014, and 2017.

Key findings

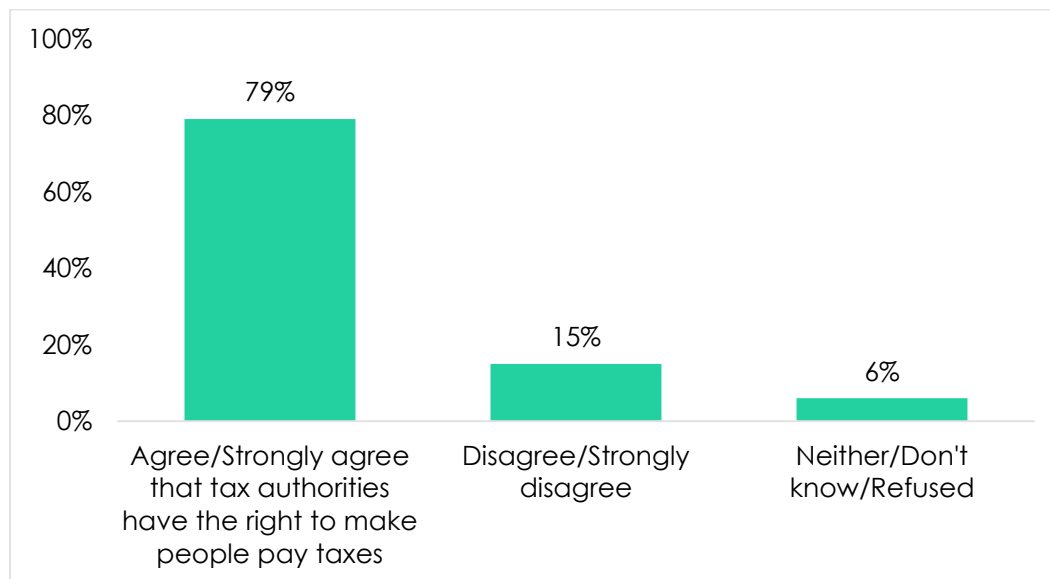
- Ghanaians overwhelmingly (79%) endorse the government's right to make people pay taxes.
- But large majorities also say it's difficult to find out what taxes they're supposed to pay (61%) and how the government uses tax revenues (70%).
- A plurality (40%) of Ghanaians believe that ordinary people are expected to pay too much in taxes, while about one-third (35%) think the amount is about right.
- Only four in 10 citizens (39%) say they trust the tax authorities "somewhat" or "a lot." More than eight in 10 (84%) think at least "some" tax officials are corrupt, including one-third (34%) who think that "most" or "all" are involved in graft.
- Three-fourths (73%) of Ghanaians want the government to ensure that small traders and others in the informal sector pay taxes.
- Ghanaians are more willing to pay taxes if they perceive the government as doing a good job of delivering basic services.
- A majority (72%) of citizens are willing to pay more in taxes to help finance the country's development from domestic resources rather than through external loans.
- Most Ghanaians (72%) think that their fellow citizens "often" or "always" avoid paying their taxes.

Support for taxation

Taxation is integral to the effective functioning of a country. If citizens honor their tax obligations, the government will have funds to provide the public services everyone depends on. The perceived legitimacy of tax authorities to collect taxes is important to achieve a high level of voluntary tax compliance (Hofmann, Gangl, Kirchler, & Stark, 2014).

In Ghana, eight out of 10 citizens (79%) say that tax authorities always have the right to collect taxes. Fewer than two out of 10 (15%) disagree (Figure 1).

Figure 1: Views on legitimacy of taxation | Ghana | 2019



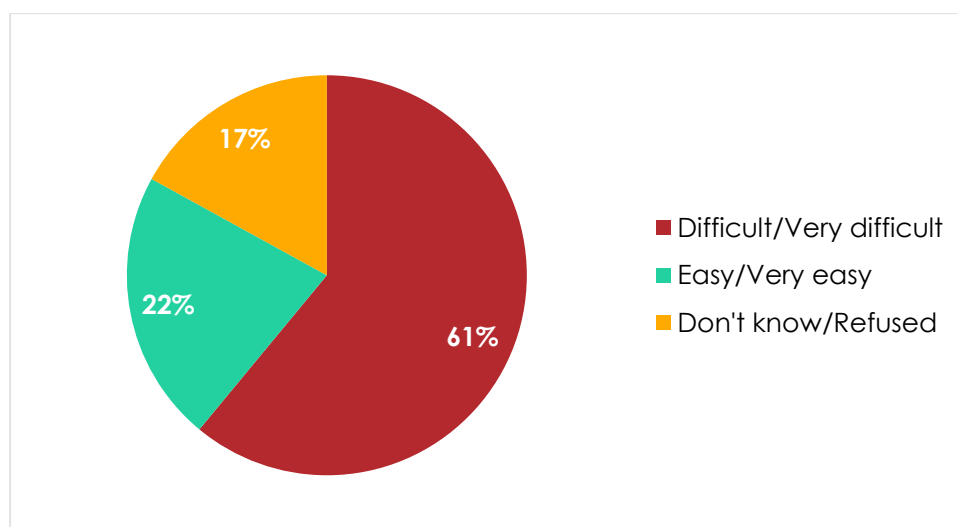
Respondents were asked: For each of the following statements, please tell me whether you disagree or agree: The tax authorities always have the right to make people pay taxes?

Lapses in tax administration

Tax administration plays an important role in mobilizing domestic resources. A good tax administration system is one that efficiently implements laws, provisions, and policies related to taxes. Tax culture and administration are improved if citizens know what amount of taxes to pay, where to pay them, and how to resolve tax disputes. The system of tax administration should be able to ensure high compliance by taxpayers while being efficient in how much it spends to collect taxes.

In Ghana, six out of 10 citizens (61%) say they find it "difficult" or "very difficult" to know what taxes they have to pay to the government. Only two out of 10 (22%) say it's easy (Figure 2). This raises questions about the level of tax education among Ghanaians.

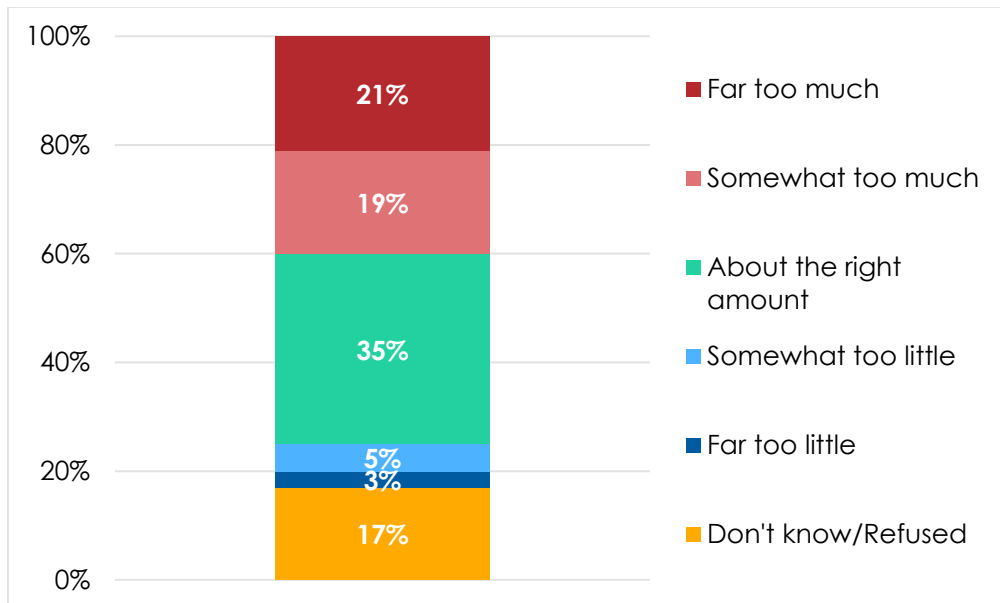
Figure 2: Difficulty in knowing what taxes to pay | Ghana | 2019



Respondents were asked: Based on your experience, how easy or difficult is it to find out what taxes and fees you are supposed to pay to the government?

Despite uncertainties about which taxes they owe, a plurality (40%) of Ghanaians say the amount of taxes that ordinary people are expected to pay is "somewhat too much" (19%) or "far too much" (21%) (Figure 3). About one-third (35%) think the amount is just about right, while only 8% consider taxes too low.

Figure 3: Are taxes too high or too low? | Ghana | 2019

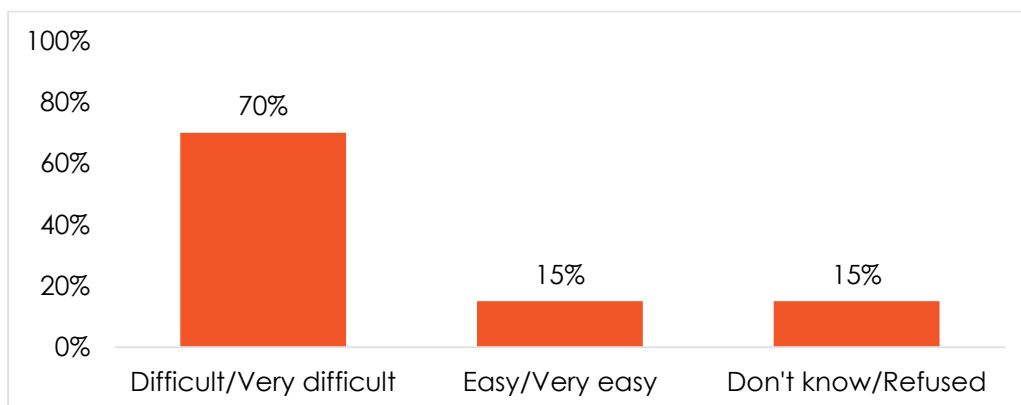


Respondents were asked: Do you think that the amount of taxes that ordinary people in Ghana are required to pay to the government is too little, too much, or about the right amount?

Tax morale – citizens' motivation to pay their taxes – promotes voluntary compliance in tax administration (OECD, 2013). Knowing what the government does with taxes collected from citizens can boost tax morale. Revenues from the value added tax (VAT), Pay As You Earn (PAYE) personal incomes taxes, withholding taxes, and corporate income taxes are intended to be channeled into development of the country. If citizens are not aware of what these compulsory payments are used for, it can negatively affect tax administration efforts.

The survey data show that seven out of 10 Ghanaians (70%) find it "difficult" or "very difficult" to know what the government does with taxes it collects (Figure 4).

Figure 4: Difficulty in knowing what government does with taxes | Ghana | 2019



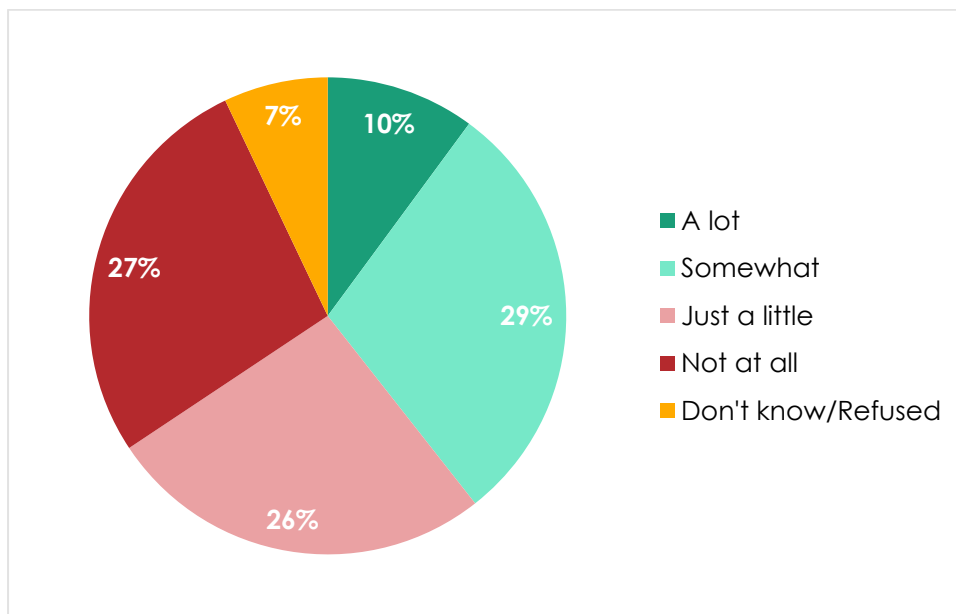
Respondents were asked: Based on your experience, how easy or difficult is it to find out how government uses the revenues from people's taxes and fees?

What Ghanaians think of the Ghana Revenue Authority

In a democracy, the trust that the people have in their public institutions is essential to the running of the state machinery. In the context of tax compliance and administration, citizens must be able to trust the tax authorities to care about the interest of the general populace and to refrain from self-interest. Trust in tax authorities has been shown to enhance voluntary compliance with tax laws (Bătrâncea & Nichita, 2013; Wahl, Kastlunger, & Kirchler, 2010).

In Ghana, only four in 10 citizens (39%) say they trust the tax authorities even “somewhat.” People are almost three times as likely to say they don’t trust the GRA “at all” (27%) as they are to say they trust it “a lot” (10%) (Figure 5). Such a low level of trust is likely to hamper compliance with tax laws.

Figure 5: Trust in the Ghana Revenue Authority | Ghana | 2019



Respondents were asked: How much do you trust each of the following, or haven't you heard enough about them to say: The Ghana Revenue Authority?

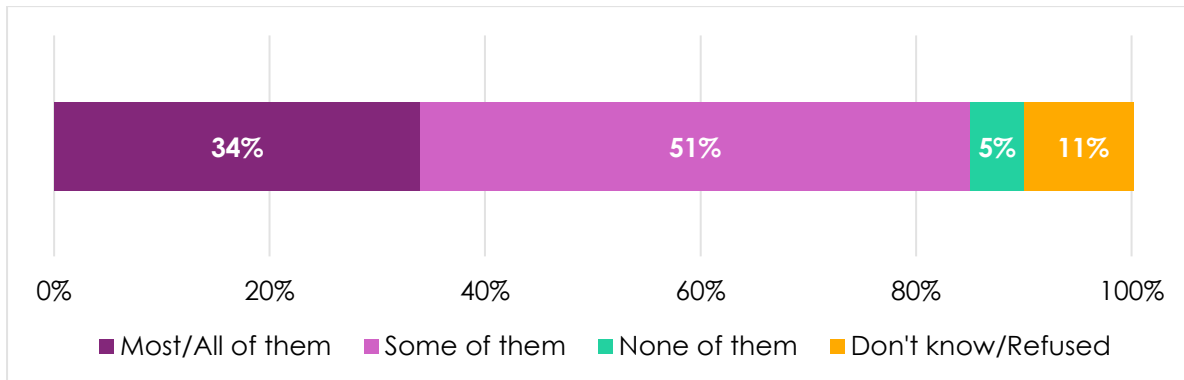
One factor that can undermine public trust is corruption, a pervasive problem that can derail development in the less developed world. There is some evidence that tax evasion is associated with perceptions of corruption in public institutions, particularly among tax officials (OECD, 2013). Bertinelli, Bourgain, and Léon (2020) showed that in Mali, the involvement of tax officials in taking bribes from small firms led to a significant reduction in tax compliance.

Previous political administrations in Ghana have declared “zero tolerance” for corruption (Wahl, Kastlunger, & Kirchler, 2010), and in 2020 the GRA launched a Tax Audit and Quality Assurance Unit to deal with complaints of corruption (GNBCC, 2020).

Nonetheless, more than eight in 10 Ghanaians (84%) say that at least “some” tax officials are corrupt, including one-third (34%) of citizens who think that “most” or “all” are involved in graft (Figure 6).¹

¹ Due to rounding, overall totals may differ by 1 percentage point from the sum of sub-categories, e.g. 34% “most/all of them” + 51% “some of them” = 84% “at least some of them.”)

Figure 6: Perceived corruption among tax officials | Ghana | 2019



Respondents were asked: How many of the following people do you think are involved in corruption, or haven't you heard enough about them to say: Tax officials, like officials from the Ghana Revenue Authority?

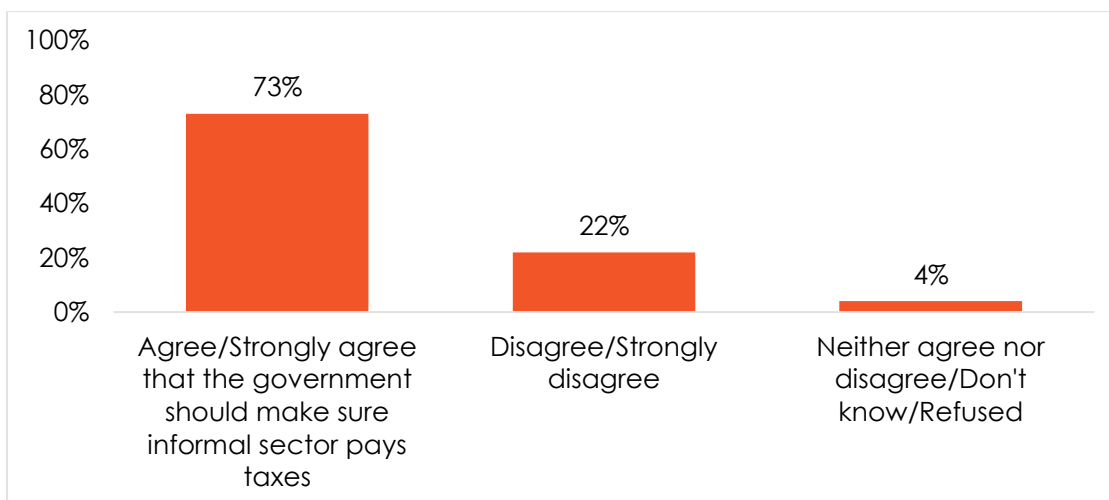
Widening the tax net

While individuals residing in Ghana are mandated to pay tax on their income regardless of where it was earned or generated, the country's economy is dominated by a large, difficult-to-tax informal sector. Most businesses in the informal sector do not have formal structures and are not registered with the GRA for tax purposes. They do not file tax returns, so their incomes often fall outside the country's tax net.

This places a burden on the small formal sector to pay taxes needed for government services and development. Successive governments have tried to tax the informal sector, introducing taxes specifically targeting informal-sector operators. These include the vehicle income tax on public transport operators, the tax stamp for collecting income tax from small traders, and the flat rate scheme for expanding the reach of the VAT (Prichard & Bentum, 2009).

When asked whether the government should ensure that small traders and others in the informal sector pay taxes on their incomes, almost three-fourths (73%) of Ghanaians "agree" or "strongly agree" that it should do so (Figure 7).

Figure 7: Should government make sure the informal sector pays taxes? | Ghana | 2019



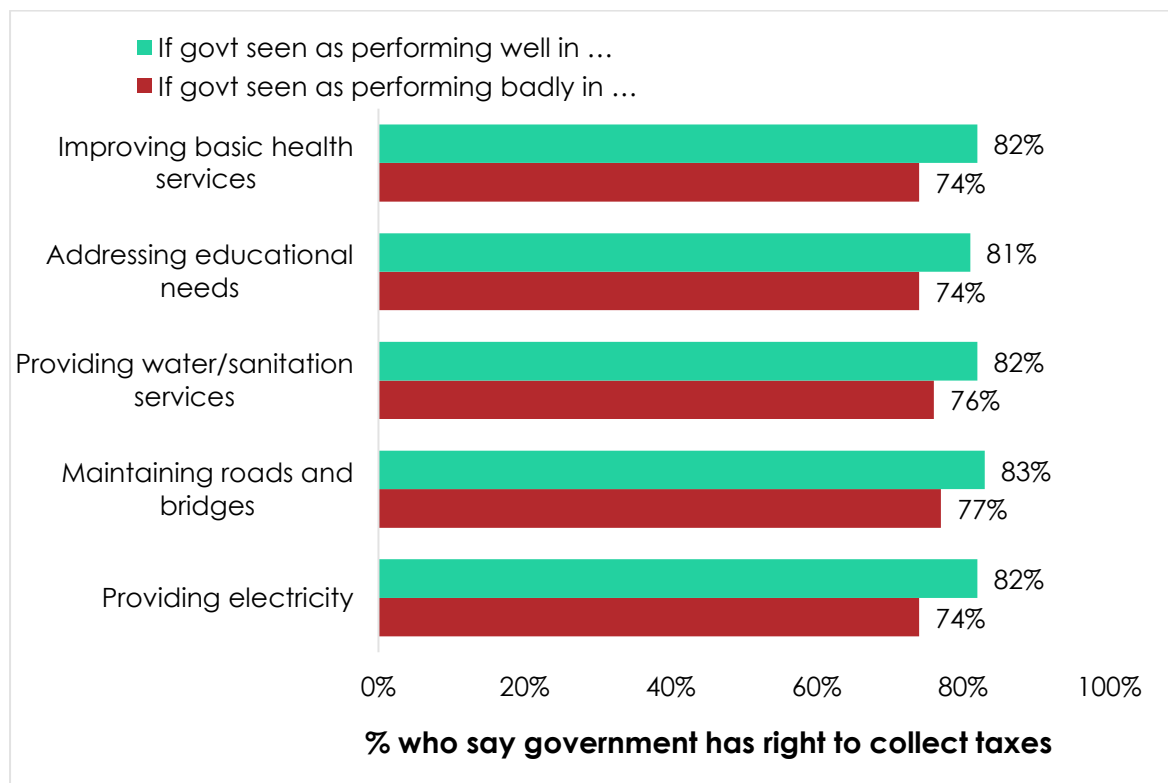
Respondents were asked: Do you agree or disagree with the following statement: Government should make sure small traders and other people working in the informal sector pay taxes on their businesses?

Tax reciprocity and willingness to pay taxes for development

Tax enforcement mechanisms such as fines and penalties act to deter citizens from evading taxes and promotes compliance with tax laws. In addition to these enforcement mechanisms, compliance is encouraged by a kind of reciprocity response of citizens in their relation to the state: Citizens will comply with their tax obligation if they see that the government performs well in its commitments to deliver services and other public goods (Doerrenberg & Peichl, 2018).

As we saw above, Ghanaians overwhelmingly believe that the government has the right to collect taxes. Taking this view as a proxy for their willingness to pay taxes, we find that it is positively correlated² with respondents' assessments of the government's performance in providing basic services (Figure 8). In other words, if citizens think the government is doing a good job of improving basic health services, addressing educational needs, providing water and sanitation services, maintaining roads and bridges, and providing a reliable supply of electricity, they are 6-8 percentage points more likely to endorse its right to collect taxes.

Figure 8: Government has right to collect taxes by assessment of government provision of basic services | Ghana | 2019



Respondents were asked:

How well or badly would you say the current government is handling the following matters, or haven't you heard enough to say? (% who say "fairly well" or "very well" vs. % who say "fairly badly" or "very badly")

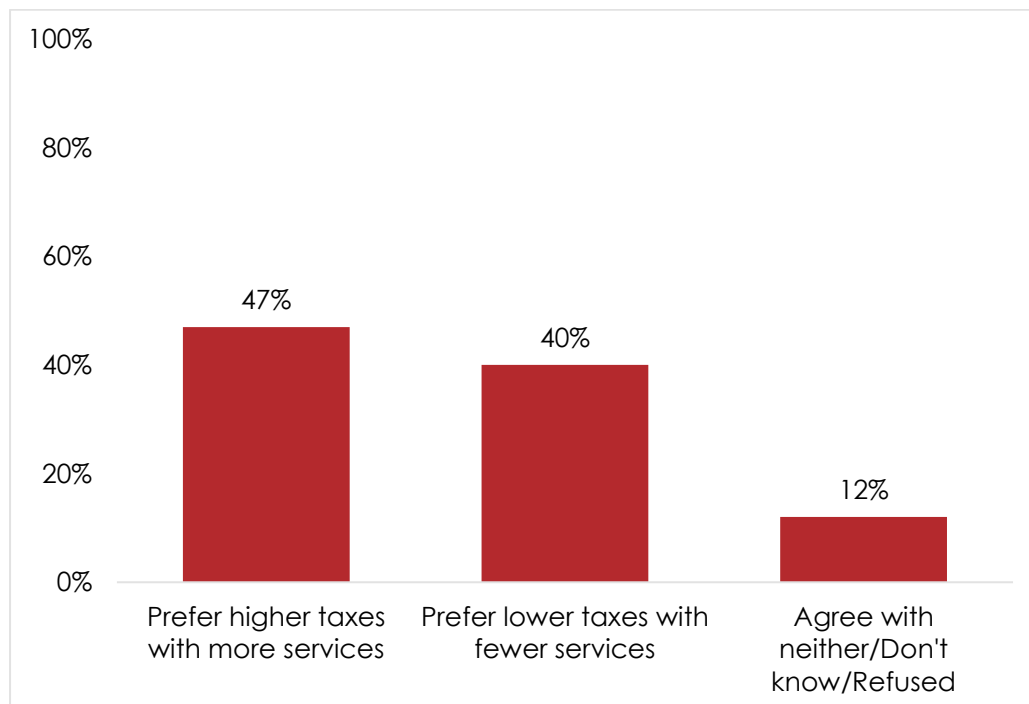
For each of the following statements, please tell me whether you disagree or agree: The tax authorities always have the right to make people pay taxes? (% who "agree" or "strongly agree")

² Pearson correlation coefficients: improving basic health services, 0.049 (p=0.02); addressing educational needs, 0.36 (p=0.87) (not statistically significant); providing water and sanitation services, 0.044 (p=0.036); maintaining roads and bridges, 0.044* (p=0.036), providing a reliable supply of electricity, 0.061 (p=0.004).

Government decisions to raise or introduce new taxes – as it did in its 2021 budget statement, introducing two new COVID-19 health levies (Ministry of Finance, 2021) – are often met with resistance from the general public. Afrobarometer asked respondents whether they think it's better to “pay higher taxes if it means that there will be more services provided by government” or to “pay lower taxes, even if it means there will be fewer services provided by government.”

Views are divided: 47% endorse higher taxes if the government provides more services, while 40% would opt for lower taxes, even if services were reduced (Figure 9).

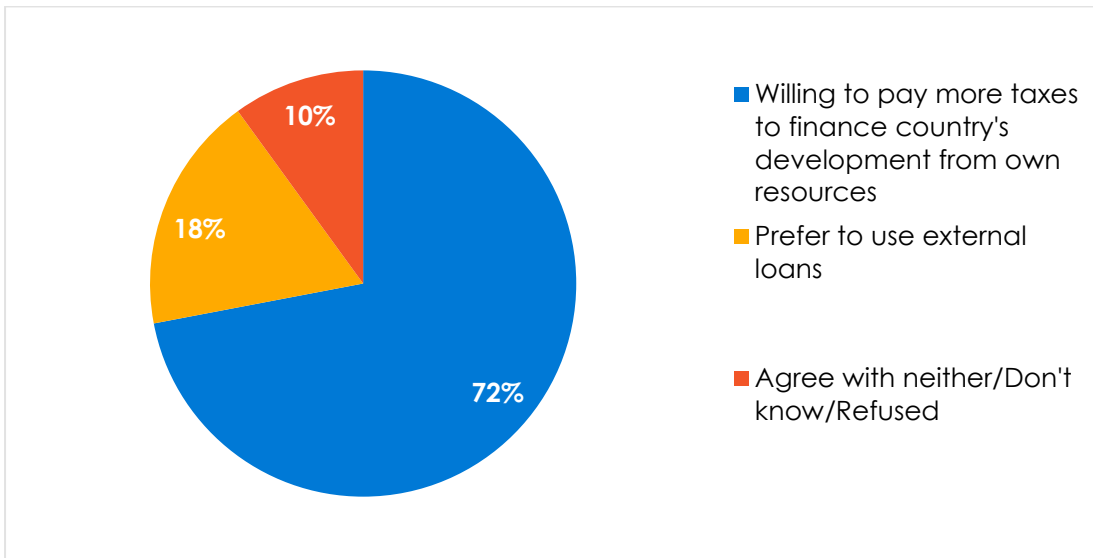
Figure 9: Higher taxes with more services or lower taxes with fewer services?
 | Ghana | 2019



Respondents were asked: Which of the following statements is closest to your view?
 Statement 1: It is better to pay higher taxes if it means that there will be more services provided by government.
 Statement 2: It is better to pay lower taxes, even if it means there will be fewer services provided by government.
 (% who “agree” or “agree very strongly” with each statement)

But a large majority (72%) express a willingness to pay higher taxes in order to finance the development of the country with domestic resources, rather than external loans. Only 18% of Ghanaians prefer external loans over domestic resource mobilization through taxes (Figure 10).

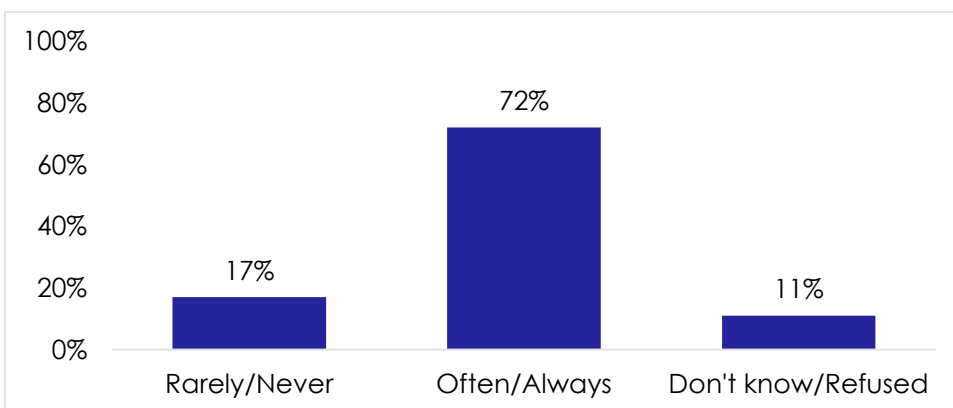
Figure 10: Willingness to pay more taxes to finance development | Ghana | 2019



Respondents were asked: Which of the following statements is closest to your view?
 Statement 1: It is important that as an independent nation, we finance development from our own resources, even if it means paying more taxes.
 Statement 2: We should use external loans for the development of the country, even if it increases our indebtedness to foreign countries and institutions.
 (% who "agree" or "agree very strongly" with each statement)

While most Ghanaians support taxation, and are even willing to pay more in taxes to advance the country's general development, they also see tax evasion as a common practice. More than seven out of 10 respondents say Ghanaians "often" or "always" avoid paying taxes due the state (Figure 11).

Figure 11: Tax avoidance | Ghana | 2019



Respondents were asked: In your opinion, how often, in this country, do people avoid paying the taxes that they owe the government?

Conclusion

Ghanaians are willing to pay taxes, especially if they perceive the government to be providing basic services. But they also point to a variety of weaknesses in the country's tax administration.

In addition to seeing it as difficult to obtain information about taxes and how they are used, they express little trust in the GRA, where they say corruption is widespread.

Nor do they trust that their fellow citizens are paying their taxes, and would in fact like the government to take measures to make sure that the informal sector pays its fair share.

Widespread tax evasion creates the obvious problem of underfunding the government but also raises concerns about the fairness of the country's tax system. Researchers have identified a number of factors that can contribute to people's decision to evade taxes, including perceptions that tax rates are high, that tax officials are corrupt, and that tax systems lack fairness, transparency, and accountability (Armah-Attoh & Awal, 2013; Akinyomi & Okpala, 2013). The danger here is that when taxpayers see many of their compatriots evading taxes, they are likely to think that their intrinsic motivation to comply with their tax obligations is not recognized, decreasing the moral costs to them of evading taxes themselves.

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