

Contribution of Tax Morale and Compliance Costs to Tax Compliance of Micro and Small Scale Enterprises in Ghana

Edmond Ofori

Department of Accounting, West End University College Accra, Ghana

Email: ofmond@yahoo.com

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Abstract

The purpose of the study was to find out the extent to which tax morale and compliance costs may influence tax compliance of Micro and Small Scale Enterprises in Ghana. This study used cross-sectional and correlational design. Judgement purposive sampling method was used for the study. Standardize questionnaire was used for data collection. Strong statistically significant positive relationship between tax morale, compliance costs and tax compliance of Micro and Small Scale Enterprises in Ghana was found. Tax morale and compliance costs explain 64.4 percent of the variance in tax compliance of Micro and Small Scale Enterprises in Ghana. The study is limited to only Micro and Small Scale Enterprises in Ghana but did not cover other sectors of the Ghanaian economy. The findings of this study indicate that tax morale and compliance costs form part of the factors that influence Micro and Small Scale Enterprises in Ghana to comply with tax policies in Ghana.

Keywords – Tax morale, compliance cost, tax compliance, Micro and Small Scale Enterprises, Ghana.

Introduction

Companies in Ghana are compelled by government of Ghana to pay a general corporate tax rate of 25 percent on the net income they earned at the end of the every quarter within a given year. Companies also pay monthly income tax on behalf of their employees after deduction of the tax from employees' monthly gross income (Ghana Revenue Authority, n.d.). Although government of Ghana considers the general corporate tax rate of 25 percent to be moderate for revenue generation in Ghana, companies in Ghana consider it as a burden on the companies which force most of the companies especially the Micro and Small Scale Enterprises (MSE's) in Ghana to evade taxes (Newsghana.com.gh, 2017). The government of Ghana through Ghana Revenue Authority (GRA) needs to implement good policies to motivate companies to comply with tax payment in Ghana as it will increase government revenue. Tax compliance requires companies to file their tax returns and pay their taxes timely whenever they are due (Acheampong, Ofori & Isaac, 2016). Tax evasion in Ghana resulted in tax to GDP ratio of 13.1 percent for the year 2018 which was below the average tax to GDP ratio of 20 percent expected by Government of Ghana in 2018 (Ofori-Atta, 2019). It is estimated that 12 million individuals are working in Ghana. Out of this 12 million less than 2 million individuals are paying taxes (Awal, 2018). Hence, the understanding of linkage of tax morale and compliance costs to tax compliance of these taxpayers in Ghana is important.

Review of existing studies on tax compliance indicate that most of the studies on tax compliance are common in areas of determinants of tax morale, role of the cognitive moral development in tax compliance and expected utility theory in explaining the behavior of taxpayers. Previous studies have also focused on measuring either the relationship tax morale and tax compliance or compliance costs and tax compliance. Majority of these existing studies also used data from small-medium enterprises and financial services. For instance, studies by, Cevat (2014), Devos (2014), Mohdali & Pope (2014), Kamleitner, Korunka and Kirchler (2012) and Alm, Martinez-Vazquez & Torgler (2006) provided information on determinants of tax morale. Syaiful and Mahfud (2019) provided explanation on tax compliance through their research work on the role of the cognitive moral development in tax compliance decision making. Fadi, Martin & Roberta (2016) also explained tax compliance through their studies on the contribution of expected utility theory in taxpayers behavior modelling. Doreen, Sylvia, Juma & Mariam (2019), studied tax compliance with data gathered from financial services firms. Ritsatos (2014) studied tax evasion and tax compliance with emphasis on the shift from the neo classical paradigm to behavioural economics in the United States. The review of these existing studies on tax compliance indicate that most of the studies on tax compliance are common in UK, USA, Turkey, Spain, Malaysia, Pakistan and China. The features of these economies are different from the economy of Ghana where about 40 to 60 percent of the businesses are in the informal sector (Schneider, Buehn & Montenegro, 2010).

Tax morale (attitude) refers to the basic things that motivate the tax taxpayers to pay taxes (Fadi et al., 2016). Tax morale concerns the willingness of the taxpayers to pay taxes. These willingness may be influenced by social norms, trust in the policies of the government of a country, public goods offered by the government, national pride and contributing to the growth and development of the society they live in (Doreen et al., 2019). Compliance costs can be defined as the costs incurred by taxpayers in paying taxes imposed by the government of a country. Compliance costs may include expenses incurred by taxpayers to maintain tax payment records,

filing tax returns, training cost of tax officer at organization and cost of hiring specialists in tax advisory (Doreen et al., 2019).

Review of existing studies on tax compliance have left a major research gap in the area of tax compliance by failing to link tax morale and compliance costs to tax compliance and not using data from the informal sector which consists of the majority of the Micro and Small Scale businesses in most countries in the world since majority of previous studies have focused on determinants of tax morale, role of the cognitive moral development in tax compliance, expected utility theory in explaining the behavior of taxpayers and relationship between tax morale and tax compliance or between compliance cost and tax compliance. The researcher of this study wants to fill this research gap in the area of tax compliance by linking tax morale and compliance costs to tax compliance and using data from Ghana in West Africa. The study focused on data from the Ghanaian economy since the economy has high rate of tax evasion as compared to the developed economies and some developing economies. Although the tax rates in the Ghana is among the lowest in the West African economies and other jurisdictions still the noncompliance of tax payment is high in Ghana. Majority of workers in Ghana economy are found in the Micro and Small Scale Informal Enterprises where they are not well paid and makes it difficult for them to comply with taxes policies. Businesses in the informal sectors in Ghana also do not earn much revenue and therefore evade taxes. Financial limitation in the informal sector in the Ghanaian economy makes it difficult for tax officials to generate reliable statistics for the taxpayers in the informal sector. The Ghanaian economy do not have efficient tax administration therefore governments of this economy has developed a tax system that allow the government to exploit whatever options available to the government to collect taxes rather than creating a rational, modern and efficient tax system as it may happened in the developed economies. Tax compliance costs are high in Ghana. The features of the Ghanaian economy have made it difficult for economic theory and taxation literature to have greater impact on the design of tax systems for the economy. Hence, it is important to use data from Ghana to measure the relationship between tax morale, compliance costs and tax compliance in other to provide information for experts to use economic theory to develop efficient tax system for Ghana and other West African countries.

This study is beneficial to the Ghana Revenue Authority and Micro and Small Scale Enterprises in Ghana. Through the Ghana Revenue Authority the Government of Ghana will use the findings in this study in the preparation of the tax policy component in the budget statement and economic policy of the Government of Ghana for the 2021 financial year. This will help Government of Ghana to make tax laws that will increase tax compliance in the Micro and Small Scale Enterprises and other sectors in the Ghanaian economy. The study is beneficial to researchers who will do further studies in the area of tax morale, compliance costs and tax compliance. The correlation results revealed a statistically significant positive relationship between tax morale, compliance costs and tax compliance. The remaining sections of the paper are as follows: literature review, research methodology, empirical results and discussion and conclusion.

Literature Review

Theoretical underpinnings

This studies is supported by two important theories namely theory of reasoned action and the utility theory. Theory of reasoned action was propounded by Ajzen&Fishbein in 1975. This theory focuses on the voluntary behaviour within actions taken by human (David, 2016). The

theory is based on two assumptions. Firstly, the theory assumes that individuals are rational human beings and will make decisions depending on the information available to them. Secondly, the theory assumes that individuals will consider the outcomes of their actions before taking such actions (Ajzen & Fishbein, 1980). The theory identified three important factors that affect human behaviour. The factors are attitude towards specific behaviour, subjective norms and perceived behavioural control. The greater the attitude and subjective norms influence human behaviour, the greater the perceived control and intention to perform the behaviour (David, 2016). The assessment of the attitude and subjective norms by a researcher allows the researcher to gain understanding as to whether or not a person will carry out his intended action. Therefore, examining the factors that influence the behaviour of individuals is important to assess the beliefs and the environment of the individual.

Theory of reasoned action has been used by other researchers in their studies to explain individuals' intention of accepting financial products and complying with tax policies. For instance, Lujja, Mustafa & Rusni (2016) used this theory to explain individuals' behavioural intention to adopt Islamic banking. The theory has also been used to study the behaviour of individuals towards tax compliance (Benk, Cakmak & Buduk, 2011; Hai & See, 2011; Adams, 2014). Based on the usefulness of the theory of reasoned action in other studies, the researcher of this study adopted this theory to examine the attitude (tax morale) of taxpayers towards tax compliance. The voluntary behaviour studied by this theory makes the theory a good theory to be adopted for this study as Reinganum & Wild (1985) argue existing tax system is based on voluntary compliance since individuals can decide to report the truth or not concerning their income levels. This study expects taxpayers with positive attitude to comply with tax policies and taxpayers with negative attitude not to comply with tax policies. Taxpayers with positive attitude towards tax compliance will be willing to bear all tax compliance costs they need to incur to pay taxes (Musimenta et al., 2017).

The utility theory was developed by Allingham & Sandmo (1972). The theory assumed that taxpayers will maximize their decisions concerning tax reporting and compliance (Farid & Mohamed, 2016). Hence, taxpayers will evade taxes if they can make more financial gains than financial cost. This theory was developed based on individuals' preferences (Jesus, 2017). The theory believes that each individual has different preferences. The theory suggests that individual preferences will play a vital role in individual taxpayer compliance decision making (Torgler & Murphy, 2004). This individual preferences idea put forward by this theory justifies why tax compliance literature from different disciplines do not have consensus and agreement as to why taxpayers comply with tax policies or do not comply with tax policies. Lack of consensus and agreement on tax compliance literature suggests that there is still a research gap on tax compliance that needs to be filled. The utility theory has been used in the area of tax compliance by other researchers to study the taxpayers' behaviour (Ameur & Tkiouat, 2017; Ameur & Tkiouat, 2014; Caplin & Leahy, 2001). The researcher aimed to make contributions to the theory of reasoned action and the utility theory from the findings of this study.

Tax morale and tax compliance

Paying tax is a difficult thing to do especially if the taxes are not well utilized for the development of the country as in the case of West Africa. The revelations of misappropriation of public funds in Ghana by Public Accounts Committee (PAC) of Parliament since the commencement of the Ghana's Fourth Republic indicate that taxes revenue in Ghana are not well

utilized (Mohammed, 2019). The revelations of misappropriation of public funds in most countries in West Africa influence taxpayers to engage in tax evasion.

Upon all efforts put in by various government in West Africa to encourage taxpayers to pay their taxes through education, punishment and prosecution, taxpayers still engage in tax evasion (GNA, 2018). According to the budget statement and economic policy of the Government of Ghana for the 2020 financial year, the government will make tax laws user friendly by simplifying how to file tax returns and simplifying basic tax laws to make it easy for individuals to pay their taxes. It is believed that the Government promise to make the tax laws user friendly to the general public will positively affect tax morale of taxpayers in Ghana and motivate them to fulfill their tax obligations. This decision by the Government of Ghana is expected to encourage taxpayers to comply with tax policies in Ghana and reduce tax evasion (Ofori-Atta, 2019). This view of the Government of Ghana is supported by the theory of reasoned action as simplification of tax laws and tax filing will positively affect the attitude (tax morale) of taxpayers in Ghana.

Many researchers believe that intrinsic motivation (tax morale) for taxpayers to honour their tax obligation can be used to study the differences that occur in tax compliance in the developed and emerging economies (Cummings, Martinez-Vazquez, Mckee & Torgler, 2004). According to Alm et al. (2006) normal economic models of taxpayer compliance is currently powerless in explaining the differences that occur in tax compliance in the developed and emerging economies. Belkaoui (2004) conducted a study on the relationship between tax compliance internationally and selected determinants of tax morale in 30 different countries and found that tax compliance is high in countries with economic freedom, good equity market, effective competitive laws and low crime rate. The study also revealed that creation of tax morale or providing laws of the country that ensure that economic rights and safety to human lives are guaranteed serve as a deterrent to tax evasion. The implication of these findings is that taxpayers have high tax morale to pay taxes if they identify that economic freedom, good equity market, effective competitive laws, low crime rate and safe lives exist in their country.

National pride was identified by Alm et al. (2006) to be a major factor determinant of tax morale. Companies' knowledge concerning tax payment has been identified in existing studies in other jurisdictions as a key factor having positive influence on tax compliance in Small Scale Enterprises (Kamleitner et al., 2012). Tax morale was found to have positive influence on tax compliance in Russia. Tax compliance of individuals can also positively change the tax morale of other individuals to comply with tax policies (Alm et al., 2006). This mean that a company with positive tax morale toward tax payment will be willing to always pay tax in Russia. Perceived benefits derived from public goods financed by taxes collected in a country affect tax compliance positively (Alt, McClelland & Schulze, 1992). These findings suggest that establishing tax policies and strategies to motivate tax compliance by taxpayers and reduce administrative cost incurred by tax authorities in collecting taxes is important. Syaiful & Mahfud (2019) provided explanation on tax compliance through their research work on the role of the cognitive moral development in tax compliance decision making, Fadi et al. (2016) also explained tax compliance through their studies on the determinants of tax morale and tax compliance, Cevat (2014) studied the determinants of tax morale in Spain and Turkey: an empirical analysis and Mohdali & Pope (2014) through their studies on the influence of religiosity on taxpayers' compliance attitude provided additional explanation on tax morale and tax compliance. A critical review of the above literature on tax morale and tax compliance revealed that previous research works on tax morale and tax compliance have been

skewed towards the determinants of tax morale or the relationship between tax morale and tax compliance. The existing studies have failed to research on the relationship between tax morale, compliance costs and tax compliance. Based on the review of literature, the researcher developed the following hypothesis:

H1: There is a positive relationship between tax morale and tax compliance of Micro and Small Scale Enterprises in Ghana.

Compliance costs and tax compliance

Compliance costs can be defined as the costs incurred by taxpayers in paying taxes imposed by the government of a country. Compliance costs may include expenses incurred by taxpayers to maintain tax payment records, filing tax returns, training cost of tax officer at organization and cost of hiring specialists in tax advisory (Doreen et al., 2019). Taxpayers incur cost in hiring the services of tax advisors when they want to provide accurate tax returns to tax authorities when they do not have the much knowledge on the tax laws, to minimize the tax they pay and lack of time to file their tax returns (Devos, 2012). Faiday, Copp, Freudenberg & Sarker (2014) researched on complexity, compliance costs and non-compliance with VAT by Small and Medium Enterprises in Bangladesh and identified that compliance costs are related to tax compliance, majority of the respondents admitted that they do not consider compliance costs with VAT in calculating their compliance costs and other respondents also said VAT compliance costs are higher than the compliance costs with other taxes. It was also identified by the researchers that taxpayers employed the services of VAT advisors to assist them which increased their compliance costs. They found tax advisors to be more valuable with Small and Medium Enterprises. The findings of these studies suggest that high compliance costs can deter taxpayers from paying taxes whereas low compliance cost may motivate taxpayers to pay more taxes. This implies that high compliance costs can deter Micro and Small Scale Enterprises in Ghana from complying with tax policies.

The absorption of tax compliance cost by businesses to pay correct taxes enable the businesses to enjoy tax compliance benefits which include cash flow benefits, tax deductibility benefits and managerial benefits. Study conducted by Hasseldine, Holland & Rijt (2012), on companies and taxes in the UK found a significant relationship between compliance costs and tax compliance. The findings of a research conducted by Tran-Nam, Evans, Walpole & Ritchie (2000), also indicated a significant relationship between tax compliance costs and tax compliance.

Doreen et al., 2019 studied tax compliance and compliance cost using data from financial services firms in Uganda, Musimenta, Nkundabanyanga, Muhwezi, Akankunda & Nalukenge (2017) studied tax compliance of small and medium enterprises by measuring the relationship between tax fairness, isomorphic forces, strategic responses and tax compliance, Eragbhe & Modugu (2014) studied tax compliance costs of small and medium enterprise in Nigeria, Ritsatos (2014) studied tax evasion and tax compliance with emphasis on the shift from the neo classical paradigm to behavioural economics in the United States, and Hansford & Hasseldine (2012) studied tax compliance costs of small and medium-sized enterprises (SME's): the case of UK. Once again a critical review of previous studies on compliance costs and tax compliance shows that previous studies have focused on the relationship between compliance costs and tax compliance but not linking tax morale and compliance costs to tax compliance. All the findings on these studies reviewed in this studies on compliance costs encouraged the researcher to develop the following hypothesis:

H2: There is a positive and significant relationship between compliance costs and tax compliance of Micro and Small Scale Enterprises in Ghana

Research Methodology

Research design

This studies used cross-sectional and correlational design. Cross sectional research is type of research design that allows the researcher to analysis a data gathered from a population at one specific point in time. Cross sectional research allowed the researcher to identify the existence and magnitude of the contribution of tax morale and compliance costs to tax compliance. Correlational research design is a type of research design that involves the measuring of two or more variables, understanding the variables and analyzing the statistical relationship between the variables without any influence from any external variable (Doreen et al, 2019).

Population and sampling

Population is used to describe any set of people that have at least one common feature (Creswell, 2014). According to the Ghana Statistical Services (GSS) (2012) over 70 percent of the business in Ghana are Micro and Small Scale Enterprises. Enterprises in Ghana made up of employees from one to five are described as Micro Scale Enterprises whilst Enterprises comprising employees ranging between six and thirty are described as Small Scale Enterprises (GSS, 2016). Due to non-availability of data from GSS, National Board for Small Scale Industries (NBSSI) or Registrar Generals Department in Ghana on the total number of Micro and Small Scale Enterprises in Ghana, the research cannot provide the background information covering the Micro and Small Scale Enterprises. The population of the study consisted all the Micro and Small Scale Enterprises in Ghana. The target population of the study covered the Micro and Small Scale Enterprises in Ghana including hotels, bar and restaurant, salon, books shops, poultry farms, super markets, pharmacy shops, general merchandise, cosmetics and boutiques. Due to non-availability of data on the total number of Micro and Small Scale Enterprises in Ghana, the researcher assumed the target population to be above 100,000,000 since majority of the businesses operating in Ghana are Micro and Small Scale Enterprises.

The study used a sample size of 384 Micro and Small Scale Enterprises. The sample size was sufficient for statistical testing since the sample size was selected using the Krejcie and Morgan (1970) table for sample size. Depending on the type of data the researcher wanted to collect for the study, judgement purposive sampling method was used to select the respondents (firms). The sample size comprised, owners of the businesses, managers and accountants or account officers who take decision on the cash management of the Micro and Small Scale Enterprises.

Measurements of variables

Table 1 shows how the researcher measured tax compliance, compliance costs and tax morale in this study. Tax compliance represents the dependent variable whilst compliance costs and tax morale represent the independent variables.

Table 1: Measurements of Variables

Variables	Dimensions	Measurements	Definitions
Tax compliance	1. Timely filing of tax returns; and 2. Timely payment of tax (Doreen et al., 2019, Musimenta et al., 2017 and Ritsatos, 2014)	Extracted as the average of 7 items of information from six-point Likert Scale questionnaire	Tax compliance requires companies to file their tax returns and pay their taxes timely whenever they are due (Acheampong et al, 2016).
Compliance costs	1. Administration costs; and 2. Specialist costs (Doreen et al., 2019 and Muzainah, Natrah&Idawati, 2004)	Extracted as the average of 9 items of information from six-point Likert Scale questionnaire	Perceived compliance costs can be defined as the costs incurred by taxpayers in paying taxes imposed by the government of a country (Doreen et al., 2019)
Tax morale	1. National pride; and 2. Trust in government and its legal system in a country (Doreen et al., 2019 and Alm et al., 2006)	Extracted as the average of 9 items of information from six-point Likert Scale questionnaire	Tax morale concerns the willingness of the taxpayers to pay taxes (Doreen et al., 2019).

Control variables

The researcher controlled age and size of the Micro and Small Scale Enterprises in Ghana. These variables were controlled because they can have an effect on the results of the study which could affect the acceptance or the rejection of the hypotheses used for this study (Bas, 2017). Age of the businesses can affect the results of this study either positively or negatively.

Questionnaire and measurements

Depending on the literature review the researcher conducted, standardize questionnaire developed by the researcher was used as the main data collection instrument. The questionnaire comprised only closed ended questions which enabled the researcher to calculate mean ratings of the extent the respondent agrees with each of the statement on the Likert scale due to the detailed information the researcher wanted to capture. Standard questionnaire was use due to the following benefits it provides to researchers (Creswell, 2014): (a) questionnaire is an instrument that has already received scientific testing by other researchers and has been identified to gather relevant information from respondents; and (b) questionnaire is a highly reliable, consistent, sensitive and objective. The questionnaire covered the background information of the respondents and a six-point Likert scale ranging from strongly disagree to strongly agree. A total of 768 questionnaires were distributed. Two questionnaires were distributed to each of the 384 selected firms. Based on the unit of analysis performed in this study the researcher had 291 firms (representing 75.8 percent of the sampled firms) who responded to the questionnaires. Usable questionnaires were collected from 519 respondents.

The study used a primary data in performing the analysis. An introductory letters were sent to the managers of the selected Micro and Small Scale Enterprises to seek their approval before data collection was done. The consent of the respondents were sought through a brief introduction on the researcher's objectives and relevance of the study before the questionnaires were distributed to the respondents for them to answer. The questionnaires were distributed to the respondents at their various business locations. The respondents were given two weeks to complete the questionnaires. The researcher used three months (October to December, 2019) to collect the data. The internal reliability or the internal consistency of the questions used on the Likert scale were tested with Cronbach's Alpha. Table 2 provides evidence of the internal reliability of the questions used on the Likert scale that were tested with Cronbach's Alpha. The coefficients of the Cronbach's Alpha for tax compliance was 0.811, compliance costs was 0.742 and tax morale was 0.794. The coefficients of the Cronbach's Alpha indicate that the scales used in this study were reliable.

Table 2: Reliability Statistics

Variables	Cronbach's Alpha
Tax compliance	0.807
Compliance costs	0.742
Tax morale	0.794

Data management

Exploratory factor analysis was used by the researcher to analysis the data collected for this study. Exploratory factor analysis assists researchers to identify groups or clusters of variables. It also has the ability to reduce a data set collected for a study to a manageable size without removing much of the original information (Field, 2009). The researcher performed the exploratory factor analysis for this study by running a rotated component matrix to remove the questions that were not relevant to the study variables. The factor analysis adopted for this study enabled the researcher to examine the attitude of taxpayers towards tax compliance in the Micro and Small Scale Enterprises in Ghana. The desirability of the data set collected for factor analysis was verified based on the sample size adequacy, the Keiser-Meyer-Olkin (KMO) and Bartlett tests Values for KMO and Bartlett tests range from 0 to 1. The sampling adequacy was assessed with the following criterion: below 0.5 = unacceptable, 0.5 – 0.7 = Mediocre, 0.7 to 0.8 – Good, 0.8 to 0.9 = Great and above 0.9 = Superb (Stephanie, 2016).

The raw data obtained from the respondents were edited and coded to eliminate the errors that occurred when the respondents were answering the questionnaires. The researcher also did the editing to ensure that only correct and vital information were used for the data analysis. After data editing and coding, the data was entered into the IBM Statistical package and Service Solution (SPSS). The data were grouped according to the responses that came from managers and accountants or account officers. The grouping of the data was done to identify the variations in the study variables (Baydoun, Maguire, Ryan & Willett, 2013). Regression analysis and Pearson's Correlation analysis were performed to identify the variance in the dependent variable explained by the independent variables and the various relationships between the variables used for the study respectively. The Ordinary Least Square (OLS) multiple regression model was used. The model takes the general form: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \dots + \beta_nX_n + \varepsilon$ (1)

From model 1, Y represents the dependent variable, X_1 , X_2 and X_n represent the independent variables and ε is the error term. Based on model 1 the researcher adopted the following model for the study: $TC = \beta_0 + \beta_1 TM_1 + \beta_2 CC_2 + \varepsilon$ (2)

Where:

TC = Tax Compliance

TM = Tax Morale

CC = Compliance Costs

Empirical Results and Discussion

Summary Statistics for the Variables

Table 3 reveals the out of the 519 respondents who responded to the questionnaires majority (49.9 percent) of the respondents were accountants/accounts officers whereas minority (17.7 percent) were owners. The findings imply that majority of the responses were gathered from accountants/accounts officers who have detail idea on tax compliance.

Table 3 shows that majority (71.9 percent) of the responses were received from Small Scale Enterprises (6-30 employees). This indicate that majority of the responses came from enterprises that with large employees which pay high taxes.

Findings on firm age revealed that majority (204) of the responses were obtained from enterprises that have operated between 11 to 15 years. This mean that majority of the responses were obtained from enterprises with experience on tax payment.

Table 3: Descriptive Statistics of the Variables

Position of Respondents	Frequency	Percentage (%)
Owners	92	17.7
Manager	168	32.4
Accountants/Accounts Officer	259	49.9
Total	519	100
Firm Size	Frequency	Percentage (%)
1-5 employees (Micro)	146	28.1
6-30 employees (Small)	373	71.9
Total	519	100
Firm Age	Frequency	Percentage (%)
1-5	73	14.1
6-10	119	22.9
11-15	204	39.3
16 and above	123	23.7
Total	519	100

Table 4 provides information on the explanatory factor analysis performed by the researcher to reduce the large number of variables used in this study into smaller variables that can still offer the same information the researcher wanted to discover. The factor analysis identified variables including government providing the needs and wants of Ghanaians, government renders proper accounts of tax revenue, trust in government officials, government utilizes tax revenue well and actions taken by government to educate taxpayers on tax laws in Ghana out of the large number of

variables used on the scale to explain the trust taxpayers have in government of Ghana. All the variables have positive effect on tax morale. Out of the large number of variables used to measure national pride, the factor analysis reduced the variables to three including paying taxes to promote the development of Ghana, feeling proud to operate business in Ghana and democracy in Ghana. Therefore, the identified variables on trust in government and national pride are the factors in Ghana that positively influence tax morale of the Micro and Small Scale Enterprises. This findings support findings of Young et al. (2016) and Cevat(2014). The findings imply that any positive change in these factors may also lead to a positive change in trust in government and national pride which may also influence tax morale positively. However any negative change in these factors may also cause a negative change in trust in government and national pride which may also affect tax morale negatively. Therefore when government is able to provide more needs and wants for example schools, hospitals, roads, good drinking water and toilet facilities from tax revenues collected in Ghana, strengthen the legal system in Ghana to be able to clear court cases as quick as possible and educate more taxpayers on the tax system in Ghana it will motivate businesses in Ghana to increase their tax compliance ability.

The results in table 4 in addition found plans to educate staff on tax matters, seeking expert opinion on special tax issues, tax consultancies are very expensive and maximizing tax deductions as factors that positively influence the Micro and Small Scale Enterprises in Ghana to incur special cost as part of their tax compliance cost. Employing of skilled people in paying taxes, complexity of tax laws in Ghana, filing tax returns involve incurring additional cost to the business entity and storage of tax data were also found as factors that positively influence administration costs incur by the Micro and Small Scale Enterprises in Ghana. This results confirm the findings of Faiday et al (2014). The factors identified in explaining special cost and administrative costs are factors that positively influence compliance costs. The implication of these results is that a positive change in the factors identified to have influence on administration costs and special costs may also cause a positive change in administration costs and special costs which may also increase compliance costs. Whereas a negative change in these factors may also cause a negative change in administration costs and special costs. The negative change may also cause a reduction in compliance costs. The findings indicate that if the Government of Ghana through GRA is able to support businesses to educate their staff on tax matters, seek expert opinion on special tax issues and employing skilled people in paying taxes it will encourage businesses to comply with the tax policies in Ghana as it will reduce their compliance costs. This imply that Micro and Small Scale Enterprises in Ghana need to incur administration costs and special costs in other to comply with tax policies in Ghana.

Paying right amount of tax assessed by GRA, all incomes earned are disclosed for tax purposes, offering accurate reports to GRA for tax assessment liability and the importance of early tax payment were also revealed as factors that positively influence timely payment of taxes. It was found that notification of due date by GRA and reminding taxpayers by GRA when they delay in paying taxes also positively influence taxpayers to file their tax returns at the right time. The factors discovered having influencing on timely payment and timely filing of returns are the factors identified in this study to be the factors that influence the Micro and Small Scale Enterprises in Ghana to comply with tax policies in Ghana. The findings indicate that a positive change in timely payment of taxes and timely filings of tax returns may influence Micro and Small Scale Enterprises in Ghana to increase their level of tax compliance in Ghana. The findings imply that Micro and Small Scale Enterprises in Ghana comply with tax system in Ghana by paying the right amount of

tax assessed by GRA, offer accurate reports to GRA for tax assessment liability and disclosing all their incomes for tax purposes.

Table 4: Exploratory factor analysis

Components		
Compliance Costs items (Total Variance Explain = 60.30%)	Administration costs (VE = .29)	Specialist costs (VE = .31)
We have plans to educate our staff on tax matters		.85
We seek expert opinion on special tax issues		.83
Tax consultancies services are very expensive		.66
We want to maximize tax deductions / tax offsets		.60
Skilled employees are needed in payment of tax	.78	
Complexity of tax laws	.77	
Filing tax returns involve incurring additional cost to the business entity	.76	
Storage of tax data	.79	
Tax Morale Items (Total Variance Explain = 62.10%)	National pride (VE = .28)	Trust in Government (VE = .34)
Government provides the needs and wants of Ghanaians		.79
Government renders proper accounts of tax revenue		.68
Trust in government officials		.75
Government utilize tax revenue well		.73
Actions taken by government to educate taxpayers on tax laws in Ghana		.60
We pay taxes to promote the development of Ghana	.85	
We feel proud to operate business in Ghana	.77	
Democracy in Ghana	.71	
Tax compliance items (Total Variance Explain = 57.45%)	Timely filing of returns (VE = .22)	Timely payment (VE = .41)
We pay the right amount of tax assessed by GRA		.81

All incomes earned are disclosed for tax purposes	.78
We offer accurate reports to GRA for tax assessment liability	.68
It is important to pay tax early	.57
GRA always gives us notice when taxes are due to file tax returns	.81
GRA always remind us when we delay to pay	.69

Correlation Results

Table 5 provides information on the Pearson's correlation results on the dependent, independent and control variables used in the study. Table 5 reported a correlation coefficient value of .598** at a significant level of 0.05 between tax compliance and compliance costs. The results of positive coefficient indicate a statistically significant positive relationship between tax compliance and compliance costs and strong movement association between the two variables. These findings are consistent to the findings of Doreen et al. (2019). Hence, a positive change causing an increase in compliance costs may lead to an increase in tax compliance but, a negative change in compliance costs may lead to a negative change in tax compliance.

The results from table 5 also displayed a correlation coefficient value of .668** at a significant level of 0.05 between tax compliance and tax morale. The results imply a strong statistically significant positive relationship between tax compliance and tax morale which is consistent with the studies of Doreen et al. (2019). An increase in tax morale may cause an increase in tax compliance whereas, a decrease in that morale may also cause a decrease in tax compliance.

The correlation results were used by the researcher to test the following hypotheses formulated for this study:

H1: There is a positive relationship between tax morale and tax compliance of Micro and Small Scale Enterprises in Ghana.

H2: There is a positive and significant relationship between compliance costs and tax compliance of Micro and Small Scale Enterprises in Ghana.

The results of significant positive relationship between compliance costs, tax morale and tax compliance of Micro and Small Scale Enterprises in Ghana in table 5 support the two hypotheses formulated by the researcher. Therefore, the two hypotheses are accepted implying that a positive change in tax morale and compliance costs may lead to a positive change in tax compliance whereas, a negative change tax morale and compliance costs may lead to a negative change in tax compliance

Administrative costs and special costs which were used as a dimensions of compliance costs were also found in table 5 to have a statistically significant positive relationship with tax compliance of Micro and Small Scale Enterprises in Ghana. Administrative costs and special costs obtained a correlation coefficients value of .221** and .403** respectively at a significant level of 0.05. National pride and trust in government used as dimensions of tax morale also exhibited a statistically significant positive relationship with tax compliance of Micro and Small Scale

Enterprises in Ghana. The results indicate a correlation coefficients of .598** at a significant level of 0.05 between national pride and tax compliance. Correlation coefficient of .356** at a significant level of 0.05 was found between trust in government and tax compliance. The results mean that a positive change in national pride, trust in government, administrative costs and special costs may also result in a positive change in tax morale and compliance costs but a negative change in national pride, trust in government, administrative costs and special costs may cause a negative change in tax morale and compliance costs.

In contrast, the firm age and firm size were found to have insignificant negative relationship with tax compliance. Therefore, firm age and firm size move in opposite direction with tax compliance. This imply that a negative change in firm size and firm age may cause a positive change in tax compliance. These findings are consistent to the findings of Doreen et al. (2019).

Table 5: Correlations between the dependent, independent and control variables

	1	2	3	4	5	6	7	8	9	10	11
Administration Costs (1)	1										
Special Costs (2)	.128**	1									
Compliance Costs (3)	.282**	.128**	1								
National Pride (4)	.206**	.307**	.226**	1							
Trust in Government (5)	.769**	.778**	.958**	.602**	1						
Tax Morale (6)	.769**	.759**	.783**	.598**	.868**	1					
Timely filing of Returns (7)	.206**	.228**	.214**	.327**	.356**	.431**	1				
Timely Payments (8)	.311	.418**	.145**	.380**	.030**	.117**	.678**	1			
Firm Age (9)	-.007	-.073	-.038	.144	.366	.230	.145	.141	1		
Firm Size (10)	-.041	-.039	-.201	-.329	-.073	-.040	-.431	-.221	-	1	
Tax Compliance (11)	.221**	.403**	.598**	.356**	.380**	.668**	.602**	.343**	-	-	1
									.144	.431	

** Correlation is significant at the 0.05 level (2-tailed)

Regression Results

Table 6 reveals the results of the OLS multiple regression analysis performed by the researcher to determine the magnitude of tax compliance that can be explained by compliance costs and tax morale. The results in table 6 showed a statistically significant positive relationship between tax morale, compliance costs and tax compliance of Micro and Small Scale Enterprises in Ghana. These findings support the findings of the studies of Doreen et al. (2019).

The results affirm the positive relationship between tax morale, compliance costs and tax compliance identified in the correlation analysis. The results exhibited Adjusted R square value of .644 (64.4 percent) which imply that tax morale and compliance costs explain 64.4 percent of the variance in tax compliance of Micro and Small Scale Enterprises in Ghana.

Table 6: The Regression Model

	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.996	.293		6.812	.000
Tax morale	.347	.032	.496	10.782	.000
Compliance costs	.429	.082	.361	5.242	.000
R Square = .667					
Adjusted R Square = .644					

Conclusions

The purpose of the study was to find out the extent to which tax morale and tax compliance costs may influence tax compliance of Micro and Small Scale Enterprises in Ghana. This study used cross-sectional and correlational design. The findings of the study show a strong statistically significant positive relationship between tax morale and tax compliance of Micro and Small Scale Enterprises in Ghana. In addition, the study found another strong statistically significant positive relationship between tax compliance and compliance costs of Micro and Small Scale Enterprises in Ghana. The study found an Adjusted R square value of 64.4 percent which imply that tax morale and compliance costs explain 64.4 percent of the variance in tax compliance of Micro and Small Scale Enterprises in Ghana. Also, administrative costs and special costs which were used as a dimensions of compliance costs were also found to have a statistically significant positive relationship with tax compliance of Micro and Small Scale Enterprises in Ghana. National pride and trust in government used as dimensions of tax morale also exhibited a statistically significant positive relationship with tax compliance of Micro and Small Scale Enterprises in Ghana.

This study could be used by Government of Ghana, Micro and Small Scale Enterprises in Ghana and researchers in the area of tax compliance. The findings imply that Government of Ghana should provide the needs and wants of Ghanaians in areas of education, health care, water, roads and electricity, renders proper accounts of tax revenue, exhibits a behaviour to win the trust of Ghanaians in government officials, utilizes tax revenue well and educating taxpayers on tax laws in Ghana to boost tax morale of Ghanaians taxpayers to pay taxes to the government. Again, Government of Ghana should developed the economy of Ghana to the level that will make Ghanaian taxpayers to feel proud of operating businesses in Ghana to motivate Ghanaians taxpayers to pay more taxes to government. The findings of the study imply that the greater Ghanaian taxpayers comply with tax payment the greater they incur costs, therefore the GRA should design policies that will assist taxpayers to reduce the costs of educating their staff on tax matters, seeking expert opinion on special tax issues and storage of their tax data as high compliance cost can results in noncompliance with tax payment. GRA should also provide taxpayers with the right amount of taxes to pay, notify taxpayers of due date of tax payment and reminding taxpayers when they delay in paying taxes to influence taxpayers to file and pay taxes on

time. For researchers, the findings indicate that tax morale and compliance costs have strong statistically significant positive relationship with tax compliance of Micro and Small Scale Enterprises in Ghana.

The limitations of this study include the inability of the researcher to include other sectors of the Ghanaian economy but focused only on the Micro and Small Scale Enterprises in Ghana and the controlling of the variables age and size of the Micro and Small Scale Enterprises in Ghana. Since the focus of this study was purely on the Micro and Small Scale Enterprises in Ghana, a further research could be carried out in the other sectors in Ghana that are highly regulated by authorities in Ghana for example the financial sectors in Ghana. Another further research can be conducted using qualitative research approach since this study used quantitative research approach.

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