

# Gift Tax Compliance in Ghana, an Empirical Study

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**Abstract** This paper seeks to determine the extent of knowledge about gift tax in Ghana using the Accra-Tema Metropolis as a sample population. It further seeks to ascertain the extent of compliance with Gift Tax in Ghana. If the level of compliance is low, then to find out reasons for non compliance in order to ascertain the applicability of Fischer’s tax compliance model in Ghana. Finally, the paper aims at contributing to the very scanty literature on tax compliance in Ghana. In order to achieve the above objective, the researcher used a direct method of measuring tax compliance, which involves the use of direct surveys of taxpayer behavior. Furthermore, a cross sectional data on individual tax returns filed for the years of assessment 2009 to 2012 was also used. The results indicate a very low awareness rate of Gift Tax; consequently, the compliance rate is also very low. The respondents cited lack of knowledge as the main reason for failing to comply with the tax. Educational level and the low detection rate were the other principal factors cited for non-compliance. The Fischer tax compliance model was thus accepted as explaining the non compliance nature.

**Keywords:** *Gift tax, Ghana, compliance*

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## 1. Introduction

Gift tax in Ghana is covered by Chapter III of Internal Revenue Act 2000, (Act 592). The Act requires resident persons who have received taxable gift (s) in a year of assessment to pay tax on the total value of the Gift. Gift tax is an example of direct tax.

Some tax experts and policy analysts believe that the tax amounts to exploitation since people usually receive taxable gifts because they are not capable of possessing the items involve Gatsi [16]. In order to understand what Gift tax means, it will be ideal to look at the word ‘Gift’. According to Nakyea [3]. Gift is defined as ‘any receipt without consideration or for inadequate consideration’. This means that a gift is any consideration whether adequate or inadequate received by a taxable person from an individual or corporate organization.

Gift tax is a levy imposed on any consideration whether the gift is adequate or inadequate. Gift Taxable are covered under section 105 of the Internal Revenue Act, 2000 (Act 592). According to Section 105, the gift received by the taxable person, is donated to him or her by an individual. The gift tax paid under section 105 is 15% of the gift received from the individual according to 2011 Budget Statement and Financial Policy of Ghana. This tax is paid only if the Gift received is in excess of GHC50.00. The value of the gift is determined as the market price at the time or date of receipt.

### 1.1. Taxable Gifts

These are any consideration received in Ghana by a taxable person. These include;

- Buildings of permanent or temporary nature
- Land
- Shares, Bonds and other securities
- Money received including foreign currency, Business and business assets
- Any means of transport (land, Air or Sea)
- Goods or chattels not included in the means of transport
- An asset whether situated in Ghana or outside Ghana, received by or for the benefit of a resident person as a gift where the asset has been or is invested, accumulated, capitalized, or otherwise dealt with the name of or on behalf of or at the direction of that person.

Ghana, like many other developing country depend on Tax revenue as well as donor support to finance economic and social infrastructure projects. Tax revenue in Ghana has been low compared to the GDP in 2011 for example total tax revenue according to the Minister of Finance in his 2012 budget amounted to 16.5% of GDP in 2011, and this was expected to increase to 17.3% in 2012. The government thus in its 2011 and 2012 budget statement introduced measure to increase its tax revenue. Amongst these was to broaden the tax net, and increase the Gift tax rate from 5% as at 2010 to 15% from 2011.

Gift tax operates on self assessment basis and the law requires a person who receives a taxable Gift to furnish a return in writing to the commissioner within 30 days of receipt of Gift. Such a return must provide the following information:

- The description and location of the taxable gift

- The total value of the gift, how it is calculated and tax payable
- Name and address of donor
- Any other information required by the Commissioner.

Where, however, the total amount of taxable gifts received by a person does not exceed GHC50 during the same year of assessment, no return is to be furnished.

In terms of compliance behavior, a compliant taxpayer is one who submits or files his or her return within the stipulated deadlines, truthfully and accurately reports all relevant information pertaining to his or her tax liabilities and in accordance with the tax law, and pays the taxes due without the need for further enforcement by the tax agency [4].

However, anecdotal evidence suggests that citizenry are not willing to pay gift tax and often find it difficult to declare their taxable gift to the Commissioner of Taxes [16]. Tax evasion is a universal phenomenon that takes place in all societies and economic systems including both developed and developing countries. According to Chau [11], In the US, it is estimated that the extent of tax gap (the difference between taxes owed and taxes filed) for 2001 were US\$353 billion. This concern is particularly severe for developing countries given the rapid growth of investment in their economies and their lack of adequate experience in dealing with this problem [11].

This paper therefore seeks to determine the extent of knowledge about gift tax in the Accra-Tema metropolis. In addition to that the researcher seeks to ascertain the extent of compliance with Gift Tax in Ghana. If the level of compliance is low, then the paper will find out reasons for non compliance in order to ascertain the applicability of Fischer's tax compliance model in Ghana. Finally, the paper seeks to contribute to the very scanty literature on Tax compliance in Ghana.

## 2. Review of Literature

According to Kulsrud [23] tax compliance generally encompasses all the activities necessary to meet the statutory requirements of the tax law. This largely involves the preparation of the millions of tax returns that must be filed by individuals and organizations each year. The day to day tasks of those working in the tax compliance are typically surround preparation of tax return. Nakyea [3] defines tax compliance as all activities necessary to be carried out by the taxpaying public in order to meet the statutory requirements of the tax law. This includes the preparation of tax returns that must be file by individuals and organizations each year. According to Akakpo [1], tax evasion occurs when one willfully and consciously fail to notify the taxing authorities of taxable assets or income activities, a deliberate failure to pay taxes legally owed or the use of fraud to conceal the existence of taxable income and or obtain allowances or repayment of taxes. Tax avoidance, on the other hand occurs when one arranges his affairs in such a way as to take advantage of weakness or ambiguities in the tax law to reduce his or her tax liabilities, without really breaking the law. Although tax avoidance may be regarded as immoral, the techniques employed are legal and the conduct is not fraudulent. Non compliance with tax laws significantly reduce the amount of collected taxes, to government that

enable the government to perform the tasks constitutionally and legally entrusted to it. It also increases the temptation for taxpayers to ignore the tax laws or seek artificial ways around them. In order to offset the revenue losses, government may have to levy new taxes, increase tax rates and eliminate exemptions thereby imposing an unfair burden on honest taxpayers.

Andreoni, et, al [2], affirms that the problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed pattern of tax non compliance and ultimately finding ways to reduce it is of obvious importance to nations around the world. Edling et al [13], argue that individual taxpaying citizens copy the behavior of their fellow citizens for behave in the way they are expected to. As a result, relationships between citizens (the relationship between taxpayers) are seen as another cultural factor influencing taxation. However, in the mutual application of and compliance with rules (whether formal or informal) expectations are crucially determined by trust. For example, if the citizens of a country believe that other taxpayers evade taxes when the opportunity arises then individual tax morale will also decline. In relation to tax compliance, additional cultural factors such as the sense of community, civic sense of duty, a sense of guilt, solidarity and cooperation, social custom and group conformity. Melville [25] stresses on the importance of taxpayer's chapter. According to him, the taxpayer's charter sets out the standard of service which a taxpayer has the right to expect from the tax authorities. The charter also explains the tax authorities' expectation of the taxpayer. A taxpayer has the right to expect that the tax authorities will act fairly and impartially, communicate effectively and provide a good quality service. In return, the tax authorities expect taxpayers to keep up-to-date records, provide correct and complete information and pay the correct amount of tax on the correct date.

Bird [10] states the following: "There is no single set of prescriptions – no secret recipe – that, once introduced, will ensure improved tax administration in any country. Developing countries exhibit a wide variety of tax compliance levels, reflecting not only the effectiveness of their tax administrations but also taxpayer attitudes toward taxation and toward government in general as well as many other environmental factors." High tax burdens and high compliance costs are stumbling blocks for business growth and have a negative influence on taxpayer compliance levels.

According to Gatsi [16], Gift tax non-compliance in Ghana is mainly due to the existence of asymmetric information. This to them is a serious disincentive to efficiency of the tax system in mobilizing revenue for development. They stated further that many Ghanaians are aware of their tax obligations with respect to VAT, income tax with respect to employment income and income from business activities. Since the enactment of the gift tax in 1975 and its inclusion in the Act 592 as amended in 2000 many Ghanaians are not aware of the existence of the tax. The only reason is that Internal Revenue Service (IRS) and the Ministry of Finance and Economic Planning and the Revenue Agencies Governing Board did not do their work effectively.

Various factors accounts for tax non-compliance. These factors have been explained using various models. Examples are the Economic deterrence models, the

sociological/psychological and the Fischer model. Economic deterrence models assume that taxpayers are moral rational economic evaders who assess the likely costs and benefits of evasion behavior [12]. Based on this underlying assumption, these models generally predict that an increase in perceived detection probability and/or penalties will result in greater taxpayer compliance while an increase in the tax rate will result in reduced compliance [5]. Fischer et al., [14] however categorized these factors into four, and this has been referred to as the Fischer Model. This paper examines the compliance using the Fischer Model.

## 2.1. Fischer Model

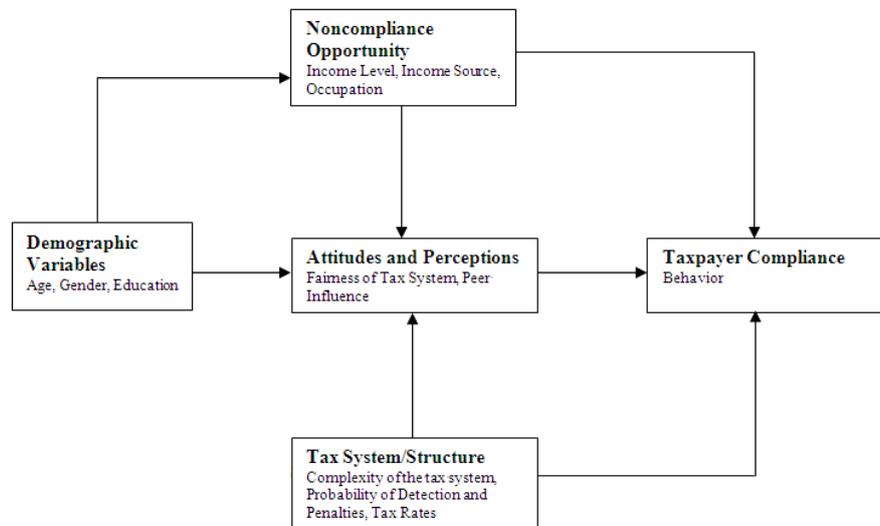


Figure 1. Fischer et al. tax compliance model

## 2.2. Demographic Variables

The Fischer model suggests that demographic variable indirectly affect taxpayer compliance by their impacts on noncompliance opportunities and attitudes and perceptions.

### 2.2.1. Age

A common demographic variable is the taxpayers' age. A positive link between age and taxpayer compliance is reported by Milliron [20]. In general, young taxpayers are more willing to take risk and are less sensitive to sanctions.

### 2.2.2. Gender

Traditionally, females have been identified with conforming roles, moral restraints and more conservative life pattern [20].

### 2.2.3. Education

Education, as a demographic variable relates to the taxpayers' ability to comprehend and comply or not comply with the tax laws. Two aspects of education have been distinguished: "the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities" [17]. This knowledge is considered to be important for attitudes towards tax compliance. Yarbrough [28] found that those with more fiscal

A comprehensive review of the tax compliance literature was undertaken by Milliron [20] and they identify 14 key factors that have been studied by researcher on tax compliance. These factors are group by Fischer et al., [14] in his expanded model (Fischer Model) as follows: (i) demographic (e.g. age, gender and education) (ii) noncompliance opportunity (e.g. income level, income source and occupation), (iii) attitudes and perceptions (e.g. fairness of the tax system and peer influence) and (iv) tax system/structure (e.g. complexity of the tax system, probability of detection and penalties and tax rates). Thus Fischer model of tax compliance incorporates economic, sociological and psychological factors into comprehensive one. The Fischer model illustration and some elaboration is adopted from Chau [11]. The Fischer model is illustrated below;

knowledge had more positive tax ethics scores than those with lower fiscal knowledge.

## 2.3. Non-Compliance Opportunity

In the Fischer model, noncompliance opportunity can affect taxpayer compliance directly through income level, income source and occupation and indirectly through attitudes and perceptions.

### 2.3.1. Income Level

Almost all the theoretical model indicates that as income rises, tax evasions should increase over most ranges [2]. Vogel [32] finds that respondents who report an improvement in individual financial/income status during the past 5 years are more likely to commit tax evasion than those who report a deterioration of their financial/income status during the same period.

### 2.3.2. Income Source

Tax payers vary in terms of the opportunities available to them to overstating expenses and understating incomes. Greater tax noncompliance opportunity is generally resulted from self-employment and income sources not subject to withholding taxes. Based on the poll tax in Tanzania, Semboja [15] find support for differences in opportunities for tax noncompliance "Employees paying

their head-tax through a tax withholding system have fewer opportunities to evade than the self-employed”.

### 2.3.3. Occupation

This refers to an individual's employment or earnings activity [20].

Sutherland [29] argues that tax evasion is considered as a white-collar crime, committed by an individual of respectability and high social status in the course of performing his employment.

## 2.4. Attitudes and Perceptions

The Fischer model suggests 2 major considerations for altering taxpayers' attitudes and perceptions to tax compliance are the fairness of the tax system and peer influence. See [20].

## 2.5. Tax System/Structure

It is widely acknowledged that the extent of tax compliance in many developing countries has been decreasing. The underdeveloped tax system/structure is one of the major causes for this phenomenon. In the Fischer Model, the effectiveness of tax system is affected by complexity of tax system, probability of detection and penalties and tax rates.

### 2.5.1. Complexity of Tax System

As the tax law has become increasingly complex, complexity has come to be recognized as a possible reason for tax noncompliance [20].

### 2.5.2. Probability of Detection and Penalties

In general, higher audit probabilities and severe penalties encourage tax compliance.

Probability of detection refers to the likelihood that the tax authorities will discover an individual's noncompliance and seek to remedy the evasion. Individuals normally would like to evade their tax liabilities entirely and the only reason they might not do so is that there is some non-zero probability of being caught [24]. Another important factor affecting tax compliance is the relationship between tax compliance and the severity of sanctions. The idea is that fear of penalties prohibits tax noncompliance behavior. Establishing an effective system to penalize tax evaders is an important measure to encourage tax compliance.

### 2.5.3. Tax Rates

The third major construct of tax system/structure in the Fischer model is tax rates. Empirical evidence has suggested that progressive versus flat tax rate is the significant structural variable in association with tax compliance behavior [12].

## 3. Methodology

Various methods have been used to measure tax evasion/compliance. Some of these try to measure it directly, some indirectly. Among the direct methods one can identify are (1) the use of the national accounts, (2) the use of direct controls, (3) the use of household budget

surveys, and (4) the use of direct surveys of taxpayer behavior. The indirect methods are largely related to estimates of the under-ground economy.

The researcher used the Direct Taxpayer Survey for this study. A random sample of taxpayers was chosen and they were asked, among other questions to describe their tax-reporting behavior. This approach has received several criticisms, which range from whether individuals remember their past tax behavior to whether an individual would be willing to convey accurate information about an activity that may be considered antisocial, even when he or she is assured anonymity. The common belief is that tax evasion is often underestimated by these surveys even when they guarantee anonymity for the taxpayers.

This method in spite of its criticisms was used because of the extreme difficulty in gathering data in Ghana, if any of the other methods are to be used. The questionnaire distributed to respondents involved tax and non-tax questions. Included in the tax questions were questions relating to assessment system, tax knowledge and attitude towards tax. The non-tax questions centered on those related to marital status, gender, age, number of dependents and income level, educational levels, and taxpayers' compliance behavior. The respondents were randomly selected from Accra and Tema. They included individuals at the tertiary education, self-employed, unemployed and employees of various organizations. Two hundred and fifty questionnaires were distributed out of which one hundred and sixty seven were received and used for the analysis. This represents 67 percent response rate. While the response rate was lower than expected, it was considered sufficient for this study. Six employees of the Ghana Revenue Authority within the rank of Senior Tax Officers were purposely selected to provide data on compliance and returns submitted to the authority within Accra and Tema metropolis. Thus a cross sectional data on individual tax returns filed for the years of assessments of 2009 to 2012 was also used. A random sample of Ninety returns was used for the study.

## 4. Analysis of Results

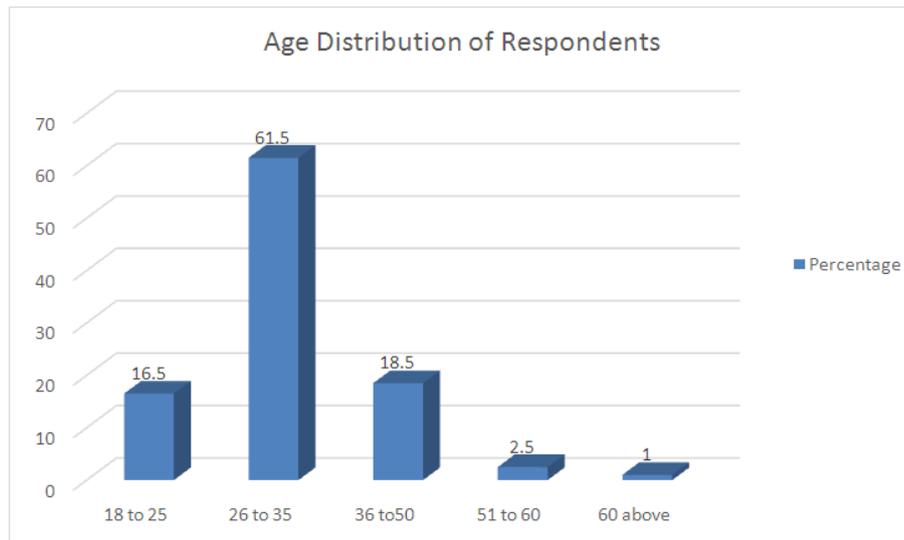
### 4.1. Demographic Analysis

#### 4.1.1. Gender

The gender distribution of the respondents was one of the key variables. In this regards, the proportion of males who participated in the study is 62% compared to just 38% of females. The low percentage level of women participants in the survey was because most of the females targeted were shy and were not ready to take questionnaires to answer them.

#### 4.1.2. Age

The age distribution of the respondents indicates that 61.5% of the respondents were within the age bracket of 26-35. This age group represents the youthful grouping of the population and is the workforce of the population from which the payment of gift tax should be expected. More than half of the respondents are within the ages of 26-35 while the lowest respondent age group is within 60+. The detail is presented on [Figure 2](#) below.



Source: Author elaboration from field work

**Figure 2.** Age Distribution of Respondents

#### 4.1.3. Marital Status

Majority (67 percent) of the respondents were married, whilst the rest were single.

#### 4.1.4. Family Size of the Respondents

Sixty percent of the respondents were persons having a family size of 4-6. Thirty eight percent had a family size of 1-3; Two percent of the respondents were having a family size of 7-10.

#### 4.1.5. Educational Background

The respondents were asked to indicate their last formal educational level attained. The results indicate that forty eight percent had attained Tertiary education; Twenty two percent had secondary education, while Nineteen percent

had basic education. Eleven percent of the respondents had no education at all. The high educational level of the respondents is because the selected areas for the study are where a large majority of the literate population of Ghana are based.

#### 4.1.6. Awareness of Gift Tax by the Respondents

The researcher sought to find out the level of awareness of Gift Tax amongst the respondents. The results indicated that most of the respondents (Seventy three percent) were unaware. The awareness level was further analyzed in terms of the level of education to determine if the awareness level relates to the level of education. The result is presented on the table below.

**Table 1.** Awareness of Gift Tax

LEVEL OF EDUCATION	YES FREQUENCY	NO FREQUENCY	PERCENTAGE AWARENESS
TERTIARY	32	49	40%
SECONDARY	10	27	27%
BASIC	4	28	1%
NONE	0	17	0%
<b>TOTAL</b>	<b>46</b>	<b>121</b>	<b>100%</b>

Source: Author elaboration from field work

The table indicates that only twenty seven percent of the respondents were aware of Gift Tax. These are persons who have heard of Gift tax either mentioned or have paid the tax before. Out of this number, seventy percent have had tertiary education, and twenty two percent have had secondary education. None of the uneducated persons have heard of Gift Tax before. This gives an indication that the level of education is a function of the level of awareness of gift tax. This relationship is stated as the higher the level of education the higher the level of awareness of Gift Tax.

#### 4.1.7. Respondents' Information Point about Gift Tax

The researcher sought to find out how the respondents become aware of Gift Tax. 98 percent of the respondents become aware of through the school system; while the rest indicated that it was through friends and Ghana

Revenue Authority campaign programs. This indicates that not much is being made by the Ghana Revenue Authority to make tax payers aware of this tax. Much of the educated person knowledge of the tax, further reinforces the positive correlation between educational literacy and tax awareness.

#### 4.1.8. Payment of Gift Tax

The first point towards complying with the Gift Tax, is the receipt of Gift, by the taxpayer and whether the gift is exempted or not. All the respondents indicated that they have received gifts in various forms before. The exempted gifts as listed on section 105 (2) of the ACT is as follows:

- Gift received under a will
- Received from a person's spouse, child, parent, brother, sister, aunt, uncle, nephew or niece
- By a religious body which uses the gift for the benefit of the public

- For charitable purposes
- Gift not exceeding GHS 50

Almost all of the respondents indicated they had received Taxable Gifts within the last five years. The respondents were further asked whether they have paid taxes on these gifts. Analysis of the responses indicated that only two persons had paid the tax before. This represents 1.2 percent of the total respondents. It should also be noted that this 1.2% are from only the respondents who have had the tertiary level education. This result is not significantly different from the results obtained from the examination of the returns filled with the Ghana Revenue Authority. All the returns studies showed that none of them had ever received Gifts. The selected Ghana Revenue offices also indicated that they had not received any Gift Tax payment between financial years ending 2011 and 2012.

Furthermore, the respondents were provided with a scenario in which a Gift received of GHS1,000 was made by a friend of which a tax of GHS143 was to be paid, respondents were asked whether they would pay or not. Only eleven persons representing seven percent of the sample indicated their willingness to pay. Few of the respondents indicated their willingness to comply, on the other hand, some were strongly against the paying of any such taxes since for them a Gift received is a "Gift" and they are not prepared to disclose for any tax purpose. For such persons in so far as the detection rate is very low, they would not comply. This gives an indication that, because the tax authorities have no way of detecting that a person had received a gift, the tax compliance rate is very low. This agrees with the findings of Massimo [24]. Some of the responses however, indicate a commitment to comply with the tax law when furnished with better tax knowledge.

#### 4.1.9. Tax Administrators' View about Public Awareness of Gift Tax

74 percent of the total tax administrators interviewed believe that the awareness they have created about gift tax is not satisfactory, while 25 percent believe it is good. Only 1 percent admitted that the awareness level is very poor. Therefore majority believe that the public has gotten enough information to be able to pay gift tax to the government for national development. This view however, is in contradiction with the findings of this paper, which indicated an awareness rate of twenty seven percent.

#### 4.1.10. Tax Administrators' View about Category of People Who Pay Gift Tax

The administrators were asked to rely on their experiences to provide information as to the category of people who comply with Gift tax payments. 74 percent believed government employees are the category who primarily complies. This is mainly because most of them aspire to occupy public position as it is a requirement to present tax clearance certificate before assumption of political positions. Also 26 percent indicated that self-employed persons occasionally comply as well.

#### 4.1.11. Tax Administrators' View about Factors That Make gift Tax Collection Difficult

The researcher sought the opinions of the tax administrators on factors that make the collection and compliance of gift tax difficult. The respondents were to rank eight listed factors on the basis of 0 to 3, with 0 meaning no effect, low effect; medium and high respectively. The result indicated that poor tax compliance attitude and low level of tax awareness are the highest contributing factors to low compliance of the Gift tax. The detail is presented on the table below:

Table 2. Tabulated statistics

Rows: FACTORS THAT MAKE GIFT TAX COLL	Columns: Ranking				
	0	1	2	3	All
Complicated tax system	6	0	0	0	6
Difficulties in detection of Gift	0	0	0	4	4
High Tax Rate	0	6	0	0	6
Lack of Human Resource	0	4	0	0	4
Lack of Logistics	0	0	5	0	5
Low income levels	0	0	5	0	5
Low Level of Tax Awareness	0	0	0	6	6
Poor tax compliance attitude of	0	0	0	6	6
All	6	10	10	16	42

Cell Contents: Count

## 5. Conclusion

The research found that majority of the respondents; seventy three percent of tax payers are unaware of the existence of Gift Tax laws. The few who are aware mainly had the knowledge through the educational system. A compliance rate of 1.2 percent obtained in this study seem to suggest that the Gift Tax compliance rate is very low, this is reinforce by analysis of the tax returns filed with the Ghana Revenue Authority. The major causes of noncompliance of gift tax in Ghana are the lack of awareness, which is a function of the educational levels of citizens, and the low rate of detection, this agrees with literature [28,24], and reinforce the Fischer model.

Though the tax administrators perceive the awareness level to be high, the result of the study indicates otherwise.

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