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Assessing the Effectiveness of the Tax System in Ghana as a Tool for Economic Development

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Abstract Taxation is the major source of revenue for the Ghanaian economy. The researcher seeks to assess its effectiveness on the economic development of the country. He also reviews the tax collection system in Ghana. The research shows that the percentage of tax revenue to Gross Domestic Product (GDP) in Ghana from 1990 to 2016 is 14.56 %. This is deemed inadequate to contribute immensely to the fortunes of the country. Majority of tax evaders are in the informal sector that forms 70% of the nation's output. In spite of the huge size of the informal sector, they contribute only 16.7% of the tax revenue. The researcher also compares direct and indirect taxes in Ghana and their apparent effect on the socio-economic lives of the people. It is evident from the research that the country is over relying on indirect taxes to the detriment of the poor in the society, thereby defeating the canon of taxation about equality.

Keywords: *taxation, economic growth, gross domestic product, borrowing, public finance*

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1. Introduction

Taxes are major means by which governments raise revenue for their economies. The development of most countries, therefore, depends on the effectiveness of their tax system. Payment of tax is seen as a civic responsibility of citizens in the developed economies and the evasion of tax is mostly condemned by the citizens in these countries. However, in Ghana, hardly do people pay taxes voluntarily and hardly does the state put in place measures that ensure that all its taxable citizens pay tax. As in [1], in his article 'the level of the effectiveness and efficiency of tax administration and voluntary tax compliance in Nigeria', taxes are paid by taxpayers not only because of the feedback they get in terms of provision of social amenities by the Government who happens to be the custodian and administrator of taxes but because they are forced to do so. It was, however, reported in the Accounting and Business magazine of the Association of Chartered Certified Accountants that thirty-eight millionaires in France in recent time approached the authorities for their taxes to be increased. This shows the level of awareness that some citizens have as their obligations to the state that has enabled them make their incomes in an atmosphere of tranquillity. As in [2] a quote by Franklin D. Roosevelt, former US president states that 'taxes are dues that we pay for the privileges of membership in an organised society'. Tax laws in the UK are mostly revised every financial year, yet in Ghana, at times it takes about a decade for some taxes to be revised thereby losing their efficacy of bringing economical revenue to the state. An example is the road toll (levy) that was 5 pesewas since the year 2001 and was increased to 50 pesewas in 2009 and has remained so after 11 years.

The author realises that taxes are of immense importance in other jurisdictions and considers the fact that Ghana attained independence over sixty years yet many parts of the country remain undeveloped. Basic needs such as potable water, effective power supply are lacking in many communities. Most of the rural areas lack motor able roads and the urban communities with motor able roads most times lack maintenance. Even when the state makes indications in its budget that those facilities would be provided in the financial year, those promises remain largely unfilled at the end of the year. Nonetheless, the state's main source of revenue like other countries is tax. In addition, the researcher observed that indirect taxes continued to be imposed on the people frequently and the poor in the society continued to experience hardships unabatedly. These situations prompted the researcher to assess the effectiveness of the country's tax system as a tool for economic development also ascertain the extent to which the state relied on indirect taxes as its source of revenue and their effect on the socio-economic lives of its people.

2. Literature Review

As in [3] broadly, there are three elements in public finance. These are expenditure, income, and borrowing.

He asserts that Government must have income to finance expenditure; most government income comes from taxation. As in [4] taxation is based on a system of laws passed by Parliament and interpreted by Judiciary, giving effect to what one must assume to be the democratic will of citizens. Taxation is a sovereign right of the state used to transfer resources from private to public use in order to achieve the economic and political goals of society as in [5]. As in [6] the level of potential tax revenue is determined by the level of economic activity of an area. As in [7] taxation is defined as the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities.

2.1. Taxation as a Deterrent to Economic Growth

In most modern societies, some taxation is essential, because governments have to raise money somehow to carry on their own activities of running the country, providing defence forces, a police force, fire service, a health service, education, roads, bridges etc. Governments can use tax revenues to invest in new enterprises, or to fund important research. Excessive taxation might deter investment and risk-taking and might curb individuals' initiative and efforts. The government should formulate fiscal policy within the guidelines that taxes should be high enough to allow the government to carry on its functions. However, it should not set it in order to deter private investment and initiative as in [3].

2.2. Tax Compliance in the Sub Region

As in [8] data shows that in Sub Saharan Africa, untapped tax revenues are monumental. The level of compliance is so low that even if it were added up by just a few percentage points, it would have a huge impact on the economies of these countries. He asserts that Heritage Foundation reports that tax revenue as a percentage of Nigeria's GDP is 3.1%; this is very low for a country considered to be a major hub of commercial activity in Sub-Saharan Africa and the biggest economy on the continent. Comparing this figure with the US (25.4%), the UK (32.9%) and Canada (30.6%) it becomes evident huge revenue remains untapped. He further states that apart from South Africa (24.7%) and Botswana (31.3%) an Organisation for Economic and Co-operation and Development (OECD) report on tax and development states that half the countries in Sub Saharan Africa raise less than 17% of their GDP in tax revenue. This he concludes hinders their ability to fight poverty, build infrastructure and raise the standard of living. And as in [9] when the tax base declines so much, the total tax revenue decreases. Since the tax base of most Sub Saharan African states including Ghana decline, the total tax revenue also decreases.

2.3. Canons/Principles of Taxation

According to Adam Smith there are four canons/ principles of taxation. These are as follows:

(1) Cannon of equality or ability, (2) Cannon of certainty, (3) Cannon of convenience, and (4) Cannon of economy.

2.3.1. Canon of Equality or Ability

Canon of equality or ability is considered to be a very important canon of taxation. By equality is meant equality of sacrifice, thus, people should pay taxes in proportion to their incomes. This principle points to progressive taxation. It states that the rate or percentage of taxation should increase with the increase in income and decrease with the decrease in income.

2.3.2. Canon of Certainty

The Canon of certainty implies that there should be certainty with regard to the amount which taxpayer is called upon to pay during the financial year. If the taxpayer is definite and certain about the amount of the tax and its time of payment, he can adjust his income to his expenditure.

2.3.3. Canon of Convenience

By this canon, Adam Smith means that the tax should be levied at the time and the manner which is most convenient for the contributor to pay it. For instance, if the tax on agricultural land is collected in instalments after the crop is harvested, it will be very convenient for the agriculturists to pay it. Similarly, property tax, house tax, income tax, etc., etc., should be realized at a time when the taxpayer is expected to receive income. The manner of payment of tax should also be .convenient.

2.3.4. Canon of Economy

The canon of economy implies that the expenses of collection of taxes should not be excessive. The cost of paying the revenue collectors should not exceed the revenue collected. Tax will also be regarded as uneconomical if it checks the growth of capital or causes it to emigrate to other countries.

2.4. Some other Canons/Principles of Taxation rather than Adam Smith

Some writers on Public Finance have formulated four other important canons/principles of taxation. They, in brief, are as follows:

2.4.1. Canon of Productivity

The canon of productivity indicates that a tax when levied should produce sufficient revenue to the government. If a few taxes imposed yield a sufficient fund for the state, then they should be preferred over a large number of small taxes which produce less revenue and are expensive in collection.

2.4.2. Canon of Elasticity

Canon of elasticity states that the tax system should be fairly elastic so that if at any time the government is in need of more funds, it should increase its financial resources without incurring any additional cost of collection.

2.4.3. Canon of Simplicity

Canon of simplicity implies that the tax system should be fairly simple, plain and intelligible to the tax payer. If it is complicated and difficult to understand, then it will lead to oppression and corruption.

2.4.4. Canon of Diversity

Canon of diversity says that the system of taxation should include a large number of taxes which are economical. The government should collect revenue from its citizens by levying direct and indirect taxes as in [10].

2.5.

As in [11], in evaluating the soundness of any tax, scholars of public finance and taxation conventionally look at three types of criteria:

i) The administrative costs of the tax
ii) The economic effects of the tax, and
iii) The fairness or equity of the tax

He also asserts that most people believe that equity dictates at least a modest amount of progressivity in the tax system, since the relatively rich can 'better afford' to pay a higher proportion of their income in taxes.

2.6. Tax Reforms in Ghana

As in [12], Ghana's fiscal structure prior to 1983 had generally been characterized by low revenue. As a result, Ghana undertook a number of reforms prescribed by the International Monetary Fund (IMF) and the World Bank under the Economic Recovery

Programs (ERP) and the Structural Adjustment Program (SAP). Under the programs, numerous policies were amended to establish a more attractive investment climate. More taxes have since been introduced to enhance tax revenues mobilization. Some of these are the value added tax (VAT) introduced to replace the sales tax, others are talk tax and gift tax. Tax collecting agencies such as the Customs and Excise Preventive Services, the Internal Revenue Service and the VAT service have also been better equipped by recruiting qualified personnel for those services and putting them under one umbrella called the Ghana Revenue Authority in a bid to synchronize the tax collection system and maximize revenue collection. Logistics for the Authority have also been improved for the enhancement of revenue collection.

As in [13], tax reforms in Ghana have been used for three broad objectives: restore the tax base, provide better production incentives for investors, and improve tax administration. In spite of all the reforms, the tax system is still lagging in many perspectives.

2.7. Cursory Look at Some Taxes in Ghana

Governments in Sub Saharan Africa especially Ghana, depend mainly on taxes to raise revenue for their economies. Production in these countries is far below maximum level. Some of the taxes in Ghana include the value added tax (VAT). This is tax that consumers of various goods and services pay on products that they buy from vendors. The sellers of these products collect the taxes from the buyers and pay them to the tax authorities thirty days after the end of the month in which they collect the taxes.

Other taxes include pay as you earn (PAYE) tax, company tax, income tax, property tax, road tax, petroleum tax and import duties. The PAYE tax is tax that wage and salary earners pay to the state according to the salary that they earn. Invariably wage earners who earn high income pay more tax than those who earn low income. Company or corporation tax is tax that companies pay to the state mainly on the level of profits that they make. Petroleum tax is tax that consumers of petroleum products pay whenever they buy products such as petrol, diesel, liquefied petroleum gas etc. Some of the other taxes are Gifts tax and Capital gains tax.

The government's attempts to raise revenue through taxes sometimes deepen the poverty plight of the people. This is because the tax network is not a fair one, in that indirect taxes are too much. Moreover, only the few identifiable persons pay taxes, thereby carrying the burden of those who do not pay taxes. Through the imposition of indirect taxes both the poor and the rich invariably pay equal taxes thereby worsening the situation of the poor in society. The few industries in Ghana obtain most of their raw materials from outside the country. Owing to poor tax administration, the state puts high tax rates on the imported raw materials. These high import duties increase the cost of raw materials used in production. It, therefore, increases the cost of production making imported goods cheaper than locally produced ones. Locally produced goods therefore, are not able to compete on the international market.

Owing to the high cost of producing goods in Ghana, many people patronise the buying of imported finished goods at the expense of locally produced ones. This phenomenon cripples production by the local industries in Ghana.

Subsequently, owing to shortfall in local production and demand the state resorts to importing more finished products to meet the local demand / consumption. This situation aggravates the already precarious balance of payment position of the country. Ghana eventually has become import oriented economy with its resultant effect on the country's foreign exchange position.

2.8. Tax Revenue Collection System in Ghana

The tax revenue collection system in Ghana is poor. The state is not able to capture effectively the taxpayers in its tax net, therefore, the few identifiable persons or organisations that are available for tax eventually end up carrying the nation's tax burden. These persons are salary earners and large companies. The salary earners fall under the (pay as you earn) PAYE tax system and large companies pay corporate income tax.

Many self-employed persons who earn more than salary earners go untaxed because they are not located by the tax collectors and the tax system too does not effectively include them in the tax collection mechanism. Businesses that do not register with the state operate freely and make huge profits without paying taxes on their profits.

The private sector makes about 70% of the nation's output and about 80% of this figure easily evades taxes. Overall, less than 30% of taxable persons in Ghana actually pay taxes. Some persons in the private sector who pay taxes also do not declare the correct incomes for tax purposes. They, therefore, do not pay the appropriate amount of tax that relate to their operations. This is because the system in place is not efficient enough to determine the correct income of organisations in the country and detect tax evasions.

As in [14] Ghana in 2008 had an active working population of more than seven million but only one million five hundred thousand people were taxpayers. The large informal sector in the economy was responsible for this; it contributed just 5% of total revenue generated in the country. This implied that 17.14% of taxable persons in 2008 paid taxes. In October, 2017, the Ghana Revenue Authority (the Tax Collecting Institution in Ghana) indicated that one million persons in the formal sector and two hundred thousand persons in the informal sector pay taxes. This implies that the contribution of the largely informal sector to total revenue generated through taxes has increased from 5% in 2008 to 16.7% in 2017. This figure is still woefully inadequate considering the huge size of the informal sector. In effect, 1.2 million persons pay taxes to cater for the needs of about 30 million people in the country.

Again, as in [14], the tax department indicated that voluntary compliance was ineffective. In the previous year, five regions in the country recorded below 5% compliance indicating that more than half of employers did not pay any PAYE tax. Only the large taxpayers unit (LTU) recorded a compliance level of over 70%. This excerpt culled from the *Business and Finance Times* confirms the fact that the state's tax net is very porous, therefore, direct tax collection system is very poor. For this reason the state resorts to indirect taxation to finance the economy, with its attendant effect on the citizens' well-being.

As in [15], revenue collecting agencies have complained about the attitude of importers who under-declare the cost of imported items to make them pay little tax and increase their profit margin. The publication further indicated that the government of Ghana lost about $9m each year on about 40,000 metric tons of vegetable oil brought into the country by foods and vegetable importers, according to the Unilever Ghana Limited research.

2.9. Socio-economic Effect of the Tax System on the Ghanaian Populace

Generally, owing to the fact that the state is not able to identify taxable persons in the country, it resorts to relying more on imposition of indirect taxes as a result Ghana's tax system is not equitable as one of the canons of taxation requires. Indirect taxes as percentage of direct taxes is 92.5% (2012-2016) indicating that government's revenue from indirect taxes is almost the same as government's revenue from direct taxes over the period. This situation makes the rich tax payer and the poor tax payer pay almost the same amount of tax, hence, worsening the plight of the vulnerable in society.

2.9.1. Effect of Petroleum Taxes as an Indirect Tax on Ghana's Economy

Petroleum taxes is a form of indirect tax in Ghana with varied implications on the economy. Petroleum products in Ghana are vital to the economic development of the country. In spite of the worldwide reduction in the prices of petroleum products whenever the world price of crude oil falls, Ghanaians do not normally benefit from reduction in oil prices. Ghanaians pay high petroleum prices owing to the fact that the state uses prices of petroleum products to solve imbalances in its tax collection system. In 2019, the average price of gasoline in Ghana was $4.5 per gallon while the price in US was $2.6 per gallon. This implies that Ghana, a middle income economy, with average daily minimum wage of $2 in 2019 has its petrol price 73% higher than US, a first class economy with average minimum wage rate of $7.25 per hour.

This situation is as a result of the fact that price of petroleum products in Ghana contains about 50% tax components. Most cars in Ghana use petrol or diesel. Commuters use cars to transport persons in and around cities and towns. When the state increases price of petroleum products, owing to high taxes levied by the state on petroleum products, transport owners increase their fares.

The increase in transport fares adversely affect workers who have to commute to and from work. The increase in transport taxes reduces the real income of workers. It reduces their disposal income and curtails their purchasing power. The salary earners have double agony since their salaries are already heavily taxed as a result of the largely untaxed population as explained earlier in this work. The workers cost of living becomes unbearable, standard of living, deplorable. The workers' deplorable standard of living results in low productivity. It is argued but not substantiated that the reduction in salaried workers real incomes is a contributing factor to their involvement in corrupt practices as a means of making extra money to sustain themselves. The audited report of eight government ministries for the year 2005 indicated that the state lost an amount of about GHc44million i.e. about $48 million via fraudulent practices and corruption. This amount formed 6.7% of the tax revenue of USD715.5 million for 2006.

Government sometimes responds to workers agitation for wage increases as a result of increases in fuel prices by increasing workers' salaries. When the state increases worker's salaries in this way, it is not normally backed by increase in productivity, therefore, this sometimes leads to wage cost inflation as in [16].

2.9.2. Effect of Petroleum Price Increase on Traders

Most heavy-duty vehicles in Ghana use diesel. When the price of diesel is increased, heavy-duty vehicles increase the cost of carrying foodstuffs and other goods from the producing centres to the marketing centres. Traders in goods and foodstuffs increase the price of their wares by transferring the increase in lorry fares to the consumer. Persons who trade in goods with inelastic demand succeed in transferring the whole price increase to the buyers. Persons who trade in goods with elastic demand however, are able to transfer part of the price increase to the buyers while the traders themselves absorb part of it.

Some persons dealing in sale of elastic goods observe that demand for their goods and services drop drastically because of the petroleum prices increases, and it sometimes throws them out of business. This situation exacerbates the already high level of unemployment in the country.

2.9.3. Effect of Petroleum Price Increase on Households

Most households in Ghana use liquefied petroleum gas as source of energy for domestic needs. The high cost of liquefied petroleum products cause majority of the population to resort to the use of charcoal as fuel. The use of charcoal directly or indirectly is a recipe for increased felling of trees to produce fuel. This situation leads to deforestation and environmental degradation.

2.9.4. Effect of Petroleum Price Increases on Fishing Activities

Increase in fuel prices make some anglers operate at a loss. This is because their operating costs outweigh their income from the business. These anglers buy the pre-mix fuel for their fishing vessels at high prices. Sometimes they, therefore, are compelled to factor it into their production cost by increasing the prices of their catches.

Definitely, with the increase in the selling price of fish, the demand for it naturally reduces. The angler, therefore, makes less income and lesser profit. The fish retailers also transfer the price increases to consumers. The consumers' demand for the fish falls because their real income has not increased.

The fish retailers' business does not boom anymore. Their contribution to the GDP reduces since the price increase reduces their income. The increases in the price of fuel invariably throw off some fish retailers out of business. This is due to loss making and they add up to the already high level of unemployment.

The increases in the fuel prices that makes the cost of fishing by local anglers expensive, also makes them unable to compete with the price of fish that people import into the country. The imported fish are therefore, normally cheaper than the local ones in many circumstances. The state, therefore, uses foreign currency to import more fish in order to meet the shortfall in demand for fish by the populace. This situation adversely affects the country's balance of payment position. Ghana currently imports most of its fish requirements to the detriment of its indigenous anglers, i.e about $250 million a year. This is a brief account of the effect of the imposition of indirect taxes as a preferred source of tax revenue in Ghana's economy.

2.10. Limitations of the Study

Obtaining data for the research was not easy since one particular institution could not provide all the data required for this work. The researcher had to collate figures from different sources and the challenge this posed was that the basis of calculating the figures by those different institutions might vary; nonetheless, the figures are fair representations. Another limitation was that data obtained from 2012 to 2016 in respect of tax revenues were in cedis whereas data obtained for the same period for GDP were in US dollars; therefore, computing the tax revenues as percentage of GDP for those periods was done using average exchange rate figures.

Data for 1994 to 2000 regarding the percentages of tax revenues to GDP were unavailable. Nonetheless, these figures would not affect the research results significantly since the figures from 1990 to 1993 fall below the average result obtained for the period 1990 to 2016; and also the trend for that period indicates that the unavailable figures would be a reflection of 1990 to 1993 figures.

After 2016, the country changed the basis of calculating its national income. It is therefore inappropriate to compare the post 2016 data with the data as at 2016 since it will amount to inconsistency. The researcher therefore, did not include figures beyond 2016 in order to present a fair picture of the tax situation of the economy.

3. Methodolody

Data for the research was obtained from both primary and secondary sources. The researcher interviewed and interacted with large number of shop owners and garage owners in the capital city, Accra, most especially, the eastern parts of Accra where mini shops abound owing to the distance from the city centre. He also interacted with some shop owners in the hinterland. Secondary data was obtained from the publications of the Ghana Statistical Service, the Bank of Ghana, Ghana Revenue Authority and other journals. The researcher considered the tax revenues of the state from 1990 to 2015 and their percentages to GDP within those periods to ascertain if the state was earning enough from taxes to improve the living standards of its people. He also compared the amount of direct and indirect tax revenues of the state to ascertain if they are in consonance with the canons of taxation; hence their socio-economic effect on the people.

The research design for the project was quantitative method and comprised a table showing the percentage of tax revenues to GDP; table of direct and indirect taxes between 2012 and 2016. It also shows a graph comparing direct and indirect taxes.

4. Data Analysis and Results

Table 1. Tax Revenue as percentage of GDP

Year	Value
1990	11.44
1991	13.16
1992	10.77
1993	13.15
2001	17.19
2002	17.49
2003	18.48
2004	21.75
2005	21.32
2006	12.81
2007	13.88
2008	13.90
2009	12.61
2010	13.39
2011	14.87

Source: Ghana Revenue Authority, [17]

2012	11.70
2013	11.51
2014	12.45
2015	15.31
2016	13.92

Source: Ministry of Finance, [18]

$$\textbf{Mean of the distribution} = \frac{\sum\left(x_1, x_2, x_3, x_4 \ldots\ldots\right)}{\mathbf{N}}$$

$$= \frac{\mathbf{291.10}}{\mathbf{20}} = \mathbf{14.56}$$

Table 2. Billion Cedis

	2012	2013	2014	2015	2016	TOTAL
Direct Taxes	5.5	6.3	8.5	8.7	11.3	40.3
Indirect Taxes	4.1	4.8	6.4	9.9	12.0	37.2

Source: Ministry of Finance [18].

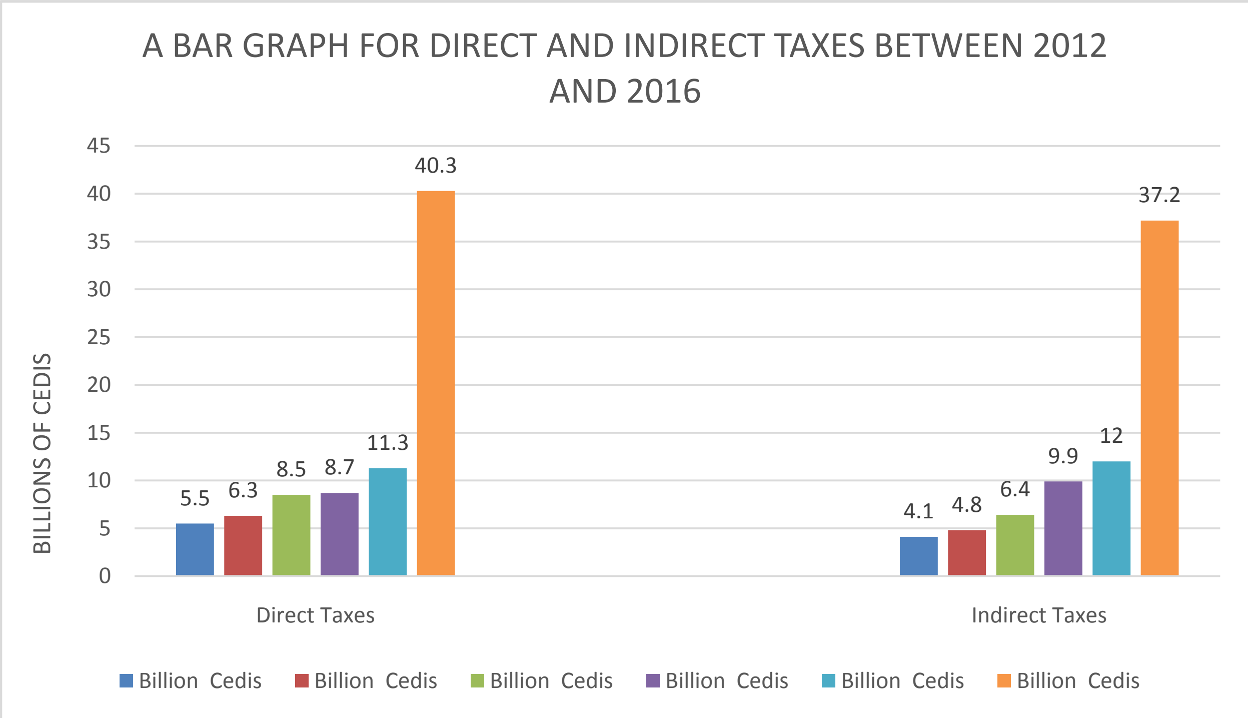

Figure 1.

4.1. Findings

1. On average, Ghana's tax revenue as percentage of GDP from 1990 to 2016 was 14.56 %. In spite of the low percentage of tax revenue to GDP, a research as in [19] reveals that between 2010 and 2014 the efficiency rate of tax mobilisation in Ghana was 97%; 97%; 99.36%; 96.36% and 97.07% for each respective fiscal year. This indicates that even the state's expectation from tax revenue is in itself very low.
2. Direct tax revenues from 2012 to 2014 were slightly higher than the indirect taxes, however, in 2015 and 2016 revenues from indirect taxes exceeded the revenues from direct taxes. With this trend, it is envisaged that henceforth, indirect tax revenues will exceed direct tax revenues. Thus, an imperfect way of administering taxes because this is in contrast with Canon of equality or ability**.** The state does not take plans to enforce direct taxes; therefore, it uses the indirect taxes as a way of raising much revenue. In this way, progressive taxation is not encouraged because people who earn more pay the same tax as people who earn less. An example is the high taxes put on petroleum products that are consumed by both the rich and the poor. The resultant effect is that poverty is deepened; the poor pays equal taxes as the rich, hence the former becoming poorer. Within the period 2012 to 2016 total indirect taxes was 92.3% of total direct taxes; indicating that the state earned almost the same amount of taxes from both direct and indirect taxation. Indirect taxation in Ghana has had adverse socio-economic effect on the lives of its people.
3. Gift tax is not enforceable; because who determines what amounts to a gift? Who identifies the giver? The receiver or the gift? In practice, records are just not available and traceable.
4. Capital Gains Tax (CGT) is not fully enforced. Apart from perhaps CGT on stocks at the exchange, many beneficiaries of capital gains are normally not identifiable and therefore are not taxed. As in [7] and [20] capital gains tax is the taxation of the increase in the capital value of an asset between the date of the acquisition of the asset and the date of its disposal. They assert that tax payers (in Ghana) are required to report any capital gain and pay any tax arising therefrom within thirty days of the realization of an asset. They further indicate that a chargeable asset under the Act means any of the following assets:
   - i Buildings of a permanent nature or temporary nature situated in Ghana;
   - ii Business and business assets including goodwill, of a permanent establishment situated in Ghana;
   - iii Land situated in Ghana;
   - iv Shares of a resident company;
   - v Part of, or any right or interest in, to or over, any of the assets referred to above.

   Conspicuously missing in the Act is the resale of vehicles, which are also assets, which have been a lucrative business of many people in Ghana.

Vehicles are resold everyday with the vendors making gains owing to the economic conditions prevailing in Ghana whereby due to the country's unfavorable exchange rates position, prices increase each day; however, people do not pay capital gains tax on the proceeds from the resale of their vehicles. The state, therefore, loses millions of cedis each year for not charging CGT on profits from resale of vehicles.

5. Many businesses do not file returns at the Registrar General's Department let alone at the tax offices. However, they go undetected and unpunished. They make huge profits without paying taxes.
6. Property rates are grossly low and hardly reviewed to reflect current price levels. Tax revenues from property rates are therefore minimal.
7. Some unscrupulous tax collectors collude with tax payers to under-declare profits to the personal enrichment of the tax collectors and to the detriment of the state.
8. Tax laws are generally not enforced; therefore, tax compliance in Ghana is ineffective as indicated by the revenue collecting authorities.
9. The largely informal sector is untaxed. Meanwhile, this forms about 70% of the taxable population. Many shop owners interviewed during the research do not even know the tax offices. They are at times visited by the District Assembly (Local Authority) officers to collect annual levies. Most of these people last paid their levies five years ago. Mini shops and hair salons spread over the country are about 200,000. These shop owners are on the average wealthier than an average salary earner, yet about 80% of them do not pay income tax. There are about 20,000 garages across the country, where vehicle repair works are undertaken. Most of these garages earn on average GHc 40,000 per annum but do not pay income tax. At best, these class of people only pay levies to the district assemblies or flat rates which are woefully less than their estimated tax liabilities, whereas an employee who earns GHc 4,000 per annum as at 1st January 2020 pays income tax.
10. Corporation tax rates - Corporation tax rates are currently 25%, however, there are proposals to reduce it to 20%. The authorities argue that if the tax rate is reduced more people will be prepared to pay taxes voluntarily. The argument is that if one is not willing to pay taxes, no matter how low the tax rate he may still not pay unless he is identified and traced for the taxes to be collected from him. The government needs to apply costs and benefits analysis on the reduction of the tax rate to convince the world of its decision to reduce the tax rate when at the prevailing rate, revenues are low; since as in [21] findings in South Africa indicate that countries that attract foreign direct investment by offering lower tax rates are not necessarily more competitive than countries with high tax rates.
11. The state has demarcated certain areas as free zone areas. Companies set up in these free zone areas are exempted from some taxes in a bid to promote businesses. The tax exemption for companies in these free zone areas need to be granted based on critical analysis of benefits derived from the tax exemptions against revenues lost to the state.

5. Conclusion

From the research, the revenues obtained from taxation in Ghana are inadequate for meaningful economic development of the state. Average tax revenue to GDP of 14.56% as compared to 25.4% of the US, 32.9 of the UK, 30.6% of Canada and even 31 % of Botswana a fellow Sub Saharan African State requires the country to redesign its tax policies and make them enforceable if it wants to get out of its financial difficulties and become an emerging economy. Ghana relied excessively on indirect taxes instead of direct taxes during the period under review which is detrimental to the populace since it does not ensure equality in tax payment.

5.1. Recommendations

1. In order to alleviate the poverty of the people, the state should consider raising more revenue from direct taxes than indirect taxes.
2. Collection of gift taxes should be well structured to ensure that all persons who receive gifts are taxed in order to make gift tax law meaningful.
3. Capital Gains Tax needs to be modified by ensuring that people who sell resold vehicles have traceable addresses on the invoices that they give to the buyers so that authorities can trace the vendors and collect the necessary taxes from them. Since vehicles are depreciable assets, the gains from their resale should be multiplied by a factor in order to compensate for their depreciation. For example, a vehicle sold after one year of usage with capital gain of GH 5,000, should be taxed as follows: GHc 5,000 x 90% x tax rate; if it was used for two years the capital gains tax should be: GHc 5,.000 x 80% x tax rate, if it was used for three years it would be taxed as follows: GHc 5,.000 x 70% x tax rate; such a vehicle therefore, when sold after being used for ten years, the CGT should be GHc 5,000 x 0% x tax rate. This means that vehicles that are sold with increase in value after ten years of usage will attract no CGT. This formula could be used for the CGT on resale of vehicles; C (100-10n)%*x, where C is the capital gain from the sale of vehicle, n is the number of years the vehicle was used before resale and x is the tax rate.
4. The state should review its taxes regularly in order to make more meaningful income from taxes.
5. There should be civic education for Ghanaians from the basic school to the tertiary level on a citizen's obligation to pay taxes. The public as well should be educated on same. Nonetheless, the state should also be seen to be using its resources judiciously and impacting the lives of its people so that the people will be willing to pay their taxes; even voluntarily, knowing that it will enhance their living standards.
6. The tax net should be well knitted in order to catch at least 80% of the taxable persons in its net. The

tax base should be broadened while at the same time more tax personnel should be deployed to the field to identify prospective tax payers and collect taxes from them; instead of sitting in their tax offices spending most of the time doing paper work while monies remain on the field waiting for collection. If the tax net coverage is wide and very effective the state would not need to borrow to finance its budgets.

7. Government should critically consider cost and benefit issues before giving tax exemptions and or reducing taxes so that the state does not lose out in those concessions in terms of net revenues from those deals.
8. With effective taxation system in Ghana, the state can use taxes to control inflation and not only interest rate adjustments as has been the trend over the years.
9. Finally, the tax laws should not only be in the books but must be seen to be enforced absolutely. This would serve as deterrent to would-be tax evaders.

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