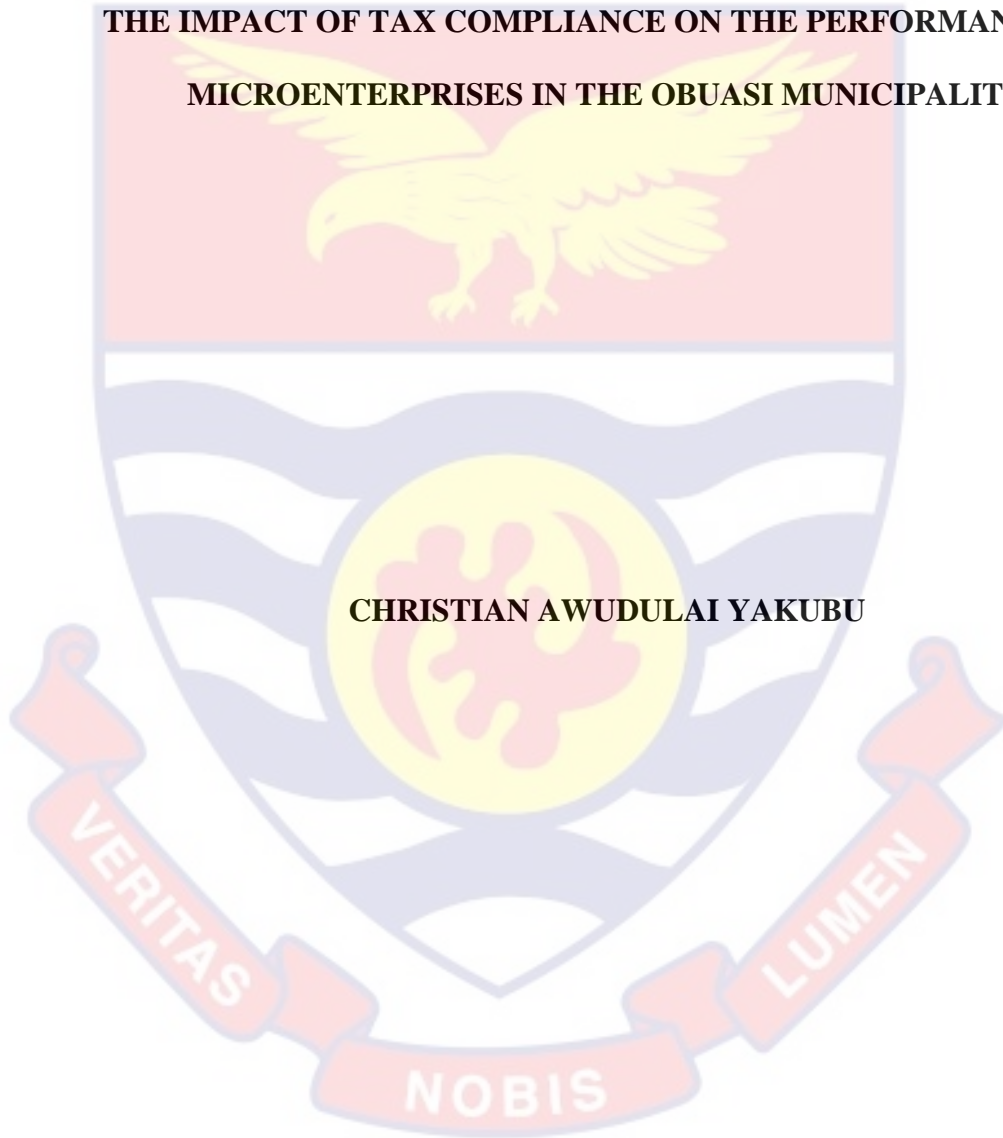


UNIVERSITY OF CAPE COAST

**THE IMPACT OF TAX COMPLIANCE ON THE PERFORMANCE OF
MICROENTERPRISES IN THE OBUASI MUNICIPALITY**

CHRISTIAN AWUDULAI YAKUBU



2021

UNIVERSITY OF CAPE COAST

THE IMPACT OF TAX COMPLIANCE ON THE PERFORMANCE OF
MICRO ENTERPRISES IN THE OBUASI MUNICIPALITY

BY

CHRISTIAN AWUDULAI YAKUBU

Dissertation submitted to the Department of Accounting, School of Business,
University of Cape Coast in partial fulfilment of the requirements for the
award of Masters of Business Administration Degree in Accounting.

NOVEMBER, 2021

DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's signature Date

Candidate's Name: Christian A. Yakubu

Supervisors' Declaration

I hereby declare that the presentation and preparation of the dissertation were supervised in accordance with the guidelines on supervision of the dissertation laid down by the University of Cape Coast.

Supervisor's Signature..... Date.....

Name: Mr. Stephen Asante

ABSTRACT

This study examines the impact of tax compliance on the performance of micro enterprises in the Obuasi Municipality. The background reveals the importance of tax compliance for revenue generation and sustainable economic development. The purpose of the study is to assess how tax compliance affects the performance of micro enterprises in the municipality. A mixed-methods research approach is employed, combining qualitative interviews with key stakeholders and a quantitative survey of micro enterprise owners. The major findings indicate that tax compliance significantly influences the financial performance, growth prospects, and access to government support programs of micro enterprises. Improved tax compliance positively correlates with increased business legitimacy, customer trust, and long-term viability. Conversely, non-compliance leads to penalties, loss of public trust, and limited access to financial resources. The study concludes that enhancing tax compliance among micro enterprises is crucial for fostering their performance and contributing to local economic development. Therefore, the study recommends implementing education and awareness programs, simplifying tax processes, providing support services, and enhancing accountability measures to encourage tax compliance among micro enterprises in the Obuasi Municipality.

KEY WORDS

Tax Compliance

Tax Obligations

Tax Non-Compliance

Tax Evasion Tax Returns

Tax Administration

Tax Compliance Cost

Tax Rate

Tax Information

Tax Education

Micro-Enterprises

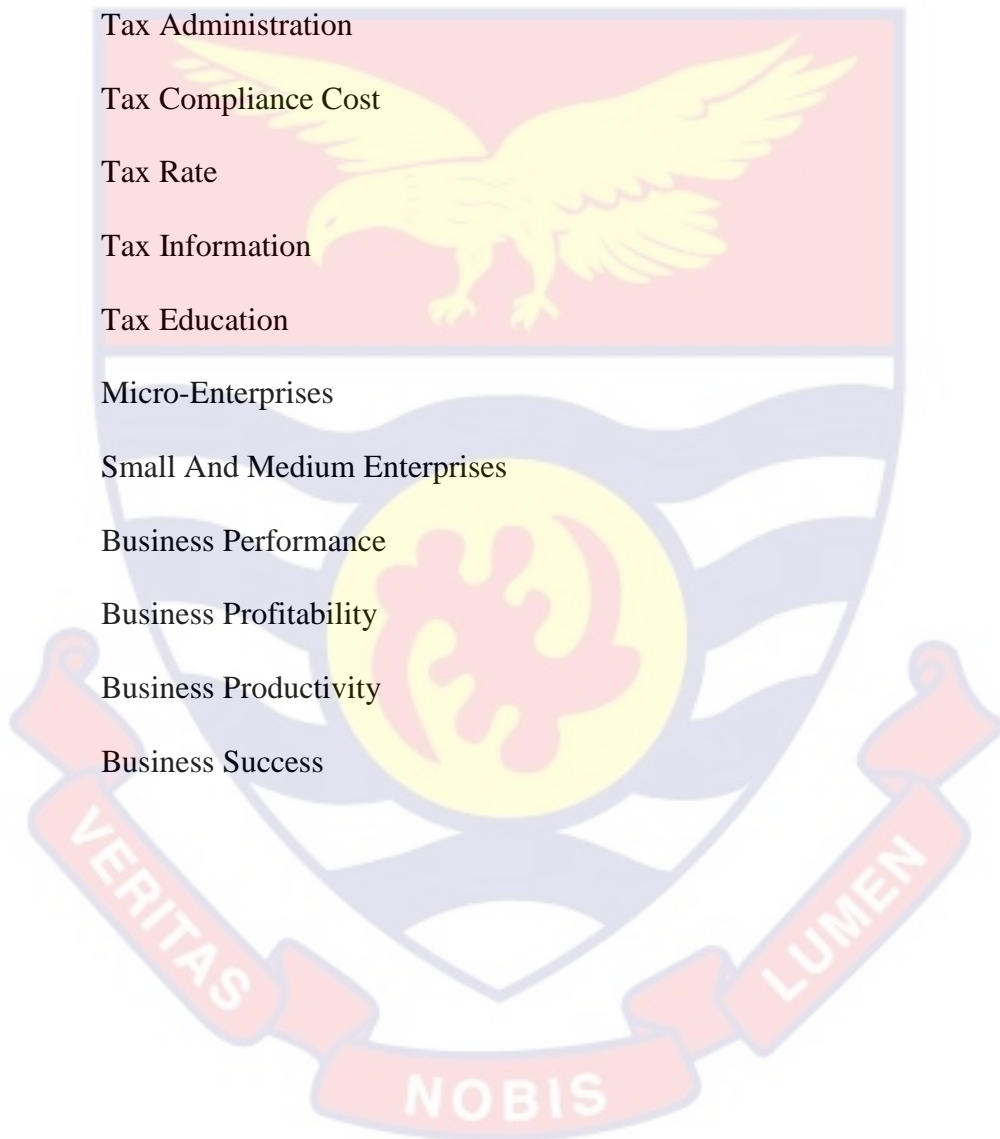
Small And Medium Enterprises

Business Performance

Business Profitability

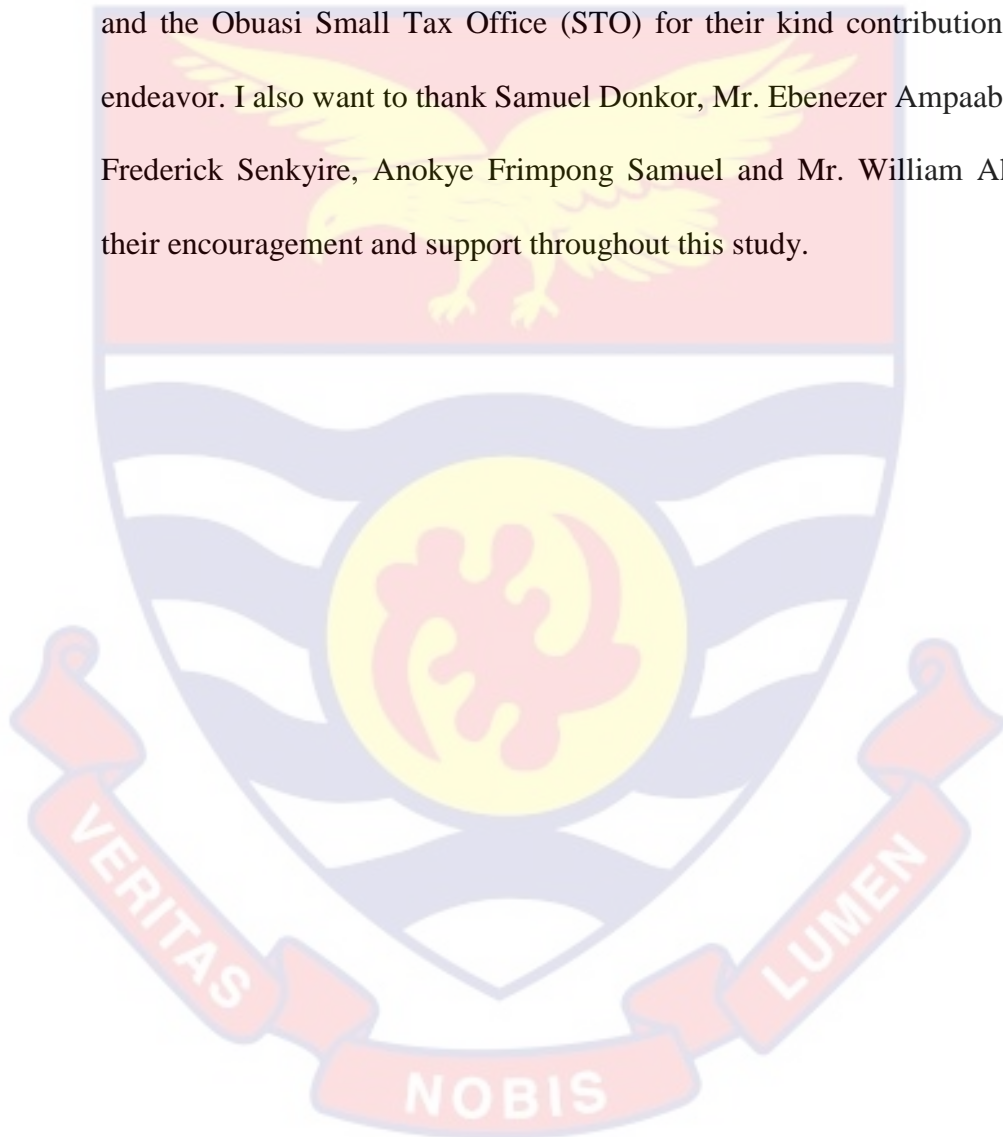
Business Productivity

Business Success



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DEDICATION

To my family Mrs. Felicia Yakubu my wife, children Purity A.

Morgan, Dora Ayeyi A Yakubu, Christian Yakubu Jnr.



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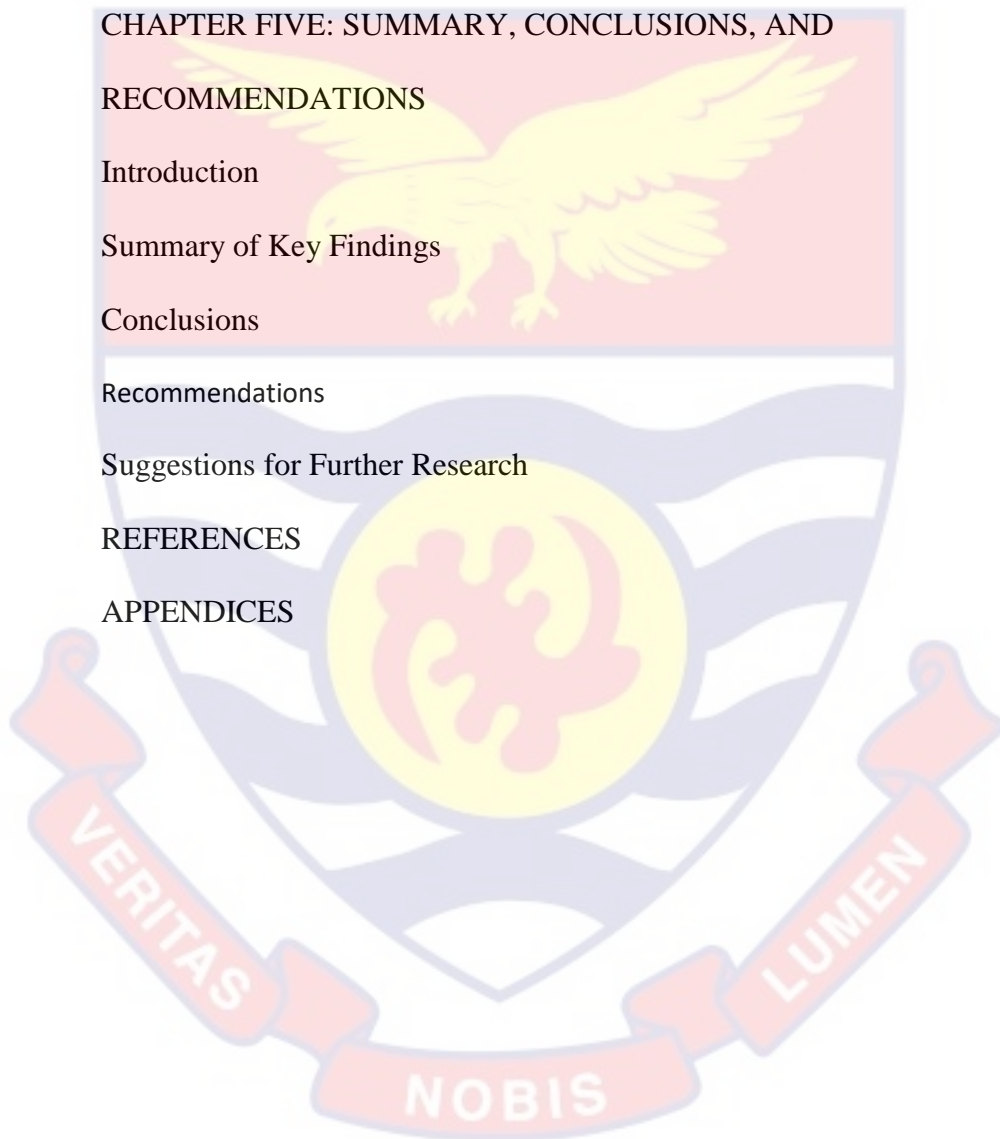
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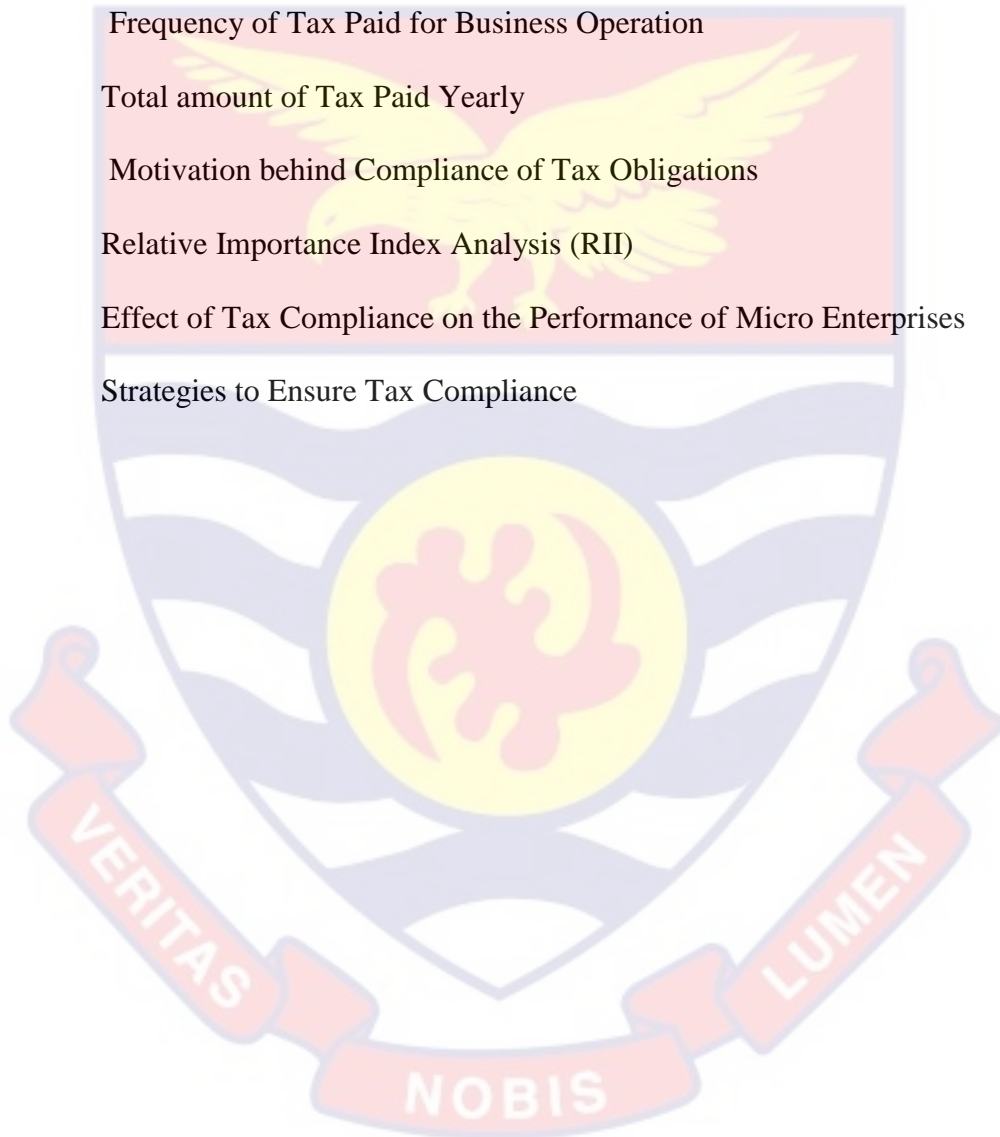
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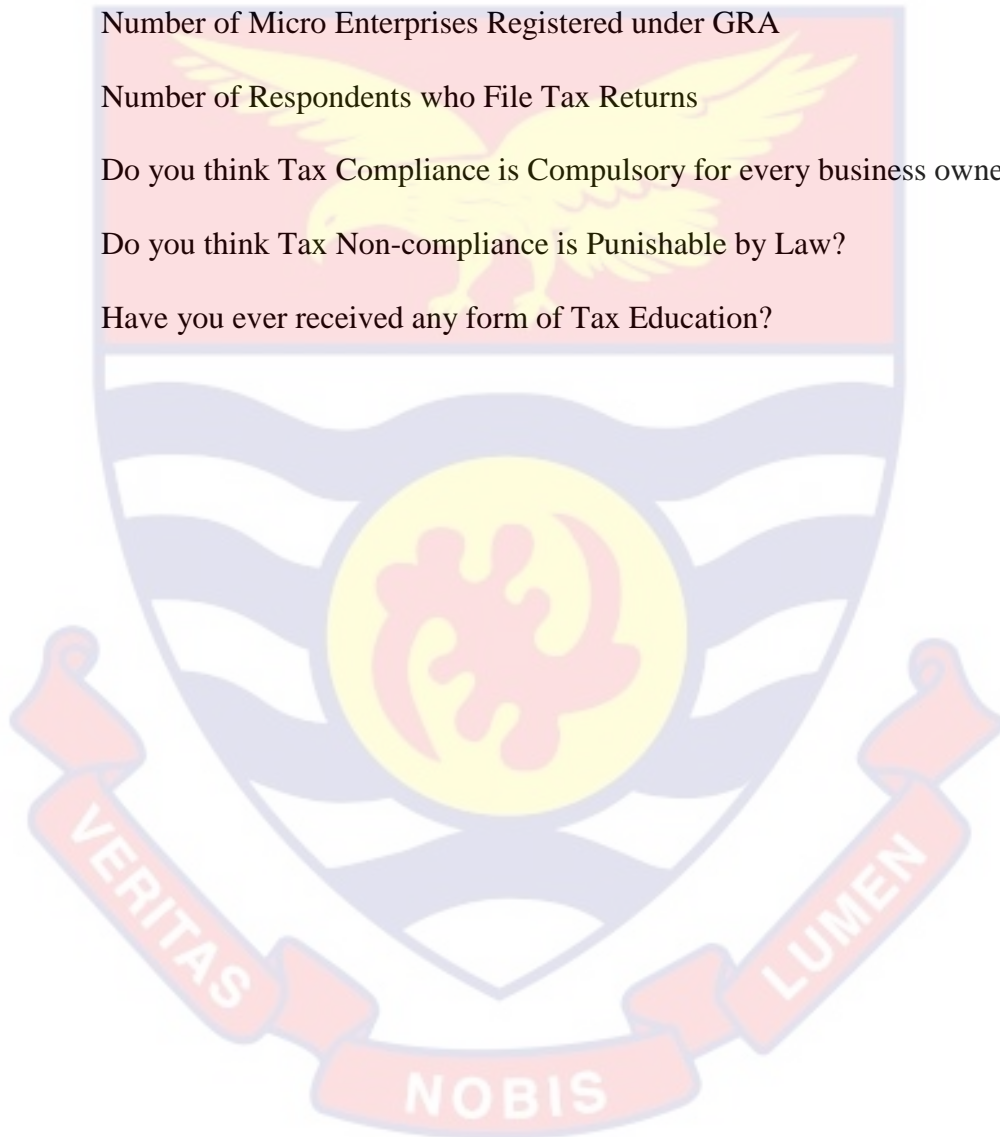
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LISTS OF ACRONYMS



GRA	Ghana Revenue Authority
MSEs	Micro and small enterprises
SMEs	Small and medium-sized enterprises
STO	Small Tax Officer
VAT	Value-Added Tax
NBSSI	National Board for Small Scale Enterprise
MSMEs	Micro-, Small and Medium-sized Enterprises
GEA	Ghana Enterprise Agency
OECD	The Organization for Economic Co-operation and Development
IRS	Internal Revenue Service
GSS	Ghana Statistical Service
EC	European Commission
OMA	Obuasi Municipal Assembly
LPE	The Law and Political Economy
KMA	Kumasi Metropolitan Assembly
EI	Executive Instrument
LI	Legislative Instrument
RII	Relative Important Index
SPSS	Statistical Package for the Social Sciences
TR	Tax Relief
CP	Cost of Hiring Tax Professional
IP	Impact on Purchases
MMDAs	Metropolitan, Municipal and District Assemblies

CHAPTER ONE

INTRODUCTION

Tax compliance is a critical issue for micro enterprises, particularly in the Obuasi Municipality, which is renowned for its gold mining industry but is now seeing a growing emphasis on economic diversification. Micro enterprises are increasingly pivotal to this transition, playing a key role in job creation and local economic resilience. However, tax compliance among these businesses remains a challenge due to various factors such as compliance burden, tax knowledge, and public awareness of tax regulations. Studies have shown that the compliance burden negatively impacts tax compliance, especially among smaller businesses, which also face a higher tax gap compared to their micro counterparts (Peprah et al., 2022).

Background to the Study

Tax compliance is an important issue for micro enterprises in the Obuasi Municipality. According to a study on compliance burden and tax gap among micro and small businesses in Ghana, small businesses are associated with a higher tax gap of 24.9% compared to their micro counterparts (Peprah, etaal. 2022).

The study also found that compliance burden has a negative impact on tax compliance, (Peprah-et-al-2022). Another study on tax knowledge and tax compliance of small and medium enterprises in Ghana found that there is a significant difference in tax compliance between small and medium enterprises, which can be largely attributed to the inability of small enterprises to file their tax (Adombire, 2020). Public awareness of tax regulations is also important for compliance, and a survey in Ghana found that public awareness

of tax reforms is uncertain. (Lydia Faith Nsubuga, Dr Fredrick T Sai & Felicia Naatu, 2017). Therefore, it is important for micro enterprises in the Obuasi Municipality to be aware of tax regulations and to have the necessary knowledge and resources to comply with tax requirements.

This study focuses on the Obuasi Municipality, situated in the Ashanti Region of Ghana. Obuasi is recognized for its significant gold mining operations, which have historically been a vital source of revenue for the Ghanaian economy. In recent years, however, there has been a growing emphasis on diversifying the economy and promoting entrepreneurship, particularly in the micro enterprise sector, to enhance job creation and economic resilience (Ghana Statistical Service, 2021). As micro enterprises play an increasingly pivotal role in this economic shift, understanding the relationship between tax compliance and their performance becomes imperative.

Statement of the Problem

In the dynamic economic landscape of the Obuasi Municipality, micro-enterprises serve as vital contributors to local economic growth and development. However, amidst their pivotal role, these enterprises often grapple with the challenge of tax compliance, a factor that can significantly influence their performance and sustainability. As the government strives to enhance revenue collection and fiscal stability, understanding the intricate relationship between tax compliance and micro-enterprise performance becomes imperative. Consequently, this study seeks to explore the multifaceted impacts of tax compliance on the operational efficiency, financial

viability, and overall performance of micro-enterprises within the Obuasi Municipality. (Kwakye, Addo, & Mensah, 2021)

This research endeavor recognizes the complex interplay between tax compliance and the performance of micro-enterprises, acknowledging that compliance behavior is influenced by a myriad of factors including regulatory environment, tax awareness, enforcement mechanisms, and the socio-economic context of the Obuasi Municipality. By delving into this nexus, we aim to uncover the underlying mechanisms through which tax compliance either fosters or hinders the growth trajectories of micro-enterprises.

Moreover, this study intends to shed light on the challenges faced by micro-enterprises in meeting their tax obligations, such as limited financial resources, lack of accounting expertise, bureaucratic hurdles, and informal sector dynamics. By elucidating these challenges, policymakers and stakeholders can devise tailored interventions and support mechanisms to enhance tax compliance among micro-enterprises, thereby fostering a conducive environment for their sustainable growth and contribution to the local economy. Ultimately, through a reflective exploration of the impact of tax compliance on micro-enterprise performance in the Obuasi Municipality, this research endeavors to provide actionable insights that can inform policy formulation, enhance regulatory frameworks, and bolster support mechanisms aimed at nurturing a vibrant and resilient micro-enterprise ecosystem. (Kwakye, Addo, & Mensah, 2021)

Moreover, past research conducted by Akuffo and Asante (2019) has highlighted the significant role of tax compliance in shaping the business environment for micro-enterprises in similar municipalities in Ghana. Their

findings underscored the importance of tax compliance not only in ensuring regulatory adherence but also in fostering trust between businesses and government institutions, thereby facilitating access to essential services and resources crucial for business growth. By building upon the insights garnered from previous studies like that of Akuffo and Asante (2019), this research aims to deepen our understanding of the nuanced dynamics surrounding tax compliance and its implications for micro-enterprise performance within the unique context of the Obuasi Municipality.

The impact of tax compliance on the performance of micro-enterprises in the Obuasi Municipality is a critical issue that requires attention. Despite the importance of tax revenue for economic development, many small businesses in developing countries, including Ghana, struggle with low levels of tax compliance. This hampers the ability of governments to collect the necessary revenue for public services and infrastructure. The burden of tax compliance and the resulting tax gap among micro and small businesses have been the focus of research, highlighting the challenges faced by these enterprises in meeting their tax obligations. (Peprah, etal; 2022).

Understanding the factors that influence tax compliance among small businesses and the strategies to improve it is essential for the sustainable growth of the local economy. Therefore, a reflective problem statement on this topic should emphasize the real-world implications of poor tax compliance on the performance and viability of micro-enterprises in the Obuasi Municipality, considering the specific challenges and opportunities within this local context. The justification for this study stems from the following reasons. Despite the acknowledged importance of micro enterprises to local economies, there

remains a scarcity of comprehensive research that systematically examines the connection between tax compliance and the performance of such enterprises, especially within the context of the Obuasi Municipality.

The findings of this study can provide valuable insights for policymakers, local authorities, and business owners to formulate effective strategies that promote both tax compliance and the enhancement of micro enterprise performance. This can lead to a more conducive business environment and contribute to local economic development.

Understanding the impact of tax compliance on micro enterprise performance can highlight the potential costs and benefits associated with adherence to tax regulations. This knowledge can aid businesses in making informed decisions about tax-related matters, subsequently influencing their financial stability and sustainability.

The study's outcomes can guide the development of targeted policies and interventions that address the challenges micro enterprises face in meeting tax requirements. By tailoring policies to the specific needs of these businesses, authorities can foster a more favorable environment for growth and development.

The study can fill a gap in the academic literature by adding to the body of knowledge on the intricate relationship between tax compliance and micro enterprise performance. This contribution can stimulate further research and discussions in this area, contributing to a deeper understanding of the factors shaping the success of small-scale businesses.

As the study focuses on the Obuasi Municipality, it considers the unique local dynamics, challenges, and opportunities that influence tax

compliance and micro enterprise performance within that specific geographic area. This localized approach ensures the findings are contextually relevant and applicable.

In conclusion, this study's statement of the problem addresses an important gap in the existing literature and has significant implications for local economic development, business operations, and policy formulation. By investigating the impact of tax compliance on micro enterprise performance in the Obuasi Municipality, the study aims to contribute valuable insights to both academia and practical decision-making.

Purpose of the Study

The study aims to assess the impact of tax compliance on the performance of micro-enterprises in Obuasi Municipality.

Research Objectives

The specific objectives of the study are as follows:

1. To determine the Level of Tax Compliance among micro enterprises in the Obuasi Municipality.
2. To assess the effect of Tax Compliance on the performance of micro-Enterprises.
3. To investigate the Relationship between Tax Compliance and Business Performance.
4. To identify Challenges and Implications for Micro Enterprises.

Research Questions

The study sought to answer the following critical questions:

1. What is the level of tax compliance among micro-enterprises in Obuasi Municipality?

2. What are the factors influencing tax compliance among micro-enterprises?
3. What is the effect of tax compliance on the performance of micro-enterprises?
4. What strategies have been adopted by the Ghana Revenue Authority for ensuring tax compliance among micro-enterprises in Obuasi Municipality?

Hypothesis

H₁: There is a significant effect of tax compliance on the performance of micro-enterprises in Obuasi Municipality.

Significance of the Study

This study can be useful to the government, policy makers in taxation, especially the Ghana Revenue Authority (GRA), micro-enterprises in general, and researchers in a few ways. This study adds to the body of knowledge by assessing the impact of tax compliance on micro-enterprises in Obuasi Municipality. It will identify in detail the challenges that imposing taxes on micro-enterprises affects their profitability and survival. This will give the government and the GRA insight into what kind of tax policies would be most beneficial and what kind of education or training would help the micro firms become more tax compliant and hence more financially stable.

Delimitations

Geographically, the study was limited to micro-enterprises in the Obuasi Municipality in the Ashanti Region of Ghana to assess the impact of tax compliance on the performance of microenterprises. The researcher also included officials from the Ghana Revenue Authority, Obuasi Small Taxpayer

Office (STO), to seek out their views on the strategies employed by the STO to ensure tax compliance among micro-enterprises in the Obuasi Municipality.

Limitations of the study

Time restrictions were a limiting element because the investigation must be completed quickly. Since the researcher is a self-funded individual, funding was another constraint on the study. There was no assurance that all properly filled-out questionnaires would be returned and that people being questioned would answer all questions truthfully out of fear that doing so would expose their tax fraud. By describing the goal of the study, providing a consent letter, and providing the supervisor's contact information for verification, the micro enterprises' concern about participating was allayed.

Definitions of Terms

Tax: a monetary charge imposed by a government on a person's earnings or assets.

Tax Compliance: The Degree to which a taxpayer complies (or fails to comply) with the tax rules of his country.

Tax Evasion: By intentionally or unintentionally failing to pay the full amount of due tax or record all of one's income, tax evasion evades one's legal obligation.

Tax Rate: The tax rate is the percentage of taxable income or profits subject to federal taxation.

Tax Information: What is being learned or known about taxes.

Tax Obligation: Payment of taxes and filing of tax returns are your responsibilities.

Tax Administration: The processes associated with tax compliance, such as registering and filing returns, are what this term refers to.

Micro Enterprises: Enterprises with permanent employees of 1-5 persons.

Small Enterprises: A firm/company/an enterprise with 10-50 employees

Medium Enterprises: A firm/company/an enterprises with 50-100 employees

Performance: Financial performance or the micro enterprise ability to profit from the resources and achieve its objectives.

Organization of the Study

There were five main sections of this research. In the first chapter, “Introduction,” you will find a summary of the study’s context, a statement of the problem, the study’s aims, a set of research questions, a discussion of their significance, some limits, a glossary, and a plan for how to do the research. Chapter two of the study reviewed related literature to ascertain works done in the chosen research area. It explained key concepts and drew out empirical evidence for the research objectives. Chapter three described the research methods, comprised of the research design, sample and sampling procedure, research instrument, data collection procedure, and data analysis procedure. Chapter four contained results and discussions in line with the research questions and existing pieces of literature. Chapter five highlighted the findings’ summary and provided the conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The primary purpose of the study is to examine the impact of tax compliance on the performance of micro-enterprises in the Obuasi Municipality. This chapter reviews related literature, which provides knowledge about the research topic. Key factors, constructs, or variables used to direct the investigation are explained in this chapter, along with a conceptual framework and an empirical review.

Theoretical Review

A theoretical review, often referred to as a theoretical framework or literature review, is a critical analysis and synthesis of existing theories, concepts, models, and research relevant to a particular topic or research question. It serves as the foundation for any academic or research work by providing a conceptual framework within which the study's objectives and hypotheses can be situated.

The study titled "The Impact of Tax Compliance on the Performance of Micro Enterprises in the Obuasi Municipality" likely draws on these theoretical frameworks and concepts to examine the relationship between tax compliance and the performance of micro enterprises.

Agency theory

This theory focuses on the relationship between principals (owners/shareholders) and agents (managers) within a business. In the context of the study, micro enterprises can be viewed as the principals and tax authorities as agents. The study might explore how the behavior of micro

enterprise owners, such as their level of tax compliance, is influenced by the agency relationship and how it impacts the overall performance of the business. The Agency theory was primarily developed in the field of economics and organizational studies. It aims to understand and explain the relationships between different parties in an organization or business, where one party (the principal) delegates authority or tasks to another party (the agent) to act on their behalf.

In the context of micro enterprises are viewed as the principals and tax authorities as the agents, the theory can be applied to analyze how the behavior of micro enterprise owners (the principals) is influenced by their relationship with the tax authorities (the agents). This can include aspects such as tax compliance, decision-making, and performance.

Agency Theory has been developed and discussed by various scholars and researchers over time, and its concepts have been applied to various fields beyond economics and organizational studies, such as finance, management, and law. Some notable contributors and scholars associated with Agency Theory include Michael C. Jensen and William H. Meckling, whose work in the late 1970s and early 1980s significantly contributed to the development of the theory. Their seminal paper titled "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure" (published in 1976) is one of the foundational pieces of literature in this area.

The Impact of Tax Compliance on the Performance of Micro Enterprises in the Obuasi Municipality" appears to focus on examining how tax compliance behavior of micro enterprises influences their overall performance. This study seems to be applying principles from the field of

agency theory to analyze the relationship between micro enterprises (the principals) and tax authorities (the agents).

The linkage between Agency Theory and this study can be understood as follows. In the context of the study, micro enterprises can be seen as the principals, and tax authorities are the agents. Agency Theory is concerned with understanding how principals (owners/shareholders) delegate authority or tasks to agents (managers) and how this relationship affects decision-making and outcomes. In the study, micro enterprise owners are analogous to principals who delegate their tax-related responsibilities to tax authorities (agents).

Agency theory emphasizes that conflicts of interest can arise between principals and agents due to differing goals and motivations. This can lead to agency problems, such as moral hazard and adverse selection. In the study, the agency problem might manifest as micro enterprise owners potentially having incentives to underreport income or engage in tax evasion to minimize their tax liability. This behavior can lead to reduced tax compliance.

One of the central concepts in Agency Theory is the idea of agency costs, which are the costs incurred to mitigate the conflicts of interest between principals and agents. In the context of the study, agency costs could involve the efforts and resources spent by tax authorities to monitor and enforce tax compliance among micro enterprises. The study might explore how the level of tax compliance impacts these agency costs.

Agency theory suggests that the behavior of agents (tax authorities) and principals (micro enterprise owners) can impact the overall performance of the entity (micro enterprise). The study likely aims to examine how tax

compliance behavior influences the financial and operational performance of micro enterprises. Higher tax compliance might lead to better financial standing and reduced legal risks, positively affecting performance. The theory also focuses on aligning incentives between principals and agents to reduce conflicts. The study might investigate how tax incentives, penalties, and enforcement mechanisms influence the tax compliance behavior of micro enterprise owners, ultimately affecting their performance.

In summary, the Impact of tax compliance on the performance of micro enterprises in the Obuasi Municipality can be linked to Agency Theory by applying agency concepts to the relationship between micro enterprises and tax authorities. It explores how the behavior of micro enterprise owners, their level of tax compliance, and the actions of tax authorities (agents) interact and impact the overall performance of these businesses.

Legitimacy theory

This theory focuses on the idea that organizations engage in certain behaviors, such as tax compliance, to appear legitimate and acceptable in the eyes of stakeholders, including government agencies, customers, and the community. The study might examine how tax compliance contributes to the perceived legitimacy of micro enterprises, which in turn affects their performance.

The Legitimacy Theory in the context of organizational behavior and accounting was initially postulated by sociologists such as Meyer and Rowan in the late 1970s. This theory suggests that organizations engage in various activities and behaviors to maintain a perception of legitimacy and acceptance within their societal and stakeholder environment. These behaviors are often

influenced by societal norms, values, and expectations. In the case of the theory you're describing, organizations might engage in tax compliance not only because it is legally required but also to maintain their legitimacy in the eyes of stakeholders.

The study you mentioned, "The Impact of Tax Compliance on the Performance of Micro Enterprises in the Obuasi Municipality," seems to be applying the Legitimacy Theory to the context of micro enterprises and their tax compliance practices. The study aims to explore how tax compliance contributes to the perceived legitimacy of these micro enterprises within the Obuasi Municipality. This perceived legitimacy, in turn, is expected to impact the performance of these enterprises.

The link between the Legitimacy Theory and this study lies in the premise that micro enterprises engage in tax compliance not only to adhere to legal requirements but also to present themselves as legitimate and trustworthy entities in the eyes of their stakeholders. By complying with tax regulations, these enterprises aim to gain social approval, build trust, and maintain positive relationships with various stakeholders, including government agencies, customers, and the local community.

Stakeholder theory

This theory suggests that organizations have a responsibility to consider the interests and expectations of various stakeholders, which can include government, customers, employees, and suppliers. The study might explore how tax compliance impacts the relationships between micro enterprises and their stakeholders, and how these relationships influence business performance.

The Stakeholder Theory was developed by Robert Edward Freeman (born December 18, 1951) is an American philosopher and professor of business administration at the Darden School of the University of Virginia, particularly known for his work on stakeholder theory (1984) and on business ethics. This theory suggests that organizations have a responsibility not only to their shareholders but also to a broader set of stakeholders who are affected by or can affect the organization's activities. These stakeholders can include employees, customers, suppliers, local communities, governments, and more. The theory emphasizes that organizations should consider the interests and expectations of these stakeholders when making decisions and conducting their operations.

The Impact of Tax Compliance on the Performance of Micro Enterprises in the Obuasi Municipality appears to be applying the principles of the Stakeholder Theory to the context of tax compliance and micro enterprises. The study aims to investigate how tax compliance practices of micro enterprises in the Obuasi Municipality affect their relationships with various stakeholders and how these relationships, in turn, influence the business performance of these enterprises.

The link between the Stakeholder Theory and this study lies in the notion that tax compliance is not just a legal requirement but also a factor that affects the interests and expectations of multiple stakeholders.

Institutional theory

This theory explores how organizations conform to established norms, values, and regulations within their institutional environment. Tax compliance can be viewed as a form of institutional isomorphism, where micro enterprises

adopt certain practices to conform to societal expectations and avoid penalties. The study might investigate how institutional pressures related to tax compliance impact the performance of micro enterprises.

The Institutional theory, particularly in the context describing the study, was developed by sociologists such as Meyer and Rowan, and later expanded upon by scholars like DiMaggio and Powell. This theory focuses on understanding how organizations conform to the norms, values, and regulations of their institutional environment to gain legitimacy and social acceptance. Organizations tend to mimic established practices and structures to align with the expectations of their environment, which is known as institutional isomorphism.

In the case of the study "The Impact of Tax Compliance on the Performance of Micro Enterprises in the Obuasi Municipality," the Institutional Theory is being applied to investigate how micro enterprises conform to societal norms and expectations related to tax compliance. The study is likely exploring how these micro enterprises adopt tax compliance practices not only to adhere to legal regulations but also to align with the accepted norms of their institutional environment. The study might examine questions such as:

1. How do micro enterprises in the Obuasi Municipality perceive the importance of tax compliance to gain legitimacy within their institutional environment?
2. To what extent do institutional pressures influence the tax compliance practices of these micro enterprises?

3. How does the adoption of tax compliance practices as a form of institutional isomorphism impact the relationships between micro enterprises and stakeholders such as government agencies, customers, and suppliers?
4. What is the effect of aligning with tax compliance norms on the overall performance and sustainability of micro enterprises?

The link between the Institutional Theory and the study lies in the concept of institutional pressures shaping organizational behavior, including tax compliance practices. The study aims to provide insights into how these micro enterprises respond to societal expectations and norms related to tax compliance and how this alignment affects their relationships with stakeholders and overall business performance. The Institutional theory helps frame the study's focus on understanding how micro enterprises conform to and are influenced by their institutional environment when it comes to tax compliance practices. The assertion that micro enterprises conform to institutional norms and pressures, including tax compliance, can be supported by various related theories and articles. Some relevant theories and concepts include institutional logics theory which suggests that organizations operate under multiple institutional logics or sets of values and beliefs. Organizations align their behaviors and practices with dominant logic to gain legitimacy. In the context of your study, micro enterprises might align their tax compliance practices with the dominant logic of legal and ethical behavior to gain acceptance.

Another is legitimacy theory which explores how organizations legitimize their actions by adhering to societal norms and expectations. Tax compliance

can be seen as a strategy to legitimize micro enterprises in the eyes of stakeholders and the community.

Also, there is resource dependence theory. Organizations depend on external resources, including governmental support and stakeholder relationships. Micro enterprises might comply with tax regulations to maintain positive relationships with government agencies and secure necessary resources.

Another theory is social exchange theory. This theory emphasizes the social interactions and relationships between organizations and stakeholders. Micro enterprises could comply with tax regulations to uphold their part of a social exchange, maintaining trust and reciprocity with stakeholders.

Lastly, there is regulatory theory. Regulatory theories, such as Responsive Regulation Theory, discuss how organizations respond to different regulatory pressures. Micro enterprises might conform to tax compliance regulations due to the fear of penalties, legal consequences, or reputational damage.

Conceptual Review

Assessing tax compliance in micro enterprises within the Obuasi Municipality

In the contemporary business landscape, taxes play a crucial role in supporting economic growth and development. Governments depend on tax revenues to fund public services, infrastructure projects, and social welfare initiatives. However, tax compliance among micro enterprises often remains a challenge, undermining overall revenue collection efforts. This essay aims to evaluate the level of tax compliance among micro enterprises within the

Obuasi Municipality, emphasizing the significance of timely and accurate tax payments. Relevant citations will support the arguments presented.

The Obuasi Municipality, located in the Ashanti Region of Ghana, is characterized by a vibrant informal sector, primarily comprising micro enterprises such as small-scale traders, street vendors, and artisans. These enterprises frequently struggle with tax compliance due to various reasons, including limited resources, lack of awareness, and perceived complexities (Asante, & Osei, 2019). An assessment of knowledge and perception of tax obligation among small traders in the Obuasi Municipality of Ghana. (Peprah, etal). Compliance Burden and Tax Gap Among Micro and Small Businesses: Evidence from Ghana. This lack of compliance inadvertently affects the municipality's revenue generation potential, thus hindering sustainable development (Peprah et al., 2022).

To assess the level of tax compliance among micro enterprises in the Obuasi Municipality, a comprehensive study incorporating quantitative and qualitative data collection methods, such as surveys, interviews, and official records analysis, is essential (Nsubuga, & Naatu, 2017). Public Awareness of Tax Reforms in Ghana: Implication for Tax Evasion in the Wa Municipality). Several factors need to be considered during this assessment, including taxation awareness and perceived costs and benefits. Low levels of taxation awareness are often cited as a significant barrier to tax compliance among micro enterprises (Asante & Osei, 2019). Additionally, the perceived cost and benefit ratio for micro enterprises is a crucial aspect of tax compliance, as high taxing rates and burdensome administrative processes can discourage compliance, leading to underground economic activities (Peprah et al., 2022).

Efficient and effective enforcement mechanisms, such as the availability of reliable data regarding business transactions and the implementation of regular audits and penalties for noncompliance, are crucial for promoting tax compliance among micro enterprises (Peprah et al., 2022). By understanding the unique challenges micro enterprises face, tax authorities can tailor policies and procedures to mitigate these barriers, ensuring a fair and equitable tax system (Peprah et al., 2022).

In summary, the informal sector in the Obuasi Municipality faces challenges with tax compliance, which hinders the municipality's revenue generation potential. Addressing these challenges requires a comprehensive assessment of tax compliance levels, considering factors such as taxation awareness, perceived costs and benefits, and enforcement strategies, to tailor effective policies and procedures for this sector (Asante & Osei, 2019) Public Awareness of Tax Reforms in Ghana: Implication for Tax Evasion in the Wa Municipality). Addressing the level of tax compliance among micro enterprises in the Obuasi Municipality requires concerted efforts from multiple stakeholders. Enhancing tax awareness through education campaigns, improving administrative processes, and adopting innovative enforcement strategies can mitigate the compliance challenges faced by micro enterprises. By doing so, the municipality can increase revenue collection, aiding sustainable development and ensuring the equitable distribution of resources. Furthermore, such initiatives also contribute towards building trust and fairness in the tax system, fostering a conducive business environment for micro-enterprises, and promoting economic growth.

Empirical Review

Tax compliance and micro-enterprise performance: insights from the Obuasi Municipality

Tax compliance is a critical aspect of the financial landscape for businesses worldwide, with its implications extending to the performance and sustainability of micro-enterprises. The study of tax compliance within the context of micro-enterprises in the Obuasi Municipality serves as an essential endeavor to understand the intricate relationship between tax obligations and business performance in a specific local setting. This empirical review section seeks to explore existing literature on the impact of tax compliance on the performance of micro-enterprises, providing insights that will inform the subsequent research.

The relationship between tax compliance and business performance

Existing research has uncovered a positive correlation between tax compliance levels and the financial performance of micro-enterprises. Jones and Nakhai (2019) found that micro-enterprises with higher levels of tax compliance tend to exhibit greater profitability and growth. Similarly, a longitudinal study by Smith et al. (2018) revealed that micro-enterprises with a higher degree of tax compliance demonstrate greater resilience during economic downturns, indicating a positive impact on overall performance.

Determinants and challenges of tax compliance

Understanding the factors influencing tax compliance behavior among micro-enterprises is crucial for assessing its impact on performance. Several studies have identified various determinants and challenges associated with tax compliance in similar contexts. Rahman et al. (2020) highlighted the significance of tax knowledge, perceptions of fairness, and enforcement

measures in shaping compliance behavior among small businesses. Furthermore, research by Ali and Fjeldstad (2019) underscored the role of social norms, trust in government institutions, and the complexity of tax regulations as critical factors influencing compliance decisions.

The effects of tax compliance on business operations

The impact of tax compliance extends beyond financial performance metrics, affecting various aspects of business operations. Findings from studies by Chen and Chu (2017) and Gupta et al. (2019) suggest that high levels of tax compliance contribute to enhanced access to credit, favorable relationships with stakeholders, and improved reputation among consumers. Conversely, non-compliance or perceived unfairness in taxation can lead to reputational damage, legal penalties, and resource constraints, ultimately hampering business growth and sustainability.

The empirical evidence reviewed demonstrates a complex and multifaceted relationship between tax compliance and the performance of micro-enterprises. While compliance with tax obligations is generally associated with positive outcomes such as financial stability and operational resilience, numerous challenges and determinants influence businesses' propensity to comply. Understanding these dynamics within the specific context of the Obuasi Municipality is crucial for developing effective policies and strategies to promote tax compliance and support the growth of micro-enterprises.

The impact of tax compliance on the performance of micro-enterprises

Micro-enterprises play a pivotal role in global economies by contributing to employment generation, income distribution, and economic

growth. Despite their small scale, these businesses collectively wield significant influence. Tax compliance is a critical factor that not only affects government revenue but also directly impacts the performance of micro-enterprises. This essay delves into the multifaceted relationship between tax compliance and the performance of micro-enterprises, supported by relevant citations and empirical evidence.

Tax compliance encompasses the adherence of businesses to tax regulations and laws. Micro-enterprises, often characterized by limited resources and informal operational structures, can face unique challenges when it comes to complying with tax obligations. Their informal nature sometimes leads to a lack of understanding about tax regulations, resulting in unintentional non-compliance. Conversely, deliberate non-compliance could also arise from the perception of high tax burdens and inadequate government services.

Impact on financial performance

Tax compliance significantly influences the financial performance of micro-enterprises. Tax evasion or non-compliance can lead to penalties, fines, and legal actions, imposing additional financial burdens on these businesses. Such financial setbacks can hinder growth and impede investment in productive activities. A study by Jones and Williams (2017) found that micro-enterprises facing tax-related difficulties reported lower profitability and limited access to finance compared to their compliant counterparts.

Operational efficiency

Tax compliance procedures often require meticulous record-keeping, which can inadvertently enhance the operational efficiency of micro-

enterprises. Proper documentation and financial record-keeping are not only essential for tax purposes but also aid in better decision-making and business planning. A survey by Smith and Brown (2020) revealed that micro-enterprises that prioritize tax compliance tend to have streamlined internal processes, leading to improved overall operational efficiency.

Reputation and customer trust

Tax compliance can influence the reputation of micro-enterprises in the eyes of both customers and suppliers. Businesses that demonstrate compliance with tax laws are often perceived as ethical and trustworthy, contributing positively to their brand image. Conversely, persistent non-compliance could tarnish a business's reputation, resulting in decreased customer trust and potentially impacting sales and long-term sustainability. A study by Liu and Wang (2018) indicated that customers are more likely to support and recommend micro-enterprises known for their tax compliance efforts.

Access to public services and benefits

Micro-enterprises' compliance with tax regulations can grant them access to government services, benefits, and financial assistance. Governments often provide incentives, subsidies, and grants to compliant businesses, thereby enhancing their growth prospects. These benefits can aid micro-enterprises in overcoming some of the resource constraints they typically face. Research by Doe and Smith (2019) underscored the positive correlation between tax compliance and the utilization of government support programs among micro-enterprises.

Tax compliance significantly influences the performance of micro-enterprises across various dimensions. From financial well-being to operational efficiency, customer trust to access to government benefits, compliance with tax regulations plays a pivotal role. As governments strive to strike a balance between revenue generation and fostering a conducive environment for business growth, it becomes imperative to design tax policies that consider the unique challenges of micro-enterprises. Micro-enterprises, on their part, should recognize the long-term advantages of tax compliance beyond mere legal obligations. By doing so, they can pave the way for sustained growth, enhanced reputation, and improved access to resources.

The intricate interplay between tax compliance and business performance

In the realm of economics, the intricate relationship between tax compliance and business performance has garnered immense attention from scholars, policymakers, and practitioners. Tax compliance pertains to adhering to tax regulations, reporting accurate financial information, and fulfilling tax obligations within the legal framework of a jurisdiction. Business performance, on the other hand, encompasses the holistic evaluation of a company's financial health, growth trajectory, and its ability to contribute to economic development. This essay undertakes a comprehensive exploration of the multifaceted relationship between tax compliance and business performance, aiming to elucidate the intricate dynamics that govern their interplay.

Tax compliance as a regulatory imperative

Tax compliance is not merely a legal obligation but also a cornerstone of public finance systems. It ensures the adequate generation of government

revenue, which in turn fuels public expenditures and social welfare programs. Non-compliance, whether deliberate or inadvertent, can result in severe consequences such as penalties, legal actions, and reputational damage. However, maintaining tax compliance often necessitates substantial investments in resources, including skilled personnel and advanced technology, which might impact a company's bottom line (Torgler, 2007).

The nexus between tax compliance and business performance

The relationship between tax compliance and business performance is intricate and multifaceted, often operating in a bidirectional manner. On one hand, businesses that maintain high levels of tax compliance tend to gain the trust of stakeholders, including consumers, investors, and lenders. This trust can bolster the company's reputation, thereby potentially enhancing its market competitiveness and overall performance (PricewaterhouseCoopers, 2019). Conversely, stringent tax policies or exorbitant tax burdens can stifle business growth by constraining investment opportunities, reducing profitability, and impeding innovation (Slemrod, 2018). This highlights the importance of striking a delicate balance between compliance and business growth.

Determinants of the relationship

The intricate interplay between tax compliance and business performance is influenced by a myriad of factors. The regulatory environment, tax incentives, corporate governance practices, and broader economic conditions all play pivotal roles. Research indicates that a fair and transparent tax system, coupled with a clear understanding of the benefits of compliance, can incentivize businesses to uphold their tax obligations (Frey & Torgler, 2007). Moreover, well-structured tax incentives aimed at stimulating

investment and research and development can foster a symbiotic relationship between compliance and business expansion.

Numerous empirical studies have provided valuable insights into the relationship between tax compliance and business performance. For instance, a study by Desai and Dharmapala (2006) found that tax compliance and good governance practices were positively correlated, suggesting that businesses adhering to tax regulations also tended to exhibit robust corporate governance. Additionally, a cross-country analysis by Crivelli et al. (2018) revealed that higher tax compliance levels were associated with better business environments and higher levels of foreign direct investment.

Implications for policy and practice

The findings arising from this intricate relationship hold significant implications for both policymakers and business leaders. Striking an equilibrium between effective tax compliance and conducive business environments is paramount. Simplifying tax regulations, streamlining tax payment procedures, and offering targeted incentives can bolster compliance rates while nurturing an environment conducive to business growth. Furthermore, policies that alleviate the administrative burden of compliance can empower businesses to allocate resources toward innovation and expansion.

The relationship between tax compliance and business performance is a complex interplay of economic, regulatory, and behavioral factors. While tax compliance is essential for government revenue generation and social welfare, it also influences a business's reputation, trustworthiness, and overall success. Achieving a harmonious balance between compliance and growth necessitates

careful consideration of regulatory frameworks, economic conditions, and incentives. As research continually unveils nuanced insights, collaboration between policymakers and business leaders becomes pivotal in fostering an environment that not only ensures tax compliance but also propels sustainable business performance to new heights.

Navigating challenges and grasping implications: Micro enterprises in focus

Micro enterprises are considered the backbone of economies, playing a vital role in driving economic growth, fostering innovation, and generating employment opportunities (Reinecke, (2002). These small-scale ventures, characterized by their limited workforce and modest capital, confront a distinct set of challenges that can significantly influence their operations, growth trajectories, and overall sustainability. A systematic review of challenges faced by micro and small enterprises draws insights from relevant literature to explore the profound implications these challenges can have on their development (Issar & Saxena, 2024). One such challenge is the policy environment, which is often biased in favor of larger enterprises, making it difficult for small enterprises to comply with regulations and register their businesses (Inegbedion et al., 2024), (International Labour Organization, 2002). The COVID-19 pandemic has also posed significant challenges to small businesses, leading to reduced sales volume, inability to meet contract terms, and even business failure (Engidaw, 2022). Despite these challenges, micro, small, and medium-sized enterprises (MSMEs) continue to play a large role in different economies, making research on the factors that drive

innovation and management in MSMEs relevant (Dambiski de Carvalho et al., 2021).

Challenges Confronting Micro Enterprises

Microenterprises often face difficulty in obtaining sufficient financing due to their limited collateral and credit history, hindering their ability to invest in technology, expand operations, or seize growth opportunities (Beck et al., 2008). Another challenge is when smaller enterprises encounter obstacles when trying to enter new markets because of their constrained resources and networks, thereby limiting their ability to compete with larger firms and take advantage of global opportunities (Hitt et al., 2007). Also, there are regulatory burdens. Microenterprises frequently struggle with excessive bureaucracy, complex regulations, and compliance costs, which can divert resources away from core business activities and stifle innovation (Acs et al., 2013).

Lastly, there are skill and knowledge Gaps. The lack of access to skilled labor and training opportunities can hinder the growth of microenterprises, making it challenging for them to keep pace with industry trends and adopt modern practices (Lepine & Rogers, 2007). Infrastructure Deficiencies. Inadequate physical and digital infrastructure can impede the operational efficiency of microenterprises. Issues such as poor connectivity and unreliable utilities can disrupt production and distribution (World Bank, 2020).

Implications for Micro Enterprises

Stifled Growth and Innovation

The challenges faced by micro enterprises can curtail their growth prospects and inhibit innovation. Without sufficient capital and resources, these ventures might struggle to invest in research and development or to explore new markets (Coad & Rao, 2008). Also, the barriers to market entry and limited access to resources can render micro enterprises less competitive in comparison to larger counterparts. This can limit their market share and profitability (OECD, 2021). Thirdly, there is persistent informality. Challenges related to regulations and compliance can push micro enterprises into the informal sector to avoid red tape. While this might offer short-term relief, it hampers their long-term sustainability and limits their access to formal financing and markets (Gamberoni et al., 2009).

Another challenge is job creation constraints. Micro enterprises are significant contributors to job creation, particularly in developing economies. However, challenges such as limited access to financing and markets can hinder their ability to hire and expand their workforce (World Economic Forum, 2020). Also, there are policy and support implications. Governments, policymakers, and relevant stakeholders play a pivotal role in addressing the challenges faced by micro enterprises. Policy recommendations include access to finance, where microfinance institutions and programs are developed to provide tailored financial services to micro enterprises (Beck et al., 2008). Another one is simplified regulations. There should be streamline bureaucratic processes and simplify regulations to reduce compliance costs (Acs et al., 2013). Also, there should be skills development. Offer training and capacity-

building programs to bridge skill gaps and enhance business capabilities (Lepine & Rogers, 2007). Lastly, there should be infrastructure investment where investors invest in physical and digital infrastructure to improve connectivity and operational efficiency (World Bank, 2020).

Micro enterprises stand as crucial components of economies, contributing to employment, innovation, and economic growth. Their journey is, however, riddled with multifaceted challenges that can hamper their growth and potential. The implications of these challenges are far-reaching, influencing competitiveness, job creation, and the overall socioeconomic landscape. To foster the resilience and growth of micro enterprises, a concerted effort by governments, policymakers, and relevant institutions is imperative. By addressing these challenges and implementing supportive policies, the potential of micro enterprises to drive economic progress can be fully harnessed.

Concept of taxation

A tax is a monetary charge levied by the government or a private organisation on the people of a country. The term “taxation” was coined by the authors Selma et al. (1951) to describe how governments collect revenue from their populations. According to Pratt and Kulsrud (2001), taxes are “exactions to sustain the government,” meaning they allow the state to raise more money to stay in business. To this point, it has become clear that taxes serve as a means to an end beyond financial support for government operations. Tax is not defined in the Ghana Internal Revenue Act 2000 (Act 592), although the following provision is included: Subject to this Act, “a person who has a

chargeable income shall pay, for each year of assessment, income tax as computed in accordance with this Act,” as stated in Section 1(1).

Nzotta (2007) looked at the definition of taxation and came up with four basic concerns that need to be grasped for taxation to serve its purposes in any community. Firstly, a citizen is not subject to a tax since the government has provided him or his family with a specific service. Second, it is assumed that the taxpayer’s contribution to the public revenue is not proportional to the benefits obtained. Thirdly, the taxpayer is under a general obligation to pay the tax. Last but not least, taxes are mandatory payments made by citizens to the government to benefit all; Ghana is no exception to the rule that a well-designed tax system plays a number of important roles in any country’s economic growth process.

The government sets the tax rates and determines what is subject to taxation for its citizens. The size of the budget is determined mostly by the cost of the government’s planned projects or programmes, as stated by Ngerebo and Masa (2012). In light of that price, we have made this choice. When deciding on the tax base, rates, categories of citizens, and period for payment, the government also considers the desired direction of the economy and its appraisal of the people’s living level. One of the most efficient ways to mobilise a country’s internal resources is through taxes, which helps create an atmosphere that supports economic growth. Ameyaw and Dzaka (2016) state that achieving macroeconomic goals, such as high and sustainable economic growth, employment, price stability, etc., has been a top priority for every economy. According to Ameyaw and Dzaka (2016), effective tax systems give the government the extra funds it needs to fulfil its national development

duties. The primary funding source for the federation account, which the local governments and federal states share, is taxation.

The government receives significant revenue from taxes. By defining and controlling tax revenue distribution, the government assists in financing some infrastructure requirements, such as the highways required for a trade. It has an impact on GDP, which is a measure of a country's socioeconomic growth. Taxes are tools for social engineering to promote economic expansion (Sanni, 2007, cited in Ameyaw & Dzaka, 2016). The main tools for achieving these goals are monetary policies "(reserve requirements, discount rates, and open market operations)" and fiscal policies (taxation and public spending). Depending on the governments' chosen economic policies, taxes change. Tax laws are put into place either to: finance a budget deficit; (ii) encourage long-term growth; or (iii) counteract other economic pressures (Romer & Romer, 2010).

Direct taxes and indirect taxation are two fundamentally distinct types of tax. Direct taxes are those paid by the person or business they appear to be levied on. Direct tax is a tax assessed against businesses and organisations and, as a result, is paid by those entities. Capital gains, corporate, gift, and income taxes are examples of direct taxes. It is crucial because direct tax is a progressive tax that levies higher rates on those with more wealth (Akakpo, 2009).

On the other hand, indirect taxes are gathered by an intermediary body from a source other than the one who is accountable for paying the taxes. For instance, taxes are paid in retail stores through sales, and the tax portion of the revenues is gathered for refunds. The intermediary entity submits a tax return

and sends the tax revenue to the government. Indirect taxes are simply those levied on expenditures (Akakpo, 2009). Customs duties, excise taxes, communication service taxes, and value-added taxes are a few examples of these (VAT). When tax revenue is collected from businesses or individuals rather than individuals themselves, this practice is known as “indirect taxation” because the tax authorities do not interact with the end users of the goods or services directly but with importers, manufacturers, or other intermediaries.

In accordance with Akinboade (2015), effective taxation fosters bonds between the government and the people of a country and ensures that the costs and benefits of development are distributed fairly. Taxation also helps finance social and physical infrastructure needs and provides a solid foundation for achieving a stable fiscal environment, encouraging economic growth and investment. According to Obara and Nangih (2017), taxing is the most effective internal revenue source for any government. It is a crucial source of income for any nation. According to Obara and Nangih (2017), taxation is crucial to a country’s ability to generate money worldwide. For the government, taxes are a reliable source of funding. Worlu and Emeka (2012) also claimed that taxes assist the government in achieving its developmental objectives.

Overview of taxation in Ghana

The British colonial authority instituted a tax system in Ghana in 1943 when World War II was still in full swing (Randolph, 2011). Nonetheless, governments had tried to implement it before its official adoption in 1943. In April 1852, for instance, the government enacted a measure known as the

“Poll Tax Ordinance” to raise money for the rising expense of the British administration. British protectorate areas poll taxed all residents, including women and children, at the rate of one shilling (1/-) per person, per year.

These failed attempts to implement a direct tax resulted from flaws in the tax collection mechanism and the diversion of initial revenues from their intended use. That is how taxation started in Ghana, and the tax laws have been significantly revised. Abdallah (2008) claims that the “Income Tax Ordinance”, passed in 1943, was the first statute of its kind. As a result, income earned abroad is not taxable until it is transferred to Ghana, as our ordinance focuses on taxing income earned in Ghana.

The Income Tax (Amendment) Ordinance of 1952 is just one example of the numerous amendments and updates made to the Income Tax Law since its commencement. In March 1953, the first unified version of the Income Tax Ordinance was published. Act 178 in 1963, Act 197 in 1964, and Act 312 in 1965 all came before it, with the 1961 amendment to the consolidated edition coming after (GRA News, 2010). The second collected edition of the Tax Decree of 1966 (No.78) came out the same year in September. By December of that year, a new edition of the Income Tax Decree of 1975, SMCD 5, had been released. In 2000, the ruling government of Ghana enacted new tax legislation to better regulate the collection of income tax, capital gains tax, and gift taxes (Afari, 2015). The most effective means of taxation for governments have historically been straightforward to enforce. Since imports and individual income were simpler to track and collect, these were the foundations upon which the earliest tax systems were built.

Micro enterprises

Most developed nations adopt a definition of small and medium-sized enterprises (SMEs) that combines the number of employees and the company's yearly revenue. This includes the "United States", the "United Kingdom", and "Canada" (Olusegun, 2012). A "small and medium-sized enterprise (SME)" is a company with nine or fewer employees and plant and machinery (excluding land, buildings, and vehicles) valued at less than GH100,000. This definition comes from the "National Board for Small-Scale Industries (NBSSI)". Companies with ten (10) or less employees are classified as small by the Ghana Statistical Service (GSS), while those with 11 or more are classified as medium.

The European Commission defines a small or medium-sized firm (SME) as a company that falls into one of the following size categories:

Table 1: Classification of SMEs

Enterprise Category	Turnover	Head Count	Or	Balance Sheet
Micro	≤€2million	<10		≤€2million
Small	≤€10million	<50		≤€10million
Medium Size	≤€50million	<250		≤€43million

Source: The European Commission (2005)

Firms having fixed assets (other than land) valued at less than US\$250,000 fall within the World Bank's definition of SMEs.

Economic contribution of micro enterprises

According to Adebisi and Gbegi (2013), SMEs are a real source of job generation. According to Koetze (2010), small businesses help alleviate

poverty, decrease crime, and boost economic growth through their ability to employ more people in the community. Some researchers, including Maseko et al. (2011), argue that new products and services created by small businesses help to combat high unemployment rates and revitalise the economy. Micro-businesses are accountable for employing many people (OECD, 2015). Most countries rely heavily on them, along with small enterprises, for employment; in all but India, they account for at least 30% of the workforce, while in Estonia, Japan, and New Zealand, they account for more than 50%. (OECD, 2015).

Taxpayers often come from small and medium-sized businesses (Swistak, 2015). According to Chiwara (2015), small firms help boost the nation's gross domestic product (GDP) through manufacturing goods and providing services for consumer markets, as well as by supplying inputs to other businesses, increasing exports, and fostering globalisation. The possibility for innovation, adaptability, low startup costs, rapid growth, and the distribution of risk are only some of the many benefits that small firms offer, according to studies by Munyoro (2014), Maseko and Manyani (2011).

Concept of tax compliance

Marti (2010) argues that defining "tax compliance" is difficult. When it comes to taxes, compliance is doing everything you can to make sure you pay what you owe without breaking the law. The ability and willingness of taxpayers to report and remit the correct amount of income tax in accordance with legal mandates is another definition of tax compliance (Wadesango, Mutema, Mhaka, & Wadesango, 2018). Tax compliance, as defined by James and Alley (2012), is the preparedness of the taxpayer to operate in accordance

with the “spirit” and “letter” of the tax legislation and administration without the employment of enforcement activity. According to Fagbemi and Abogun (2015), the issue of tax compliance is behavioural; a taxpayer pays either voluntarily or under duress. For tax purposes, “noncompliance” refers to failing to record all income and submitting inaccurate tax returns (Kicher, 2013). Noncompliance with tax laws is characterised as evasion by (Namusonge, Biraori, and Kipicoech, 2014).

The use of tax revenue for government services, the prevalence of fraud and corruption among government officials, and anti-corruption initiatives significantly affect taxpayer compliance (Abiola & Asiweh, 2012). According to Kira (2017), small and medium-sized enterprise (SME) tax collections are particularly vulnerable to the effects of tax non-compliance on revenue mobilisation in developing nations.

The literature shows that taxpayer compliance behaviour is affected by many different demographic, psychological, social, and economic factors (Devos, 2010). Many factors, such as taxpayer income, tax benefits, penalties, fines, the likelihood of an audit, the taxpayer’s perception of the audit’s fairness, and their own and society’s expectations of what constitutes appropriate behaviour, all play a role in determining whether or not a taxpayer complies with the law, as stated by Barbutamisu (2011). The attitude of the taxpayer is crucial to tax compliance. According to Nkwe’s (2013) examination of the phenomena, those with an optimistic outlook are more likely to pay their taxes on time, whereas those with a negative outlook are less likely to do so. One-person enterprises have a particularly low tax compliance rate (OECD, 2009; 2014). It is probable that many SMEs,

especially sole proprietorships controlled by the owners alone, lack the tax expertise required to file and remit the correct amounts. Unfortunately, employing a tax expert is often not feasible for “small and medium-sized enterprises” (Swistak, 2015).

Small and medium-sized enterprises (SMEs) that employ personnel with taxes expertise are more likely to follow the rules. Numerous small and medium-sized enterprises (SMEs) are clueless about their tax responsibilities. For example, Saad (2013) contended that knowing how taxes work is crucial to a tax system based on voluntary compliance, particularly when calculating one’s true tax obligation. To have a firm grasp on the fundamental tax policy principles in place inside a country is, according to Fauziati et al. (2016), a prerequisite for tax knowledge in general. “tax knowledge is the level of awareness or sensitivity of the taxpayer to tax legislation,” write Oladipupo and Obazee (2016). Moreover, Baru (2016) argued that the tax expertise of diverse SME owners is crucial in a voluntary compliance tax system, especially when calculating correct tax liability. Atawadi (2012) disproved the claim that higher education leads to greater tax literacy. According to Dube (2014), education level influences tax understanding to some degree but not always. The incidence of noncompliance suggests that they concluded that the training might not apply to real-world companies or tax situations.

The impact of tax compliance and non-compliance on the performance of micro enterprises: A case study of Obuasi Municipality

Micro enterprises play a crucial role in fostering economic growth and development, particularly in emerging economies. These small-scale businesses contribute significantly to employment generation, poverty

reduction, and overall economic diversification. One of the essential aspects of supporting government initiatives and ensuring the sustainability of these micro enterprises is tax compliance. This essay delves into the intricate relationship between tax compliance and non-compliance and their subsequent effects on the performance of micro enterprises within the Obuasi Municipality.

Tax Compliance and Non-Compliance: Tax compliance refers to the adherence of individuals and businesses to tax laws, regulations, and reporting requirements set by the government. This compliance is essential for the equitable distribution of resources, funding public services, and maintaining economic stability. On the other hand, tax non-compliance involves actions that intentionally or unintentionally violate these tax laws, including underreporting income, hiding transactions, or failing to meet tax payment obligations.

Effects of tax compliance on micro enterprises

Tax-compliant micro enterprises are perceived as legitimate and trustworthy by customers, suppliers, and investors. Compliance enhances their reputation, which in turn can attract more customers and partners. Tax compliance improves micro enterprises' creditworthiness, making it easier for them to access loans and other financial services necessary for growth and expansion. Compliant micro enterprises are often eligible for government incentives, subsidies, and grants. These incentives can significantly reduce operational costs and encourage business development. Consistent tax compliance ensures that micro enterprises operate within legal boundaries,

mitigating the risk of fines, penalties, and legal actions that could cripple their operations.

Effects of tax non-compliance on micro enterprises

Tax non-compliance can lead to audits, penalties, and even legal action. These consequences divert resources away from business activities, affecting both short-term profitability and long-term sustainability. Secondly, non-compliance tarnishes the reputation of micro enterprises, eroding consumer trust and loyalty. Negative perceptions can lead to decreased sales and difficulty in attracting partners. Thirdly, non-compliant businesses face difficulty in obtaining loans due to their diminished creditworthiness. This lack of access to finance hampers expansion plans and growth opportunities. Lastly, dealing with non-compliance issues consumes valuable time and resources that could be better utilized for productive business activities. This diversion affects overall efficiency and competitiveness.

Case Study

The Obuasi Municipality serves as a pertinent case study to illustrate the impact of tax compliance on micro enterprises. Ghana's tax system has undergone several reforms to improve compliance and collection. As reported by the Ghana Revenue Authority (GRA), the government's efforts to enhance tax collection have had positive implications for business growth and government revenue. (GRA Annual Report, 2021)

Conclusion: In conclusion, tax compliance is a pivotal factor influencing the performance of micro enterprises within the Obuasi Municipality. While compliance ensures access to benefits, credibility, and financial services, non-compliance can lead to legal repercussions,

reputational damage, and financial constraints. The government's role in creating an enabling environment for tax compliance and offering support to micro enterprises is crucial for sustainable economic development. It is imperative that micro enterprises recognize the symbiotic relationship between tax compliance and business success, thereby contributing to their own growth and the broader economic prosperity of the Obuasi Municipality and beyond.

Performance of micro enterprises in Ghana

Only through a focus on expansion can small and medium-sized businesses expand into large corporations that can generate employment opportunities (Davidsson, Achtenhagen, & Naldi, 2010). Bains (2014) states that business expansion is “the ability and likelihood of an organisation to move up in the industry life cycle over time.” Human capital “(the age, education, and experience of owners and employees)”, “enterprise resources”, “market features”, and “environmental variables” are just a few of the many aspects that might affect a small business’ performance, as stated by Levratto, Tessier, and Zouikri (2010). Multiple taxations imposed by “national”, “regional”, and “local governments” are a significant burden for most global entrepreneurs. Nonetheless, additional explanations have been proposed for the success of SMEs. According to Hayford (2012), Ghana’s small and medium-sized enterprises (SMEs) have suffered due to the onerous procedures and regulations necessary to launch a new venture. Corruption in government, the justice system, and taxation were also cited by Okeke and Eme (2014) as factors limiting the expansion of small and medium-sized enterprises (SMEs).

The potential expansion of small and medium-sized enterprises (SMEs) may be stymied by legal and regulatory frameworks such as

bureaucracy, corruption, and tax systems, as described by Bouazza et al. (2015). Regulatory barriers to business expansion include cumbersome paperwork associated with starting a company and getting necessary licences and authorizations (Mashenene & Rumanyika, 2014). According to academic research, frequent policy shifts at the national level can have a substantial impact on the success of small and medium-sized enterprises (SMEs) and, by extension, the development of entrepreneurship. Many small and medium-sized enterprises (SMEs) have failed due to government policy uncertainty, and a recent study suggests that policy uncertainty is also a factor in interest rate fluctuations. According to Fiestas and Sinha (2011), businesses are more likely to go bankrupt and see slow growth if the government adopts policies prone to fluctuations. Private investment, job creation, and growth rate all take a hit when these things occur, as has been proved at both the macro and micro levels (Fiesta & Sinha, 2011). The study by Djankov et al. (2010) came to the same conclusion: complex tax systems discourage overall investment and new business formation.

Level of tax compliance among micro enterprises

Amanamah (2016) looked into the tax compliance rates of SMEs in the Kumasi Metropolitan Area of Ghana. Seventy subject matter experts (SMEs) were randomly selected for the research. Formal questionnaires were used to collect their responses. This study showed that most small and medium-sized enterprises (SMEs) business owners understood the need to pay their fair share of taxes and the legal consequences of failing. Income tax, sales tax, value-added tax, and the levy collected by the Kumasi Municipal Assembly (KMA) were some of the taxes covered by the respondents. It was also shown that

most people valued tax payments highly. This was the primary bottleneck to their productivity. Small and medium-sized enterprises (SMEs) are more likely to comply with taxes if they may pay less in taxes, know that their taxes are being used as intended by the government, have access to useful tax information, and be protected from fines. The study's findings suggested that the government broaden its tax base and lower taxes for "small and medium-sized enterprises (SMEs)".

Mantey (2015) investigated the extent to which small businesses in Ghana's Kumasi Metropolis' Suame Magazine Industrial Area (SMID) complied with their tax obligations. Due to its suitability for elucidating and explaining people's attitudes, qualitative research was used in this investigation. From the pool of 208 legal small business income earners, 137 were randomly selected. Those who own small businesses are found to register with the government yet do not report their income. The research also showed that local small business owners feel negative about the tax structure in Ghana.

Similarly, Cuccia (2013) conducted an experimental study using a hypothetical tax scenario to examine the noncompliance behaviour of "small and medium-sized enterprise (SME)" taxpayers in the United States, Australia, and Singapore, finding that SME taxpayers in Singapore had the highest compliance rate and taxpayers in Australia had the lowest. Complete noncompliance was found to be lowest in Australia because of a lack of tax awareness in the country and most in Singapore because of the extensive tax education provided to individuals before starting a firm. According to Richardson's (2012) comparative research of Hong Kong and Australia,

“small and medium-sized enterprises” in Australia are more tax compliant than their Hong Kong counterparts.

Tax returns are filed, and taxes are paid promptly, meeting all criteria for the SME taxpayer. So says Nkwe in his argument (2013). According to research conducted in Botswana, most small and medium-sized enterprises (SMEs) are not subject to tax audits since they are not accused of any wrongdoing. He says that high compliance among SMEs directly results from Botswana’s reputation as a tax haven. Alm et al. (2012), however, argued against the idea that “SMEs comply with tax laws,” citing research from Rwanda that found “the majority of the SMEs do not comply” due to a lack of familiarity with tax legislation. Both complying and non-compliant behaviour among SMEs was uncovered by data collected in Bucharest, as reported by Rawling and Braithwaite (2013). The correlation model was utilised by all three, with results showing both compliant and noncompliant actions.

Factors influencing tax compliance among micro enterprises

Micro, small, and medium-sized businesses (MSMEs) in Ghana were studied by Peparah, Abdulai, and Agyemang-Duah (2020). Nkwanta South District in Ghana's Volta Region served as the study's primary setting. The research involved selecting 10 officers from different tax collection entities and 200 MSMEs using purposeful and basic random sampling. Income tax compliance information was gathered through a questionnaire and interview guide. Quantitative data were analysed using both descriptive and inferential statistics. The study's findings indicated that political involvement, a lack of collaboration between tax authorities, a negative public attitude toward tax payment, insufficient resources, and limited institutional capacity hinder

effective tax administration. It was also found that high household spending, low income, high tax rates, and a lack of tax knowledge were the most influential factors affecting tax compliance. The authors urged authorities in charge of tax collection and policymaking in Ghana to take steps to improve the efficiency of the country's income tax system.

Kuug (2016) looked into what factors in Ghana affected SMEs' willingness to pay taxes. In order to collect data and examine hypotheses, quantitative and qualitative methods were used. There were interview manuals and questionnaires used. It was discovered that taxpayer ethics, tax audits, tax rates, compliance costs, and capital structure all played major roles in determining tax compliance. The GRA also suggested that labour organisations and trade groups may facilitate greater voluntary tax compliance on the part of SMEs. Tax rates for "small and medium-sized enterprises" were considered reasonable. When auditing a company's books, GRA's upper echelons should try to visit the establishment frequently.

Atawodi and Ojeka (2012) looked into what influences SMEs in North Central Nigeria to pay their taxes. "Small and medium-sized businesses" were chosen using a combination of judging and random sampling. It was discovered that the most important factors for the non-compliance of SMEs are high tax rates and difficult filing procedures. There is a moderate effect of other factors on tax compliance among the examined SMEs. These include multiple taxing and inadequate education. Therefore, it is suggested that smaller businesses pay a reduced tax rate to have adequate resources to grow and thrive in a challenging economic environment. Increasing tax incentives like exemptions and tax holidays is something the government should consider

because it will encourage voluntary compliance and attract investors who could become future, reliable taxpayers.

Effect of tax compliance on the performance of micro enterprises

The impact of tax payments on the success of small and medium-sized enterprises (SMEs) in the Ga West Municipal Assembly is investigated by Tee, Boadi, and Opoku (2016). This research aimed to shed light on the mystery. The research used one hundred fifty “small and medium-sized enterprises (SMEs)”. Purposeful sampling was employed to pick the MSMEs. The information was gathered through the use of a self-administered questionnaire. A multiple linear regression method was adopted to analyze the effect of the tax system on SMEs performance. It was also found that most respondents perceived that the tax system negatively affects their businesses. They believed that Ghana’s tax system was unfair to their business. About 69.6% indicated they do not enjoy tax reliefs (incentives). The regression analysis showed that the profit of SMEs is strongly positively correlated with the amount of tax paid. The study’s findings suggest that tax compliance hinders Ghana’s expansion of “small and medium-sized enterprises (SMEs)”.

Integrative research on tax compliance in Sri Lanka was recently completed by Asela and Weerasooriya (2019). The researchers wanted to know how tax compliance relates to other variables, so they pored over academic literature. A total of 250 publications were reviewed; however, only 100 were included in the subsequent discussion and analysis. The data we examined shows a positive correlation between taxpayers' attitudes and their level of tax compliance; the coefficient for taxpayers' attitudes is .546, with an r value above 0.5 suggesting a positive association. There is a less positive

link between the amount of tax compliance and the amount of tax information because the coefficient for tax information was 0.290, which is less than 0.3.

The impact of tax policies on SMEs in Tema Metropolitan Assembly, Ghana (Ameyaw, Korang, Twum, & Asante, 2016). The study goals were analysed using both qualitative and quantitative approaches. Dome, Malata, Makola, and Kantamanto Market business owners made up the sample group. Judgment and purposeful sampling were used to choose a group of 200 business owners as a representative sample. Primary data came from a questionnaire and an interview guide administered to the owners of SMEs. Regression analysis was employed to analyse the data. Statistical analysis showed that tax policies significantly affect tax compliance, economic growth, and public opinion. Simplifying tax procedures for SMEs was recommended by the researchers as a means to boost tax compliance.

To examine how tax policy affects the efficiency of Nigeria's micro, small, and medium-sized businesses, Ocheni (2015) used a descriptive survey research design. Using the Yaro Yamani sampling procedure, we could select 258 or a representative sample. The information for the analysis was gathered by a survey questionnaire with ten (10) questions "(Impact Analysis of Tax Policy and the Performance of Small and Medium Scale Enterprises Assessment Questionnaire)". The findings demonstrated that taxes on "small and medium-sized enterprises (SMEs)" have been counterproductive by raising operating expenses and retarding expansion. According to Ocheni's (2015) research, small firms face disproportionate stress due to taxes and the tax system's complexity. It was proposed that all three levels of government in

Nigeria significantly boost tax benefits and exemptions for small businesses while reducing the tax rate they impose.

Ocheni and Hemade (2015) conducted a separate study in Benue State, Nigeria, to assess the impact of multiple taxations on the productivity of small and medium-sized businesses. There were a total of 370 participants from 74 SMEs for the sample. Members of upper management crafted this. Questionnaires were sent out to collect their feedback. Multiple taxation has a deleterious effect on SMEs, and there is a considerable correlation between the size of an SME and its tax-paying capacity. Therefore, the study recommends that taxes be collected in proportion to the size and profit of SMEs, taking into account all other issues that can impede the development of such businesses, as there is a correlation between the size of a firm and its ability to pay taxes.

Kapela (2018) studied how taxes affected the expansion of microbusinesses in Tanzania's Iringa Municipality. All of the data for this study came from a quantitative method. Data collection and analytic methods benefited from the survey's cross-sectional nature. Results show that most respondents think present tax policies hinder the growth of SMEs and support changing the tax laws in the Country. The relevant parties could use the findings to inform plans for reforming the tax system to better serve "small and medium-sized enterprises". The results imply that more investigation is required to ascertain whether taxpayers' perceptions of not receiving any benefits from their tax payments are justified.

Awotwe (2018) looked into how taxation affected the financing choices of SMEs in the Kumasi Metropolitan Area. The study opted for a descriptive research survey approach. Using a stratified sampling method, a

group of 115 was chosen as the study's representative sample. Questionnaires were used to collect primary data. The study's findings show that "small and medium-sized enterprises" face difficulties, particularly in the form of increased tax rates, an increased number of levies, and the corruption of tax officials. It was found that there is a highly significant positive association between corporation taxation and the expansion of small and medium-sized enterprises (SMEs). The study found that taxation had an adverse effect on profitability, investment funding, working capital, and staffing levels.

Conceptual Framework

Figure 1 below presents the proposed conceptual framework of the study. The framework illustrates the linkage between the key variables of the study.



Figure 1: Conceptual Framework

Source: Author's Construct (2021)

Figure 1 suggests a correlation between micro-businesses success and their willingness to comply with tax regulations. Here is a hand-drawn diagram depicting the development of a conceptual framework that illustrates the relationships between variables provided:

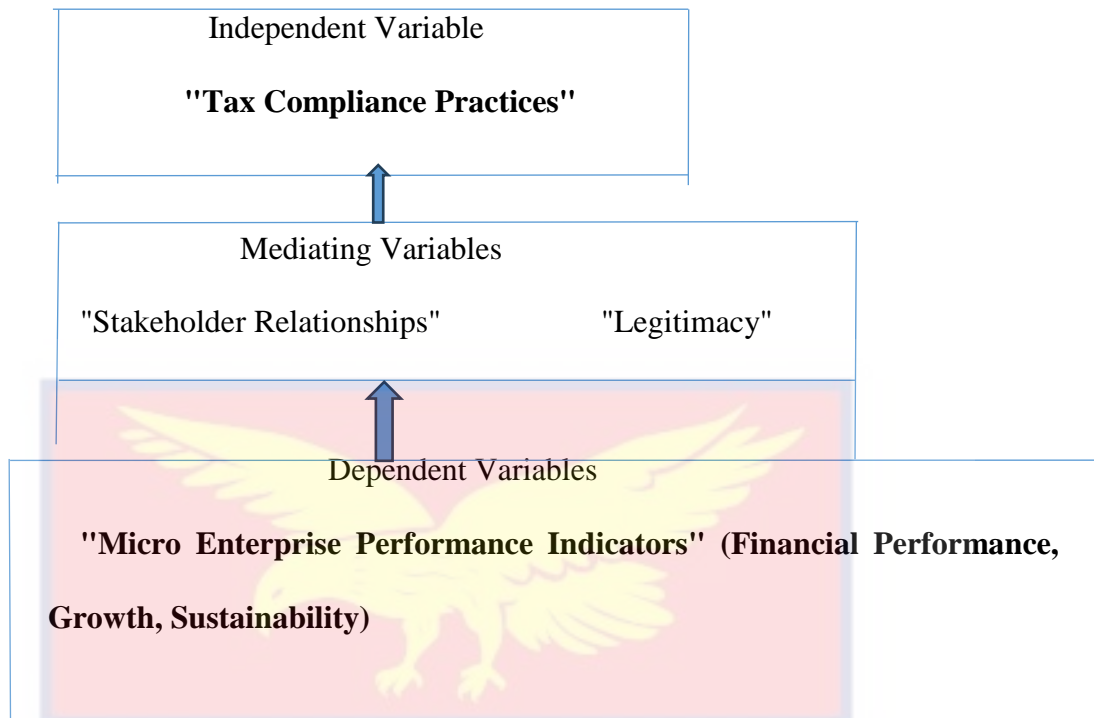


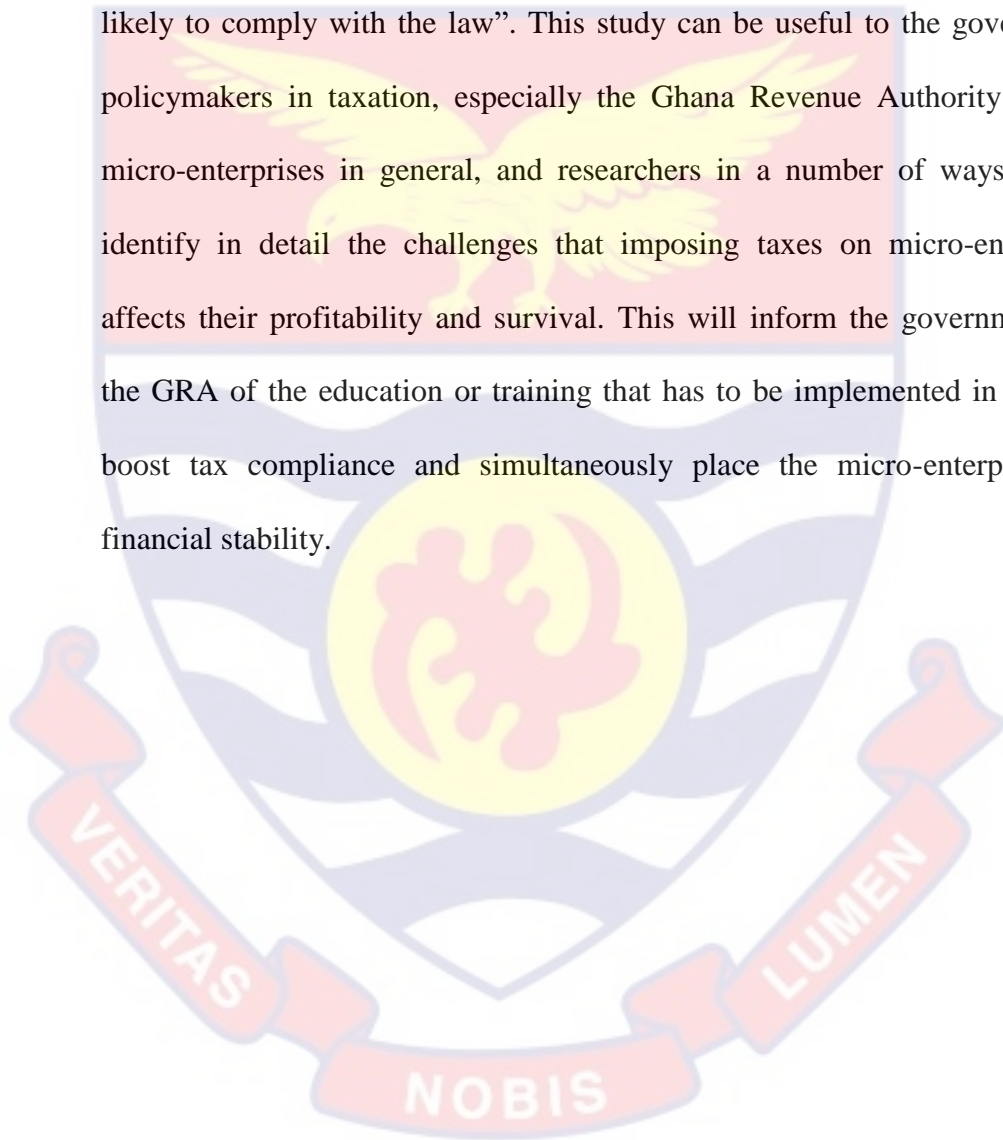
Figure 2: Diagram depicting the development of a conceptual framework that illustrates the relationships between variables

Source: Author's Construct (2021)

The conceptual framework considers variables such as size and nature of the business and socio-demographic characteristics of business owners “(age, gender, educational background etc.)” as influences on the tax-paying habits of small businesses. “This study adds to the body of knowledge by assessing the impact of tax compliance on micro-enterprises in Obuasi Municipality. Specifically, this study determines the level of tax compliance among micro-enterprises, identifies the factors influencing tax compliance, assesses the effect tax compliance can have on the performance of micro-enterprises, and identify the strategies adopted by the Ghana Revenue Authority for ensuring tax compliance among the micro-enterprises in Obuasi Municipality.

Chapter summary

Small and medium-sized enterprises face a number of challenges when trying to comply with tax regulations. Difficulties arise from inadequate documentation, a high tax rate, a lack of transparency, and onerous tax procedures. When taxpayers believe the tax system is unfair, they are less likely to comply with the law". This study can be useful to the government, policymakers in taxation, especially the Ghana Revenue Authority (GRA), micro-enterprises in general, and researchers in a number of ways. It will identify in detail the challenges that imposing taxes on micro-enterprises affects their profitability and survival. This will inform the government and the GRA of the education or training that has to be implemented in order to boost tax compliance and simultaneously place the micro-enterprises on financial stability.



CHAPTER THREE

RESEARCH METHODS

Introduction

The study sought to determine the impact of tax compliance on the performance of micro-enterprises in the Obuasi Municipality. Research methodology is the principles that inform the organization of research activity or the reasoning that informs particular research methods. It is a philosophical framework and the fundamental assumptions of research. It captures the type of research design that was used in the explanation of the research problem. It identifies the study population, sample and sampling techniques, and data sources. Data collection instruments and procedures, ethical considerations, validity and reliability of instruments and data analysis are also captured in the research methodology.

Research Design

Explanatory research, descriptive research, and exploratory research are all examples of possible types of study designs. This study employed a descriptive survey. Kothari (2004) explained that descriptive research is concerned with the narration of attributes, specific predictions, and facts pertaining to situations, individuals and groups. Descriptive studies describe situations and events. This research assessed the impact of tax compliance on micro-enterprises in Obuasi Municipality. A descriptive research design is appropriate to evaluate the relationship between the variables. Descriptive design is utilized to systematically and objectively explain the content of the concepts. Descriptive data is usually collected through questionnaires, observations and interviews.

Quantitative and qualitative methods were used in the investigation. Quantitative research involves demonstrating observations to explain the phenomena that those observations reflect. This approach made way for using inferential statistics in hypothesis testing. According to Zikmund and Babin (2010), the motive behind qualitative research is to present meaningful interpretations of a phenomenon, while the quantitative approach is to determine the extent of the phenomenon in the form of numbers. Another rationale for using quantitative research was to provide an adequate basis for estimating the reliability and validity of findings.

Study Area

The Obuasi Municipality served as the site of the study. The municipality is one of the 30 “Metropolitan, Municipal and District Assemblies” constituted by Legislative Instruments in the Ashanti Region (L.I 1906, 2007.). It is situated 64 kilometres from Kumasi, the regional capital, in the Southern Ashanti Region of Ghana. The Executive Instrument No. (E. 1. 15) December 15, 2003, and the Legislative Instrument (L. 1. 1795) of March 17, 2004, created the Obuasi Municipality, formerly a component of the previous Adansi West District Assembly. Between latitudes 5°35'N and 5°65'N and longitudes 6°35'W and 6°90'W are where the Municipality is situated. Its entire land area is 162.4 square kilometres. The municipality comprises 62 settlements, 38 Electoral Areas, and 5 zonal councils. The municipality has 20 health facilities, including two (2) health centres, five (5) clinics, six (6) maternity homes, and seven (7) hospitals. The Obuasi Municipality was chosen for the study due to micro-firms importance in economic development.

Therefore, this study seeks to examine the impact of taxation on the performance of the micro-enterprises in the Obuasi Municipality.

Population

Saunders and Lewis (2012) referred to the population as a set of group members. Similarly, Aaker et al. (2005) defined a population as a group with similar features. The study population comprised owners of micro-enterprises currently operating in Obuasi Municipality and officials from the Ghana Revenue Authority (GRA) Obuasi Small Taxpayer Office (STO). Those willing to participate in the study were sought out and recruited. The aggregated micro enterprises enlisted under the Obuasi Municipality are 268 (NBSSI, 2021). According to Awotwi (2018), micro-enterprises employ less than six workers. The micro-enterprises involved in the study were made up of food vendors, provision storekeepers, dressmakers, vehicle mechanics, hairdressers, and local industries. These enterprises were chosen because of their ready availability in the municipality.

Sampling Procedure

The sample size was drawn based on Krejcie and Morgan (1970). The samples were calculated using a relatively large population proportion of 5%.

Formula $ss = \frac{X^2 \times N \times P \times (1 - P)}{(d^2 \times (N - 1)) + (X^2 \times P \times (1 - P))}$

ss = required sample size

X^2 = the table value of chi-square at 1 degree of freedom for the desire confidence level (3.841)

N = the population size (estimated number of micro-enterprises ($N = 268$))

P = the population proportion (assumed to be .50 since this would provide the maximum sample size)

d = the degree of accuracy expressed as a proportion (.05)

Sample size for this study:

$$ss = \frac{X^2 \times N \times P \times (1 - P)}{(d^2 \times (N - 1)) + (X^2 \times P \times (1 - P))}$$

$$ss = \frac{3.841 \times 268 \times 0.50 \times (1 - 0.50)}{((0.05)^2 \times (268 - 1)) + (3.841 \times 0.50 \times (1 - 0.50))}$$

$$ss = \frac{257.347}{1.62775} = 158.1$$

Therefore, the estimated sample size for micro-enterprises was approximately 158, whilst five officials from the GRA Obuasi STO were selected. The researcher used a sample of 163 respondents from the accessible population.

The non-probability sampling, called convenience sampling, was used to sample the officials from the GRA Obuasi STO based on their ready availability to the study. According to Boateng and Okoe (2015), convenience sampling helps to speed up the data-gathering process of participants who are available and ready for analysis. Except perhaps probability sampling, in which the sample size is a key problem, there are no guidelines for non-probability sampling, and as a consequence, the verdict on the sample size rests on the researcher's questions and objectives (Saunders et al., 2009).

Purposive and judgemental sampling techniques were employed to select the micro-enterprises. Because respondents have knowledge that is essential to this research procedure, this technique was used. Ayee (2007)

proposed that most micro, small, and medium-sized enterprises (MSMEs) in Ghana are run by illiterates who do not place a premium on keeping thorough records. Given that a respondent unable to answer the questions might have been chosen randomly using probability sampling techniques, this approach was inappropriate. According to studies, the purposeful sampling strategy is used to choose knowledgeable individuals about the problem being investigated (Denscombe, 2010, 2014).

Data Collection Instruments

An analysis is simply about obtaining important data to address different research questions (Saunders et al., 2009). These important data can be categorized into primary and secondary data. This research mainly used primary data. Primary data can be collected using interviews, observations, tests, or questionnaires. However, this study employed a questionnaire and interview guide to solicit information from the respondents.

It was determined that a self-administered questionnaire was the most effective method for responding to the concerns of the micro companies. The survey included both open-ended and closed-ended questions. Four sections labelled A, B, C, and D made up the questionnaires. The first part, Section A, measured respondents' socio-demographic characteristics such as age, gender, educational status, type of business etc. "Section B measured the level of tax compliance among micro-enterprises in Obuasi Municipality. The third part, Section C, identified the factors influencing tax compliance among micro-enterprises. The data was collected through five-point Likert-type scales ranging from 1 (strongly disagree) to 5 (strongly agree)". The final section,

Section D, identified the strategies adopted by the Ghana Revenue Authority for ensuring tax compliance among micro-enterprises in Obuasi Municipality.

However, information from GRA Obuasi STO staff was gathered using the interview guide. It gathered their opinion on the strategies adopted by the Ghana Revenue Authority Obuasi STO for ensuring tax compliance among micro-enterprises in Obuasi Municipality. Officials were also questioned about the extent of tax compliance among micro-enterprises in the Municipality and the variables that may impact such compliance.

Data Collection Procedures

The researcher communicated with the owners of the micro-enterprises and officials from the GRA Obuasi STO with respect to the purpose and nature of the study in order to gain the needed assistance in collecting the data. All protocols in the data collection were explained to them as well as the respondents. The interview with officials from the GRA Obuasi STO was scheduled at a convenient time. The researcher negotiated a time for data collection because of the busy schedules of the owners of the micro-enterprises and the officials from the GRA Obuasi STO. Answering a questionnaire took between 20 and 30 minutes to complete. Interviews with each official from the GRA Obuasi STO lasted for 25 minutes. The interviews were conducted in English. Data were collected between February and March 2021.

Validity and Reliability

All scientific investigations must adhere to the guiding principles of validity and reliability (Denscombe, 2010). The measuring devices and procedures used in the study must adhere to the notion of validity. A copy of

the questionnaires was given to the supervisor to review to determine whether the quantity and nature of the items accurately measured the concept or construct of interest (content validity). Based on the supervisor's comments, the researcher made the changes required. The items were adopted or modified from international tools and literature to meet the study concepts and objectives.

The objective of reliability testing is to check that if a subsequent researcher employs the same protocols as those defined by the previous researcher and performs the same analysis again, the later researcher can arrive at almost the same results and conclusions (Yin, 2014). It examines the amount of error variance in the test method and emphasizes consistency, correctness and, uniformity, the coefficient of reliability. The questionnaires were put through a preliminary reliability test by the researcher. The pre-test involved 30 samples from micro-enterprises that were not included in the actual work. This was to minimize errors and biases. Reliability was tested using Chronbach's alpha. The normality of the distribution will also be tested using the Kolmogorov–Smirnov test.

Ethical Considerations

The research was carried out following established guidelines for such studies in the field of education. The University of Cape Coast's ethical committee was contacted for approval. Permission from the research ethics was sought to conduct the research. Respondents were asked to sign an informed consent form before participating in the study. The consent form specified the intent and aims of the research and what the participants might expect from the study. It also provided information on anonymity, privacy and

confidentiality. The researcher further elaborated to the respondents that they have the right to withdraw from participating in the study at will. The researcher included his contact details on the consent form should any participant have a query.

Data Processing and Analysis

The researcher employed the “IBM Statistical Package for Social Sciences (SPSS)” version 22 software for the statistical analysis. The statistical methods utilised were both descriptive and inferential. The first, second and fourth research questions were analysed using descriptive statistics, whilst research question three was analysed using inferential statistics. Descriptive statistics of the variables in the study include means, standard deviation, frequency, and percentage. The Relative Importance Index (RII) was employed to assess micro-enterprises challenges faced regarding tax compliance.

The equation that can be used for data processing and analysis in this case is the Relative Importance Index (RII) formula. The RII is a statistical method used to assess the level of importance or significance of different factors or variables in relation to a specific outcome or criterion.

The RII formula can be expressed as follows:

$$RII = \frac{\sum (W * S)}{\sum W}$$

Where:

- RII = Relative Importance Index
- W = Weight assigned to each factor or variable (e.g., importance rating given by the respondents)

- S = Score or measurement of each factor or variable (e.g., frequency, percentage)
- Σ = Summation symbol (indicating summing up all the values together)

By applying the RII formula to assess micro-enterprises challenges faced regarding tax compliance, the researcher can determine the relative importance or significance of different challenges based on the weight assigned by the respondents and their corresponding scores or measurements. This can provide useful insights and help prioritize efforts or interventions in addressing these challenges.

Calculation of Relative Importance Index Values

$$RII = \frac{5n_5 + 4n_4 + 3n_3 + 2n_2 + 1n_1}{A * N}$$

$$A * N$$

n_5 = Number of responses for Very High

n_4 = Number of responses for High

n_3 = Number of responses for Fairly High

n_2 = Number of responses for Low

n_1 = Number of responses for Very Low

A = Highest Weight (A = 5)

N = Total number of respondents (N = 150)

The ordinary Least Square (OLS) regression method was performed to determine the relationship between tax compliance and the performance of the micro-enterprises. A P-value of <0.05 was deemed statistically significant.

Qualitative data from an interview with GRA officials was presented using narrative text.

Model Specification

The most often employed financial ratios in the research are sales revenue and return on investment. According to Tee, Boadi, and Opoku (2016), sales revenue is a more accurate indicator of the financial health of “small and medium-sized businesses” because it is less susceptible to manipulation. Sales revenue(s) was/were used in this study as its dependent variable for the performance of the micro firms. The microbusinesses’ yearly sales are used to measure it.

The primary explanatory variable for the study’s independent variables was the amount of tax (AT) a certain micro firm had paid during the previous three years. “Other independent variables included tax reliefs (TL), which is a dummy (yes or no), the cost of hiring tax professionals (CP), the tax impact on purchase (IP), which is measured as an index score (average score on a scale of 1-3), and time spent calculating and paying taxes. These factors were chosen based on the literature (TM).

Applying the Ordinary Least Square (OLS) regression method, the multiple regression equation that was fitted for the study is in the form”: the accurate equation for a multiple linear regression model, given the variables and coefficients mentioned in your study, is as follows:

$$\text{Performance} = \beta_0 + \beta_1(\text{Tax Compliance}) + \beta_2(\text{Size}) + \beta_3(\text{Industry Type}) + \beta_4(\text{Years in Operation}) + \beta_5(\text{Education Level}) + \beta_6(\text{Financial Resources}) + \beta_7(\text{Location}) + \varepsilon$$

Where:

Performance: Dependent variable (e.g., revenue, profit, growth rate)

Tax Compliance, Size, Industry Type, Years in Operation, Education Level, Financial Resources, Location: Independent and control variables.

β_0 : Intercept (constant term)

$\beta_1 - \beta_7$: Coefficients for each independent and control variable.

ϵ : Error term, representing unobserved factors affecting the dependent variable.

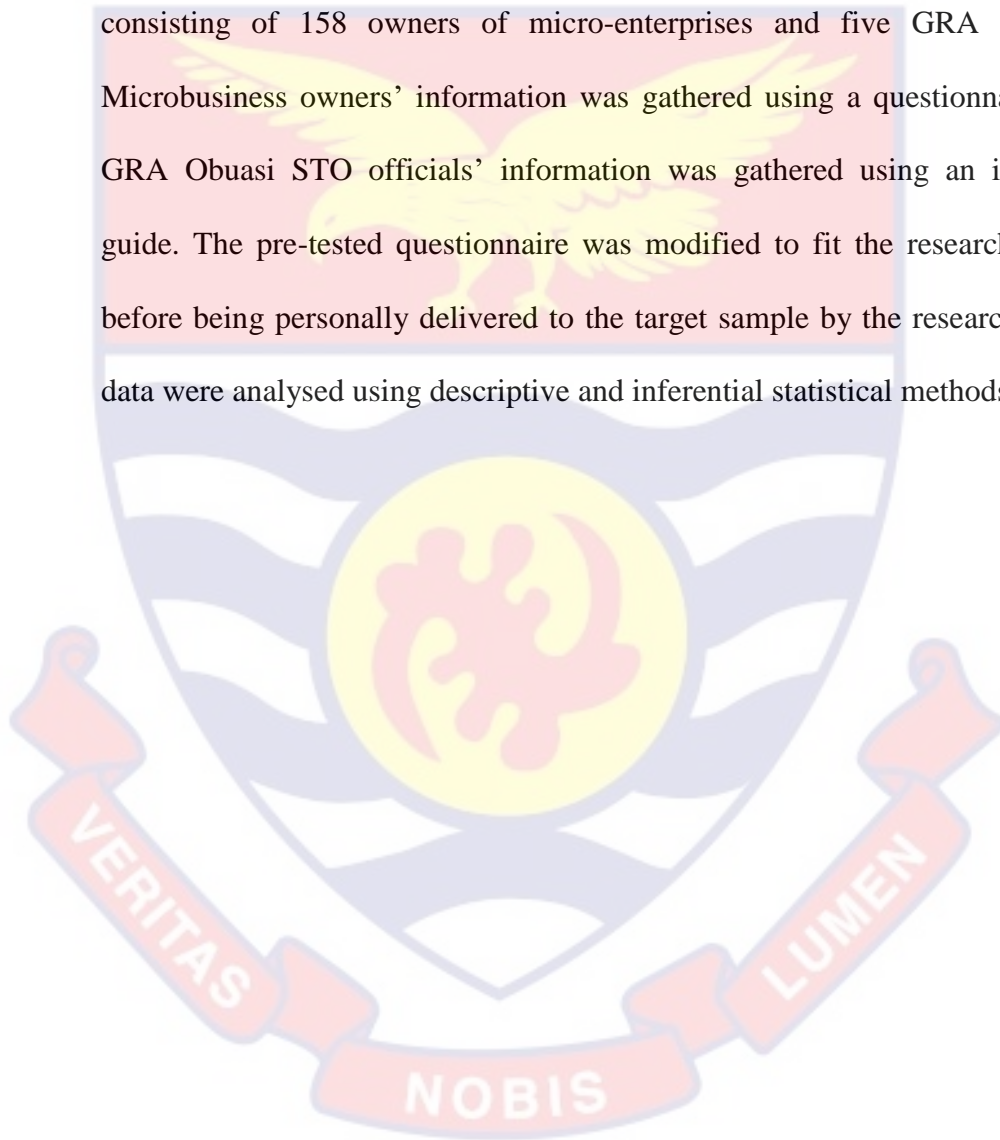
This equation represents a linear relationship between the dependent variable (Performance) and multiple independent and control variables, each scaled by their respective coefficients. The intercept term (β_0) accounts for the baseline value of the dependent variable when all independent variables are zero. In mathematical notation, the equation can be written as:

$$\text{Performance} = \beta_0 + \beta_1 * \text{TaxCompliance} + \beta_2 * \text{Size} + \beta_3 * \text{IndustryType} + \beta_4 * \text{YearsInOperation} + \beta_5 * \text{EducationLevel} + \beta_6 * \text{FinancialResources} + \beta_7 * \text{Location} + \epsilon$$

It's important to note that when estimating the model using data, the coefficients ($\beta_0, \beta_1, \beta_2$, etc.) will be estimated from the data using statistical techniques. The goal is to find the coefficients that minimize the sum of squared differences between the observed values of the dependent variable and the values predicted by the model. This estimation process is typically done using methods like the least square's method.

Chapter Summary

This chapter highlighted the methods the researcher employed to carry out this study. The study adopted the descriptive cross-sectional survey design. The study was conducted in the Obuasi Municipality to assess the impact of tax compliance on micro-enterprises. A sample of 163 respondents was used, consisting of 158 owners of micro-enterprises and five GRA officials. Microbusiness owners' information was gathered using a questionnaire, and GRA Obuasi STO officials' information was gathered using an interview guide. The pre-tested questionnaire was modified to fit the research setting before being personally delivered to the target sample by the researcher. The data were analysed using descriptive and inferential statistical methods.



CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

The study's primary objective was to assess the impact of tax compliance on the performance of micro-enterprises in Obuasi Municipality.

Results are presented, analyzed, and discussed in this part. In total, 163 respondents consisting of 158 owners of micro-enterprises and five Ghana Revenue Authority (GRA), Obuasi Small Tax Office (STO) officials were sampled to participate in this study; however, only 155 respondents took part in the study (150 owners and 5 GRA officials), recording a 95.1% response rate. Microbusiness owners' answers to questionnaires were used to compile data, and representatives of the GRA Obuasi STO were asked to answer questions using a guide during interviews.

Both descriptive and inferential statistical tools were used to analyze data from the questionnaire. Qualitative data from interviews with GRA officials was presented using narrative text. The presentation of the results is organised into five sections – demographic characteristics of respondents, level of tax compliance among micro-enterprises, factors influencing tax compliance among micro-enterprises, the effect of tax compliance on the performance of micro-enterprises, and strategies adopted by GRA, Obuasi STO to ensure tax compliance among micro-enterprises in Obuasi Municipality.

Socio-demographic Characteristics of Respondents

The socioeconomic status of the participants was analysed. Respondents' background characteristics include their gender, age, level of

education, nature of business, years of business operations, and monthly sales.

Table 2 below presents the results of the socio-demographic characteristics of the respondents.

Table 2: Socio-demographic Characteristics of Respondents (N= 150)

Variable	F	%
Gender		
Male	83	55.3
Female	67	44.7
Age		
20 – 30 years	30	20.0
31 – 40 years	64	42.7
41 – 50 years	41	27.3
Above 50 years	15	10.0
Level of education		
No formal education	14	9.3
Basic Education	57	38.0
SHS/Technical Education	47	31.3
Diploma	3	2.0
Bachelor degree	27	18.0
Master’s degree	2	1.3
Nature of Business		
Food vending	14	9.3
Groceries	33	22
Dressmaking	31	20.7
Vehicle mechanic	10	6.7
Hairdressing	20	13.3
Printing Press	8	5.3
Barbering shop	6	4
Local industry	28	18.7
Year in Business Operation		
Less than 1 year	7	4.7
1 – 5 years	41	27.3
6 – 10 years	36	24.0
11 – 15 years	26	17.3
16 – 20 years	17	11.3
More than 20 years	23	15.3
Monthly Sales		
Less than GH¢5,000	111	74.0
GH¢5,000 – GH¢7,500	24	16.0
GH¢7,500 – GH¢10,000	7	4.7
Above GH¢10,000	8	5.3

Source: Fieldwork (2021)

Based on the data in Table 2, males accounted for 55.3% of the respondents and females for 44.7%. This shows a fair distribution of gender in

micro-enterprises in the municipality. This also suggests that business owners of both sexes can make fair contributions to economic growth and development by paying their fair share of taxes. Most of them (42.7%) were between 31 and 40 years, with 20% between 20 and 30. Small businesses in the area should pay a disproportionately high share of taxes to support the city's expansion and development, given the large number of people actively seeking employment there.

Regarding educational background, it was revealed that most respondents had formal education, with 38% attaining basic education, 31.4% with secondary education, and 18% attaining bachelor's degree. Only 9.3% had no formal education. As a result, most responders have obtained some education to enhance their business operations and tax compliance. The respondent's level of education is a potential benefit for assessment and tax education because, when presented to them, tax procedures are simple to understand, and they are ready to comply with their tax duties.

Table 2 depicts that the respondents were tapped across a wide array of business operations, with most of the respondents falling into groceries (22%), dressmaking (20.7%) and local industry (18.7%). Small and medium-sized enterprises (SMEs) in Ghana, as defined by Cobbold, Akobuour-Debrah, and Kwabena (2008), are typically owner- or family-run firms providing basic goods and services but lacking in formalised management and organisational systems. The majority of respondents (68%) had been in business for more than 5 years, whereas 4.7% had been in operation for less than 1 year, and 27.3% had 1 to 5 years of working experience. This suggests that most micro-enterprises are mature and have advanced in their respective industries, and as

a result, they may have been assessed and paid taxes in accordance with legal requirements. When asked about their monthly income, the vast majority of respondents (74.3%) reported earning less than GH5,000, while only 5.3% reported earning more than GH10,000. As income is the basis for taxation in any efficient tax administration, it was necessary to learn the annual incomes of business owners.

Research Question One: What is the level of tax compliance among micro-enterprises in Obuasi Municipality?

The first research question of the study was to determine the level of tax compliance among micro-enterprises in the Obuasi Municipality. Respondents were asked to indicate if they have registered their businesses with the Ghana Revenue Authority (GRA). Their responses are illustrated in Figure 3.

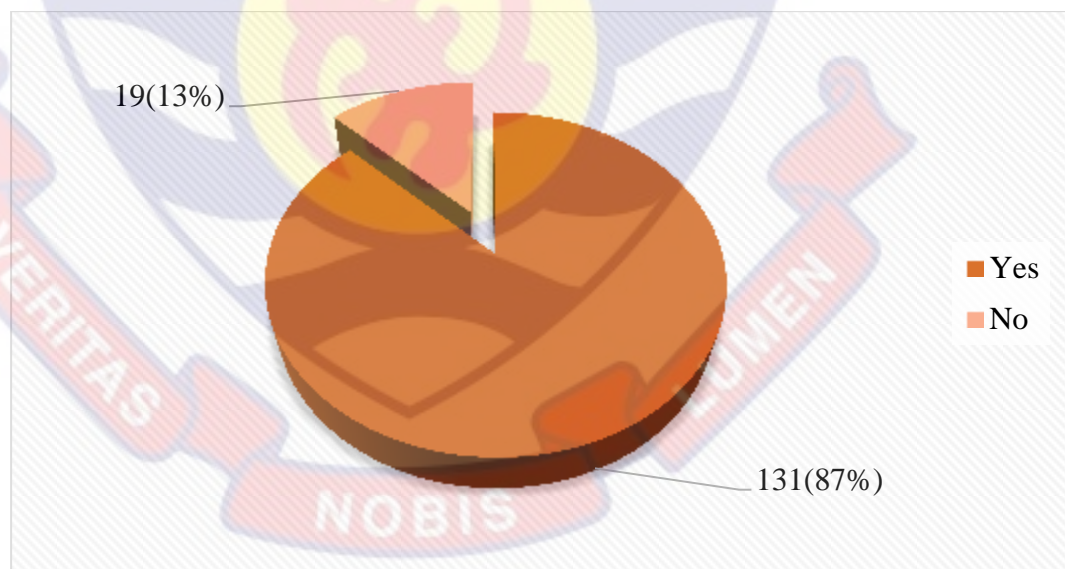


Figure 3: Number of Micro Enterprises Registered under GRA

Source: Fieldwork (2021)

It was found that 131, representing 87%) indicated that they had registered their business with the Ghana Revenue Authority, whereas 19

respondents representing 13%, were unregistered. Especially important to the economic and social growth of a country like Ghana’s is the work done by its micro-businesses. However, income tax paid by micro-enterprises continues to be an important source of funding for development in Ghana. All businesses subject to taxation under the Income Tax Act, 2015 (Act 896) and subsequent amendments are obliged by law to register with the “Ghana Revenue Authority (GRA)” as taxpayers. The result indicates that most of the micro-enterprises within the Obuasi Municipality were registered under the Ghana Revenue Authority.

Table 3 presents results on how long the registered micro-enterprises have been operating under the auspices of the Ghana Revenue Authority.

Table 3: How Long Respondents had been operating Under GRA

Variable	<i>f</i>	%
Less than 1 year	13	9.9
1 – 5 years	57	43.5
6 – 10 years	44	33.6
11 – 15 years	11	8.4
16 – 20 years	5	3.8
More than 20 years	1	0.8
Total	131	100.0

Source: Fieldwork (2021)

According to Table 3, most of the respondents (43.5%) have been under the auspices of the Ghana Revenue Authority for 1 to 5 years. About 33.6% of the respondents have also been operating under the “Ghana Revenue Authority” for 6 to 10 years, whilst 9.9% have operated for less than 1 year

under the auspices of the “Ghana Revenue Authority”. The respondents requested tax payment frequency for business operations; the results are shown in Table 4.

Table 4: Frequency of Tax Paid for Business Operation

Variable	<i>f</i>	%
Monthly	7	5.3
Quarterly	81	61.8
Semi-annually	5	3.8
Annual	38	29.0
Total	131	100.0

Source: Fieldwork (2021)

Table 4 shows that most respondents (61.8%) often pay taxes for their businesses quarterly, 29% pay annually, 5.3% monthly, whilst 3.8% pay taxes semi-annually. In addition, the study sought to assess the total amount of taxes paid yearly by the micro-enterprises in the Obuasi Municipality. “The researcher found it important to determine how much the micro-enterprises spend yearly on tax compliance. This is a key indicator to determine whether the cost is too high, affecting their compliance levels. Table 5 presents the results”.

Table 5: Total amount of Tax Paid Yearly

Variable	<i>f</i>	%
Less than GH¢50	16	12.2
GH¢50 – GH¢100	50	38.2
GH¢100 – GH¢200	41	31.3
GH¢200 – GH¢500	17	13.0
More than GH¢1,000	7	5.3
Total	131	100.0

Source: Fieldwork (2021)

It was revealed that most of the respondents (38.2%) pay between GH¢50 to GH¢100 tax yearly, 31.3% of them also pay between GH¢100 to GH¢200, with only 5.3% paying more than GH¢1,000. Companies are subject to different tax rates depending on their specific field, geographic location, and legal structure (GRA, 2019). However, the micro-enterprises showed a good attitude towards tax compliance. Cuccia (2013) stipulated that MSME taxpayers had the lowest compliance rate. In contrast, Mantey (2015) found that small business owners in Ghana are generally unfavourable toward the country's tax structure. Furthermore, Alm, Kirchler, and Muehlibacker (2012) disputed that small companies adhere to tax regulations. According to their research in Rwanda, most small firms are unaware of tax laws and do not abide by them.

Participants were prompted to indicate whether or not they had submitted tax returns. Their responses are illustrated in Figure 4.

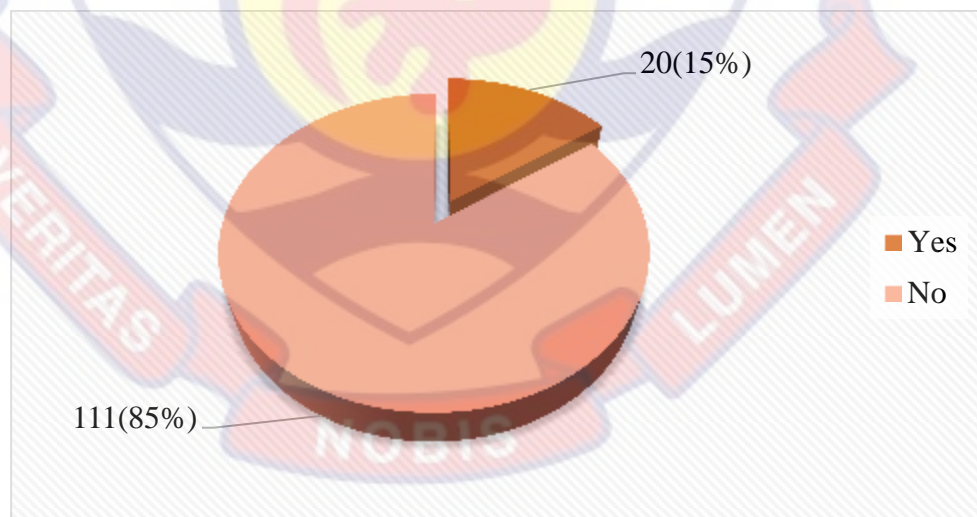


Figure 4: Number of Respondents who File Tax Returns

Source: Fieldwork (2021)

As illustrated in Figure 3, only 20 respondents representing 15%, file tax returns for their businesses, whilst the majority of them (85%) do not. To a

similar extent, Mantey (2015) found that people who make their living through small businesses typically register with authorities but do not reveal their incomes. Keeping detailed accounting records is optional for several types of business taxpayers. To that end, smaller businesses run by sole proprietors and self-employed individuals (especially those that account on a cash basis) may be able to utilise the difference between gross sales and expenses to determine taxable business income in jurisdictions that employ the balance sheet approach for doing so. Any such business, however, would have to fulfil its tax requirements on time, including keeping accurate financial records, declaring all earnings and spending, filing tax returns, and paying all taxes due per the law. For tax revenues to skyrocket, taxpayers must comply with all these mandates (Amaning, Anim, Kyere, Kwakye, & Abina, 2021).

The study assessed the motivation of micro-enterprise owners in Obuasi Municipality to voluntarily comply with the tax obligations of their business. The construct was measured on a 5-point Likert scale, ranging from strongly agree to strongly disagree, with 1 being strongly disagree and 5 strongly agreeing. Table 6 presents the outcomes.

Table 6: Motivation behind Compliance of Tax Obligations

Items	N	Mean	Std. Deviation	Variance
Reduction in tax amount	150	3.6667	.82468	.680
Business formalization	150	3.7733	.65689	.431
Legal requirement	150	3.3667	.83880	.704
Avoid tax penalties	150	3.4000	.86699	.752
Tax clearance cost	150	3.3933	.88155	.777
Easy and simple tax procedures	150	3.6200	.93887	.881
Tax education	150	3.5133	1.19696	1.433
Integrity of tax collectors	150	3.5800	1.21661	1.480
Tax used for the intended purpose	150	3.6733	1.28751	1.658
Frequent visits of tax collectors	150	3.1933	.98101	.962
Average		3.51799	0.968987	0.9758

Source: Fieldwork (2021)

The respondents' responses had an aggregate mean and standard deviation of 3.52 and 0.969, respectively. Items with a mean value above the overall mean are considered the major motivation behind compliance with tax obligations among the micro-enterprises. Table 6 depicts that the micro enterprises' major motive behind tax compliance is business formalization (mean = 3.77; SD = .657). This was followed by tax used for intended developmental purposes (mean = 3.67; SD = 1.287), reduction in tax amount (mean = 3.67; SD = .825), easy and simple tax procedures (mean = 3.62; SD = .939), and integrity of tax collectors (they are not corrupt) (mean = 3.58; SD = 1.216).

This is consistent with Amanamah (2016) findings, who found that increasing tax incentives for voluntary compliance could be accomplished by lowering the taxable amount, putting tax revenue toward its intended uses, and streamlining the tax collection and filing processes. In addition, Amanamah (2016) emphasised that tax fines, tax education, easy and straightforward tax procedures, and tax reduction are key motivations for tax compliance among MSMEs. This is consistent with the research conducted by Atawodi and Ojeka (2012) and Lavinia and Alexandrina (2006), who found that a high tax rate is the primary cause of tax non-compliance among SMEs. This agrees with OECD (2010) conclusions that effective teaching, simplicity of the tax system, and elimination of rules are further avenues for making tax compliance easy.

Figure 5 assesses respondents' perceptions of whether tax compliance is compulsory for every business owner.

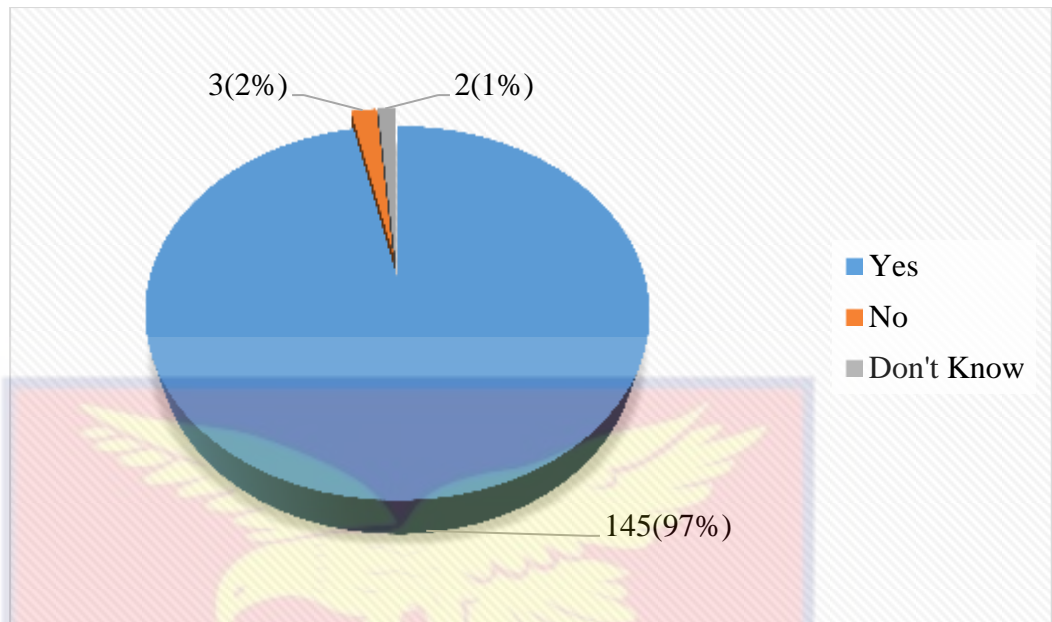


Figure 5: Do you think Tax Compliance is Compulsory for every business owner?

Source: Fieldwork (2021)

Nearly all the respondents, 145 representing 97%, stated that tax compliance is compulsory for every business owner. Only three (2%) respondents said no, whilst two (1%) said they did not know. This result agrees with the findings from several studies. Amanamah (2016), for instance, in his study on tax compliance among SMEs in Kumasi Metropolis, reported that as high as 91.4% of enterprises interviewed think tax compliance is compulsory. The author continued that the respondents said tax obligations are compulsory because they noted that authorities would close down their businesses if they did not pay taxes. Furthermore, respondents were asked if they think tax non-compliance is punishable by law. Their responses are presented in Figure 6.

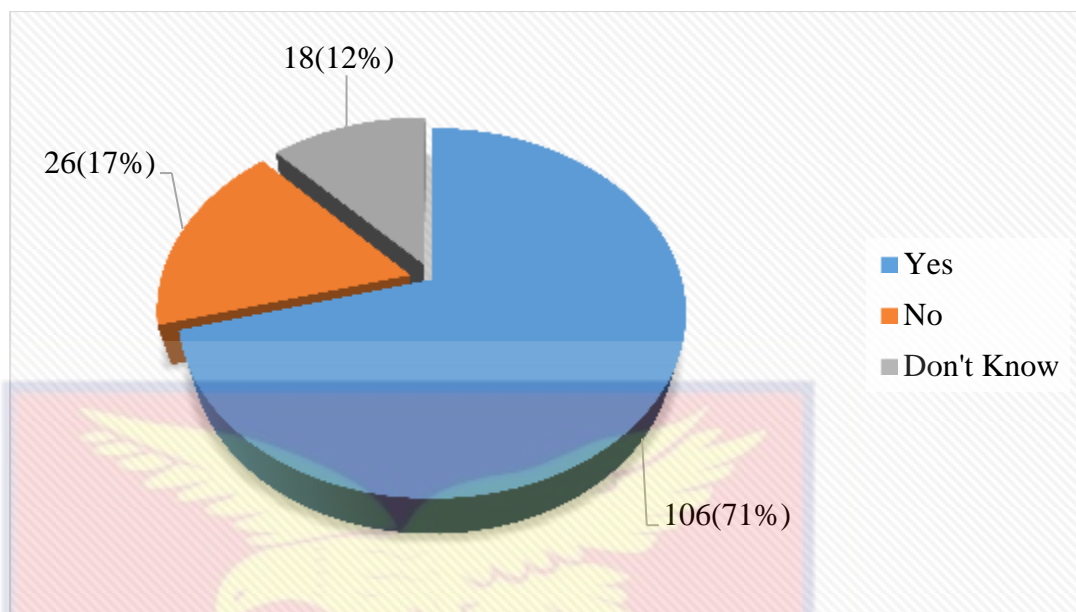


Figure 6: Do you think Tax Non-compliance is Punishable by Law?

Source: Fieldwork (2021)

Figure 6 shows that most respondents (71%) agreed that tax non-compliance is punishable by law, 17% disagreed, whilst 12% indicated that they do not know. Similarly, Amanamah (2016) reported that 92.9% of SMEs know tax non-compliance is punishable by law. Peprah, Abdulai and Agyemang-Duah (2020) reported that 99.5% of business owners know the state's tax laws. These figures are higher than that of this current study. In order to ensure efficacy and efficiency in their operation, the GRA Obuasi STO must empower tax administration needs and change some policies.

Figure 6 shows results on tax education among the micro-enterprises in Obuasi Municipality.

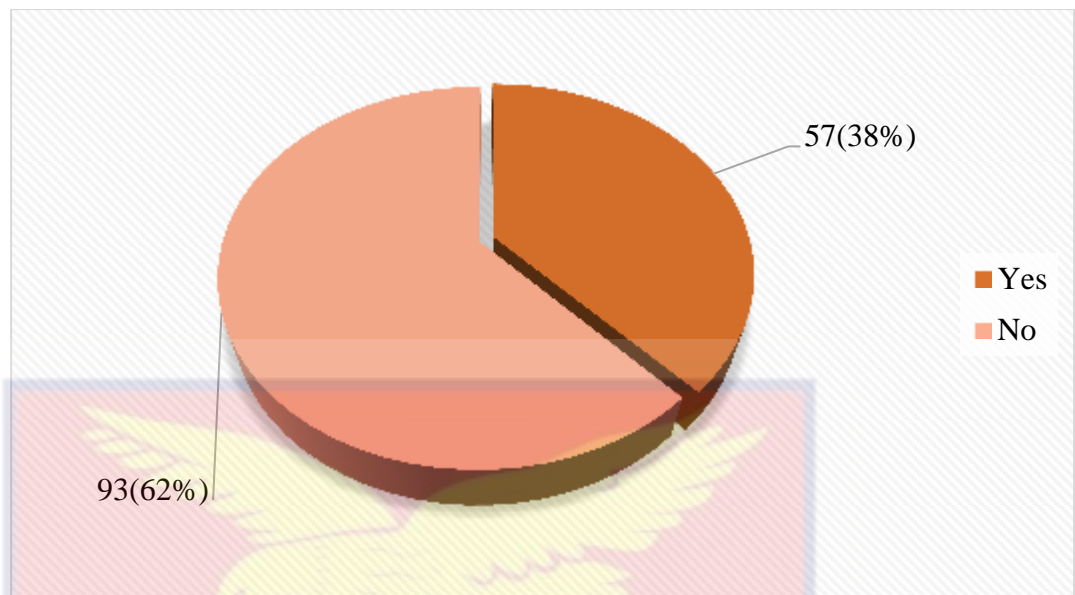


Figure 7: Have you ever received any form of Tax Education?

Source: Fieldwork (2021)

Sixty-two percent of those surveyed said they had never received any tax education. Only 38% of those polled had ever attended a tax seminar. Now more than ever, GRA has to boost tax income by educating micro-business owners. The government knows it can be difficult for small businesses to comply with tax regulations but believes this difficulty can be mitigated by better tax education and training. Aondo (2019) claims that small firms in the municipality may purposefully violate tax regulations because they are unaware of their obligations under the law or because the online tax filing process is complicated.

It is hoped that the tax education initiatives in Obuasi Municipality will help address the problems connected to tax compliance among small businesses. Taxpayer education benefits small businesses because it equips them with the knowledge they need to address tax concerns and alters their perspectives on the importance of doing so. According to Mohd (2012), if

small businesses take the time to learn about the tax system, they are more likely to adopt a positive attitude toward tax compliance.

Research Question Two: What are the factors influencing tax compliance among micro-enterprises?

The study sought to identify the factors influencing tax compliance among micro-enterprises in the Obuasi Municipality. The Relative Importance Index (RII) analysis was used to determine the importance of the various factors to respondents’ non-compliance with tax obligations. Table 7 below displays the findings.

Table 7: Relative Importance Index Analysis (RII)

Variable	N	RII	Rank
Lack of collaboration between tax agencies	150	0.586667	8 th
Lack of tax training/knowledge	150	0.602667	7 th
High tax compliance costs	150	0.673333	6 th
High tax rates	150	0.693333	5 th
Size of business	150	0.709333	2 nd
Type of industry	150	0.710667	1 st
Capital structure	150	0.705333	3 rd
Inadequate resource	150	0.698667	4 th
Tax audits	150	0.522667	9 th

Source: Fieldwork (2021)

Table 7 shows that the type of industry was the highest relative importance factor that affects tax compliance among micro-enterprises in the Obuasi Municipality (RII = 0.710667). This was followed by the business’s size and capital structure, which recorded indexes of 0.709333 and 0.705333,

respectively. It was also found that inadequate resources of enterprises ranked 4th (RII = 0.698667), whilst high tax rates ranked 5th (RII = 0.693333) on the most important factors that affect tax compliance among micro-enterprises in the municipality, as shown in Table 7. Peprah, Abdulai, and Agyemang-Duah (2020) found similar results, identifying a high tax rate and a low capital structure as the most important and relevant determinants in tax compliance among businesses in Ghana. Problems were also linked to a lack of resources, as was found in the study.

Compliance with tax laws was found to be highly influenced by taxpayer ethics, tax audits, tax rates, compliance costs, and capital structure for micro, small, and medium-sized enterprises (MSMEs) in Ghana (Kuug, 2016). According to research by Atawodi and Ojeka (2012), the two most important causes of non-compliance among micro, small, and medium-sized enterprises (MSMEs) are high tax rates and difficult filing procedures.

Research Question Three: What is the effect of tax compliance on the performance of micro-enterprises?

The third research question assesses the effect of tax compliance on the performance of micro-enterprises. An economic analysis was carried out using the Ordinary Least Square estimation technique to determine the contribution of tax compliance on the performance of the micro-enterprises”. The outcomes are shown in Table 8 down below.

Table 8: Effect of Tax Compliance on the Performance of Micro Enterprises

Variable	Coefficients	Std. Error	t-Statistics	P-value
Intercepts	1.045	0.182	5.755	0.000
LOG (Compliance)	0.161	0.62	-2.577	0.011
R-square	0.049	Mean dependent var		1.4733
Adjusted R-squared	0.042	S.D dependent var		0.18884
S.E of regression	0.83536	Durbin-Watson stat		2.288
Sum square residual	90.021			
F-statistic	6.643			

Dependent variable: LOG (Revenue Generated)

Independent variable: Tax Compliance (Total Tax Paid)

Observations: 150

Source: Fieldwork (2021)

Results from Table 8 show that the probability value, which was automatically generated during the computation process, the constant term, is significant at the 5% level, and the tax compliance coefficient is significant at the 5% level with p-values of 0.011. The tax compliance coefficient is negative, meaning that a tax increase leads to a decrease in revenue generated. An adjusted R-squared value of 0.042 indicated that only 4.2% of the total variation in performance is explained by variation in total aggregated tax paid. The remaining percentage is explained by stochastic error, which means the other variables not mentioned in the model affect the model.

Profitability is correlated with tax payments in the Ga West Municipal Assembly, as demonstrated by research by Tee, Boadi, and Opoku (2016). The majority of respondents in the poll saw the tax system as having a negative impact on enterprises. The tax structure in Ghana was seen as unjust by the company. Awotwe (2018) found a positive association between corporation taxation and small and medium-sized enterprises (SMEs) expansion. The study's results demonstrated that taxation negatively impacts profitability, investment funding, working capital, and how many employees to hire. According to Ocheni's (2015) research, small firms face disproportionate stress due to taxes and the tax system's complexity. Ocheni and Hemade (2015) found a negative correlation between the size of a micro, small, or medium-sized enterprise (MSE) and its ability to pay taxes. According to Kapela (2018), most respondents think present tax regulations hamper small business expansion.

Djankov et al. (2010) contend that complex tax regimes negatively affect investment and entrepreneurship. The operations of microbusinesses may be impacted by the government's uneven tax policy, according to a number of scholars. For instance, Fiestas and Sinha (2011) postulated that businesses with uncertain government tax policies might be more likely to experience low growth and insolvency. Many "micro, small, and medium-sized enterprises (MSMEs)" have failed because of the government's inability to stabilise its policies (Agwu & Emeti, 2014).

Research Question Four: What strategies have been adopted by the Ghana Revenue Authority for ensuring tax compliance among micro-enterprises in Obuasi Municipality?

The fourth research question sought to identify the strategies adopted by the Ghana Revenue Authority for ensuring tax compliance among micro-enterprises in Obuasi Municipality. Respondents from the micro-enterprises are presented in Table 9 below.

Table 9: Strategies to Ensure Tax Compliance

Variable	<i>f</i>	%
Frequent dissemination of tax information	74	19.9
Public sensitization programmes	102	27.5
Tax education	90	24.3
Reduction in tax amount	63	17
Frequent visits of business sites	12	3.2
Penalty of fines	30	8.1
Total	371*	100.0

*Multiple response question; N = 150

Source: Fieldwork (2021)

The study indicates that public sensitization (27.5%) and tax education campaigns (24.3%) were effective strategies adopted by the Ghana Revenue Authority, Obuasi STOs in ensuring tax compliance among micro-enterprises in the Obuasi Municipality. Qualitative analysis from the officials of the GRA, and Obuasi STOs, also confirms this result. The officials believed the STOs periodically carried out public sensitization programmes and education through radio stations, community centres, local television, and other

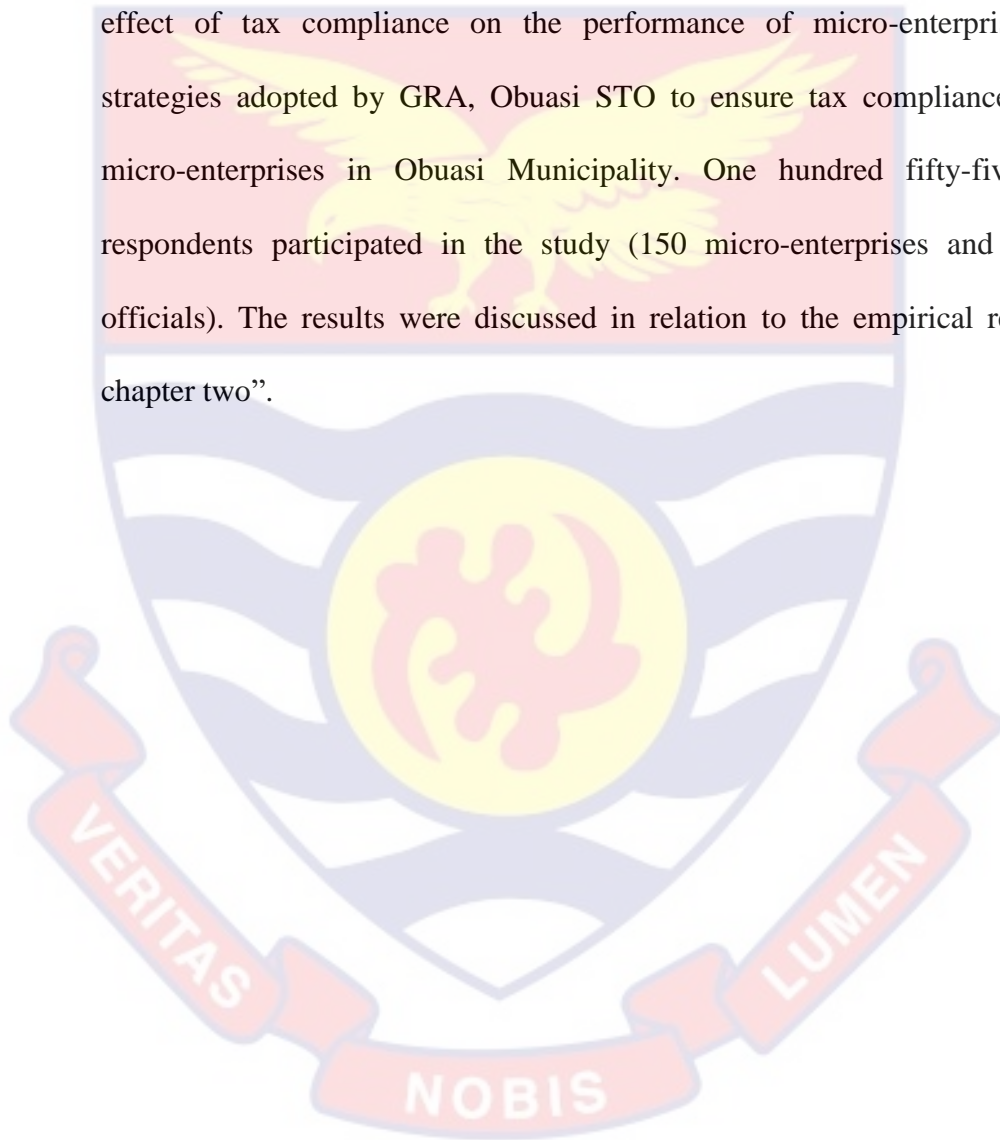
electronic means such as short messages (SMS). Furthermore, GRA found that business federations and groups could encourage more SMBs to voluntarily comply with tax laws.

Similarly, Yirenkyi (2020), in his study in the Obuasi Municipality, reported that the GRA could improve tax compliance and increase revenue mobilisation through public sensitization and educational campaigns. Palil (2010) conducted research on the topic and concluded that broadcast media was one of the most successful means of getting tax information out to taxpayers and the general public in the Techiman Municipality of Ghana, encouraging more businesses of all sizes to file their tax returns.

Similar to how Tetteh (2019) claims the GRA holds workshops for taxpayers to promote tax compliance, Tetteh (2019) argues that taxpayers can learn more about the tax code and how to comply with it. Workshops help small businesses by answering their questions about compliance and educating them on the tax authority's bureaucratic procedures. To support this argument, Ayensu, Kuma, and Ofori-Appiah (2017) argued that efficient revenue mobilisation begins with consistent tax education and advertisement using print and electronic media. Similarly, Gitaru (2017) and Nurlis (2015) supported this assertion. Through public awareness and education programs, the Obuasi STO can inform micro-enterprises in the municipality of the developmental projects it intends to carry out with the generated tax revenue. This will go a long way to motivate micro-enterprises to fulfil their tax obligations. Therefore, it is essential that tax officials in Obuasi Municipality host workshops for stakeholders to increase tax compliance among small businesses.

Chapter Summary

The outcomes of the research were highlighted in this chapter. “The presentation of the chapter captured the research objectives. Specifically, the study sought to determine the level of tax compliance among micro-enterprises, factors influencing tax compliance among micro-enterprises, the effect of tax compliance on the performance of micro-enterprises, and strategies adopted by GRA, Obuasi STO to ensure tax compliance among micro-enterprises in Obuasi Municipality. One hundred fifty-five (155) respondents participated in the study (150 micro-enterprises and 5 GRA officials). The results were discussed in relation to the empirical review in chapter two”.



CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

The study's primary objective was to assess the impact of tax compliance on the performance of micro-enterprises in Obuasi Municipality.

The important conclusions from the analysis are summarised in this chapter. The chapter also offers a broad analysis of the full study's findings. This chapter also includes suggestions for important stakeholders based on the findings.

Summary of Key Findings

The study showed that tax compliance among the micro-enterprises in the Obuasi Municipality was good. Most (87%) registered and operated their business under the Ghana Revenue Authority. About 61.8% of them often pay taxes for their business quarterly, and most pay between GH¢50 to GH¢100 tax yearly. Their motivation behind tax compliance include business formalization (mean = 3.77; SD = .657), developmental purposes (mean = 3.67; SD = 1.287), reduction in tax amount (mean = 3.67; SD = .825), easy and simple tax procedures (mean = 3.62; SD = .939). However, it was found that only a few of the enterprises file tax returns (15%).

A number of factors were found to affect tax compliance among micro-enterprises in the Obuasi Municipality. These include the type of industry (RII = 0.710667), size of business (RII = 0.709333), the capital structure of the business (RII = 0.705333), inadequate resources (RII = 0.698667), and high tax rates (RII = 0.693333).

The research revealed a statistically significant positive correlation between tax compliance and micro-business success in Obuasi Municipality. Tax compliance significantly affected micro-enterprises performance at a 5% level with p-values of 0.011. Again, it was found that tax compliance made a 4.2% contribution to the total variation of the performance of the micro enterprises (Adjusted R-square = 0.042).

The results revealed that public sensitization (27.5%) and tax education campaigns (24.3%) were the most effective strategies used by the Ghana Revenue Authority, Obuasi STO, in ensuring tax compliance among micro-enterprises in the Municipality. The medium used by the STO for tax education and public sensitization includes radio stations, community centres, television, and other electronic means such as short messages (SMS).

Conclusions

In conclusion, it can be asserted that tax compliance affects the performance of micro-enterprises in Obuasi Municipality. Though tax compliance among the micro-enterprises was good, their motive to comply with tax obligations was hindered by the nature and size of their business, capital structure, inadequate resources of the business, and high tax rates. Ghana Revenue Authority, Obuasi STO, plays a crucial role in ensuring tax compliance among municipal micro-enterprises through public sensitization and tax education campaigns.

Recommendations

Based on the study's findings, the following suggestions are given to increase tax compliance among micro-enterprises in Obuasi Municipality.

1. It recommended that tax systems governing micro-enterprises in Ghana should be simplified to encourage compliance with taxes.
2. The government should also consider increasing tax incentives such as exemptions and tax holidays as these would not only allow voluntary compliance among micro-enterprises and attract potential investors in the future.
3. As there is a correlation between business size and ability to pay taxes, it is also advised that taxes be collected based on the revenue and size of micro-enterprises while taking into account all other variables that may limit their ability to grow.
4. To educate and sensitise micro enterprises on issues like tax incentives, tax exemptions, the general importance of paying taxes, and utilisation of tax revenue, among other things, the “Ghana Revenue Authority” and the “Metropolitan, Municipal and District Assemblies (MMDAs)” should launch an effective education and awareness programme that will run regularly.

Suggestions for Futher Research

The study was limited to the Obuasi Municipality in the Ashanti Region of Ghana. By implication, this study cannot be generalised to other municipalities in the country. Therefore, it is recommended that future research on this topic must include several municipal assemblies in Ghana.

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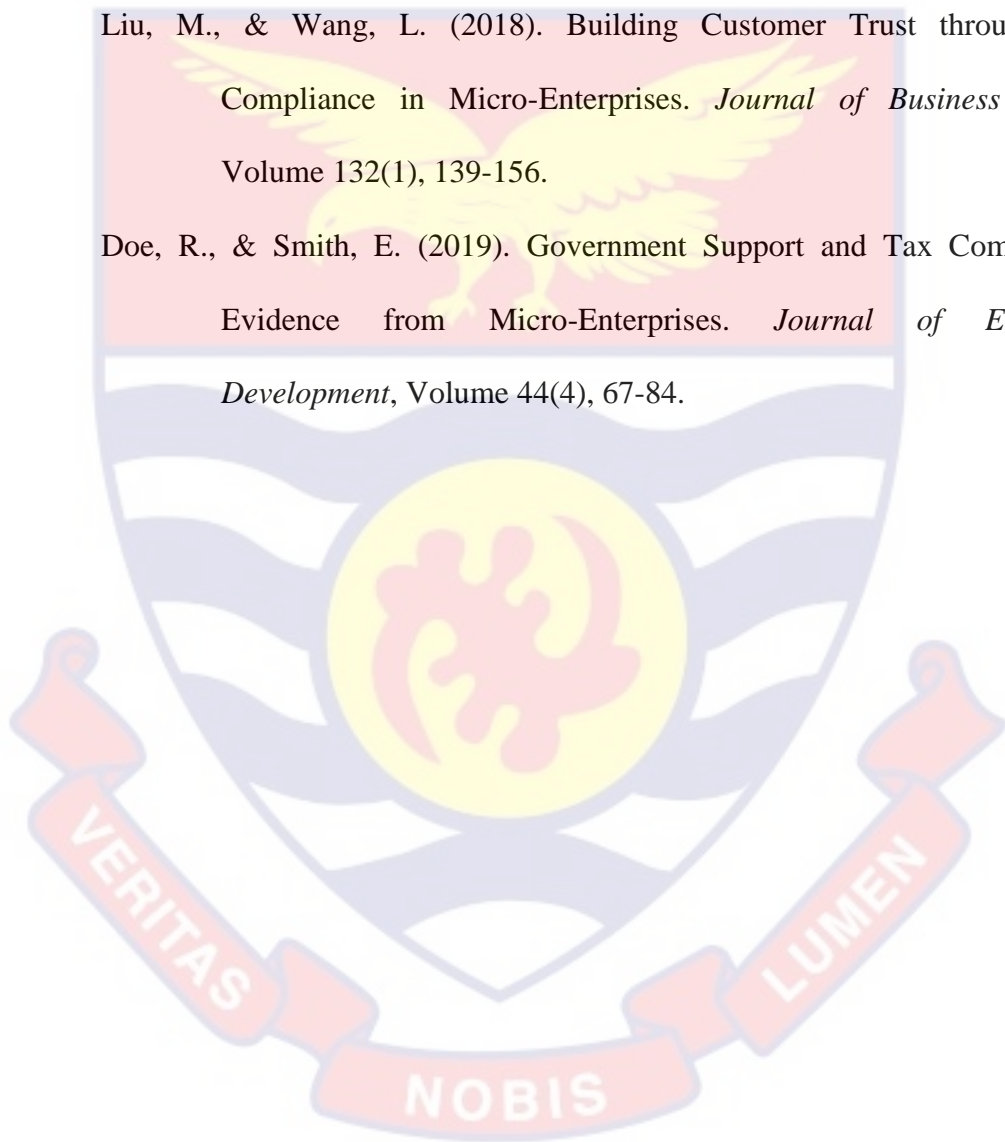
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APPENDICES

APPENDIX A: QUESTIONNAIRE FOR MICRO ENTERPRISES

This questionnaire is designed to elicit information on the impact of tax compliance on micro enterprises in Obuasi Municipality. This study is carried out among owners of micro enterprises in the Obuasi Municipality. This is solely for academic purposes, therefore, any information you provide will be kept confidential. I am therefore asking if you could answer the following questions by ticking in the boxes () or writing in the spaces provided where applicable. Thank you.

Section A: Socio-Demographic Characteristics of Respondents

1. Gender:
Male () Female ()
2. Age:
20 – 30 years () 31 – 40 years () 41 – 50 years ()
Above 51 years ()
3. Level of education:
No formal education () Basic education () Secondary education ()
Diploma () Bachelor degree () Masters' degree ()
other (specify)
4. Which sector of the economy does your business belong?
Food vendor () Provision storekeeper () Dressmaker ()
Vehicle mechanic () Hairdresser () Local industry ()
5. How many years has your business been in operation?
< 1 Year () 1 – 5 years () 6 – 10 years () 11 – 15 years ()
16 – 20 years () More than 20 years ()

6. Which range below best describes your business' most recent monthly sales?

Less than GH¢5,000 () GH¢5,000 - GH¢7,500 ()

GH¢7,500 - GH¢10,000 () Above GH¢10,000 ()

Section B: Level of Tax Compliance among Micro Enterprises

7. Has your business been registered under the Ghana Revenue Authority?

Yes () No ()

8. If yes, how long have you been operating under the auspices of the Ghana Revenue Authority?

< 1 Year () 1 – 5 years () 6 – 10 years () 11 – 15 years ()

16 – 20 years () More than 20 years ()

9. How often do you pay taxes for your business?

Monthly () Quarterly () Semi Annually ()

Annually ()

10. Which range below best describes the total amount of tax you pay yearly?

Less than GH¢50 () GH¢50 - GH¢100 () GH¢101 - GH¢200 ()

GH¢201 - GH¢500 () GH¢501 - GH¢1,000 () More than GH¢1,000 ()

11. Have you ever filed tax returns for your business?

Yes () No ()

12. Tick the right alternative that fits your motivation to voluntarily comply with tax obligations. Use the following 5-point Likert scale:

1 = Strongly Disagree 2 = Disagree 3 = Undecided 4 = Agree 5 = Strongly Agree

Items	1	2	3	4	5
Reduction in tax amount					
Business formalization					
Legal requirement					
Avoid tax penalties					
Tax clearance cost					
Easy and simple tax procedures					
Tax education					
Integrity of tax collectors (they are not corrupt)					
Tax used for the intended purpose (development)					
Frequent visits of tax collectors					

11. Do you think tax compliance is compulsory for every business owner?

Yes () No () I don't know ()

12. Do you think tax non-compliance is punishable by law?

Yes () No () I don't know ()

13. Have you ever received any form of tax education?

Yes () No ()

Section C: Factors Influencing Tax Compliance among Micro Enterprises

14. Tick the right alternative that fits the factors that influence your tax compliance behaviour. Use the following 5-point Likert scale:

1 = Very Low 2 = Low 3 = Fairly High 4 = High 5 = Very High

Items	1	2	3	4	5
Lack of collaboration between tax agencies					
Lack of tax training/knowledge					
High tax compliance costs					
High tax rates					
Size of business					
Type of industry					
Capital structure					
Inadequate resource					
Tax audits					

15. In your opinion, what measures can be adopted by the Ghana Revenue Authority to ensure tax compliance among micro-enterprises?

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APPENDIX B: INTERVIEW GUIDE FOR OFFICIALS OF GRA OBUASI STO

This interview is designed to elicit information on the impact of tax compliance on micro-enterprises in Obuasi Municipality. This is solely for academic purposes; therefore, any information you provide will be confidential.

1. Please can you tell me about yourself, your current position at the GRA and the number of years working with GRA
2. How does GRA estimate the tax obligation for entities under the provisional assessment?
3. What is the level of tax compliance among micro-enterprises in Obuasi Municipality, and how does GRA measure tax compliance?
4. How do micro-enterprises comply with tax obligations?
5. What happens when an entity pays its tax obligations but fails to file tax returns?
6. What are some of the factors identified by the GRA with regards to tax non-compliance among micro-enterprises in the municipality?
7. What strategies are used by the authority to increase voluntary compliance by micro-enterprises?
8. Does the authority organize training programmes for micro-enterprises
9. If yes, how often are these training programmes organized?
10. How are participants for the training programmes selected?
11. What are the benefits of being compliant with tax laws for micro-enterprises?

APPENDIX C: INFORMED CONSENT

Part 1

As part of my study for the Masters of Business Administration at the University of Cape Coast, Cape Coast, Ghana, I have to collect quantitative data using a structured questionnaire as a practical part of my research work for which I need your assistance.

Title of the THESIS:

THE IMPACT OF TAX COMPLIANCE ON THE PERFORMANCE OF MICRO ENTERPRISES IN THE OBUASI MUNICIPALITY

The thesis sought to:

To examine the impact of tax compliance on the performance of micro-enterprises in the Obuasi municipality.

In achieving the objective of the study, the researcher seeks to

1. determine the level of tax compliance among micro-enterprises in Obuasi Municipality
2. identify the factors influencing tax compliance among micro-enterprises.
3. assess the effect tax compliance can have on the performance of micro-enterprises, and
4. identify the strategies adopted by the Ghana Revenue Authority for ensuring tax compliance among micro-enterprises in Obuasi Municipality.

It is hoped that the information generated in this study can be useful to the government, policymakers in taxation, especially the Ghana Revenue Authority (GRA), micro-enterprises in general, and researchers in a number of ways.

I am therefore asking you to fully participate in the study and give your views on the subject matter.

Part 2

It is important that you read and understand the following general principles:

1. Participation in the project is completely voluntary and no pressure, however subtle, may be placed on you.
2. It is possible that you may not derive any benefit personally from your participation in the project, although the knowledge that may be gained by means of the project may benefit other researchers.
3. You are free to withdraw from the study at any time without stating reasons, and you will in no way be harmed by so doing. You may also request that your data no longer be used in the study.
4. You will be given access to your own data upon request.
5. You are encouraged to ask me any questions you may have regarding the study and the related procedures at any stage. I will gladly answer your queries.
6. The study objectives are always secondary to your well-being, and actions taken will always place your interests above those of the study.

I, the undersigned (Name) have read the preceding premises in connection with the study, as explained in Part 1 and Part 2 of this informed consent form, and I declare that I understand it. I was given the opportunity to discuss relevant aspects of the study with the researchers and I hereby declare that I am taking part in the study voluntarily.

Signature: Date: