ATAF Secretariat
333 Grosvenor Street, Hatfield Gardens, Block G, 2nd Floor
Hatfield, Pretoria, South Africa, 0181

http://www.facebook.com/ataftax
http://www.twitter.com/ataftax
http://www.linkedin.com/company/2324754?trk=tyah
http://www.flickr.com/photos/ataftax

Taxation of Small and Medium Enterprises (SMEs) in Africa

Good Practices and Lessons Learned

A Case Study of the Ghana Tax Stamp

AFRICAN TAX ADMINISTRATION FORUM
Leading Africa In Tax Administration

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by:
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

A JOINT PUBLICATION BETWEEN ATAF AND GIZ

AFRICAN TAX ADMINISTRATION FORUM

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by:
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

SEPTEMBER 2014

TAXATION OF SMES IN AFRICA

GOOD PRACTICES AND LESSONS LEARNED

A CASE STUDY OF THE GHANA TAX STAMP PROJECT

PREFACE

The African Tax Administration Forum (ATAF) in its commitment to improving the capacity and skill base of tax administrations in Africa aims to help develop, share and influence the implementation of good practices among its member countries. ATAF is therefore pleased to present the good practices and lessons learned from a series of reforms in the taxation of small and medium enterprises (SMEs) undertaken in a few countries in Africa, specifically in Burundi, Ghana, Rwanda, Senegal, Tanzania and Zambia. This research project seeks to empower and educate tax administrations, policymakers and the society at large, and as a result change the culture of non-compliance, tax avoidance and tax evasion in the continent.

The undertaking of this research project has been well-informed by the need to tackle major issues and challenges regarding the informal sector and the importance to design effective tax systems that respond to the demands and special conditions of the SMEs in the continent. This need has been identified as one of the fundamental challenges faced by tax administrations, as stated in the ATAF Regional Studies on Reform Priorities of African Tax Administrations published in 2012. Consequently, ATAF initiated this research project by focusing on SMEs as they are an essential part of the informal sector.

The present study intends to provide tax administrations with a solid understanding of the Ghana tax stamp reform. The Ghana Revenue Authority (GRA) strives to continually improve its functions to broaden the tax base, reduce tax gaps, improve fairness in the tax systems and enhance the overall rate of voluntary compliance through various ways, one of which is the taxation of SMEs. Through this research, ATAF attempts to provide a valuable and practical input and also provides recommendations to other African tax administrations derived from this reform project.

The potential role of SMEs to increase tax revenue and thus improve the economy is the central conviction of this study. This research provides information about good practices, which should not be seen as 'an absolute' or 'a one-size-fits-all' tax system design but rather as options that can assist countries in guiding their reform strategies and can be adapted to country-specific circumstances. The study also makes a very significant contribution to the overall tax literature with a distinctive methodology that allows for direct input from tax officials of the Ghana Revenue Authority (GRA) and other related key stakeholders. ATAF is confident that the value added from this study will be beneficial to tax administrations in Africa, relevant stakeholders and other users of the information.

Our appreciation goes to Dr Samuel S. Jibao for conducting the research, as well as for reviewing and providing valuable insights to other related reports. Dr Jibao during his field visit in Ghana in October 2013 met and interviewed several key stakeholders whose knowledge and experience contributed to the quality of this research.

We are immensely grateful to the Commissioner-General of the Ghana Revenue Authority, Mr George Blankson, for honouring the ATAF's wide call for interest to member countries to showcase at least one reform implemented in the taxation of their small and medium enterprises. ATAF is also grateful to Mr Anthony Doku, Director for Research Planning & Monitoring, Mr Lawrence Adu-Kusi, Chief Revenue Officer, Small Tax Office (STO); Mrs Jemima Mercer Aboagye, Assistant Commissioner, Planning; Mr Jackson Berko, Assistant Commissioner, Statistics; and Mr Daniel Atwere Nuer, Principal Revenue Officer for their valuable information provided during the in-depth interviews.

Furthermore, ATAF is grateful for the support from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) for making this project a success and would like to give special thanks to Dr Christiane Schuppert and Ms Vandudzai Mbanda for providing insights, comments and overall support to the project.

Finally, we recognize the contribution of the research team of the ATAF Secretariat (Dr Nara Monkam and Frankie Mbuyamba) and appreciate their overall coordination and comments towards the success of this project.

It is our sincere hope that this study, alongside other showcase reports on the Taxation of SMEs in Africa, contributes to the development of capacity in African tax administrations.

Logan Wort

Executive Secretary

African Tax Administration Forum (ATAF)

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

ATAF	African Tax Administration Forum
CEPS	Customs, and Preventive Service Excise
CG	Commissioner General
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GRA	Ghana Revenue Authority
ITAS	Integrated Tax Administration System
IRS	Internal Revenue Service
LTO	Large Taxpayer Office
MOTI	Ministry of Trade and Industry
MSME	Micro, Small and Medium Enterprise
MTO	Medium Taxpayer Office
NRS	National Revenue Secretariat
SME	Small and Medium Enterprise
STO	Small Tax Office
TIN	Taxpayer Identification Number
TOT	Turnover Tax
UN	United Nations
VAT	Value Added Taxation
VATS	Value Added Tax Service
VFRS	VAT Flat Rate Scheme
VITS	Vehicle Income Tax Sticker

EXECUTIVE SUMMARY

Small and Medium Enterprise (SME) regimes have gained prominence amongst policy makers, practitioners, academics and business experts, in developed and developing countries alike owing to the topical nature and complication surrounding reform measures for such taxation. This sector is important in the African context in general, and among the African Tax Administration Forum (ATAF) member countries in particular, as clearly articulated in the ATAF Regional Studies on Reform Priorities of African Tax administrations published in 2012. The objective of this study therefore is to provide ATAF members with an analysis of implementation of the Tax Stamp project in Ghana, identifying success factors and risks in the implementation of such project.

Tax Stamp is a scheme designed by the Ghana Revenue Authority (GRA) to collect income tax from small-scale self-employed persons in the country. This study observes that whilst small taxpayers could have common characteristics, it seems that these characteristics vary in degree between very small and small taxpayers. Overall, the study considers the initiative by the GRA to implement the tax stamp scheme in order to address the compliance needs of micro businesses in Ghana a good practice.

However, it is learned that such a system requires an effective monitoring and verification framework to ensure the smooth transition from micro regime to the normal regime. Failure to have such a framework might risk the project being a “rent seeking” venture. Finally, strong support from senior management and national government is required to overcome resistance, particularly from such a politically sensitive target group. The issue here is that political leaders often have weak incentives to tax the sector owing to the fact that it raises little revenue, and could make them unpopular, and formalisation may deprive them of influence over voters.

The findings of this research are based on extensive key stakeholder interviews with, among others, Commissioners and senior staff of Ghana Revenue Authority (GRA) business associations, and key officials from the Ministry of Trade and Industry in October 2013. The study also reviewed GRA annual reports, the Budget Statement and Economic Policy of the Government of Ghana, different tax legislative instruments, Small and Medium Enterprises (SMEs) project documents and related literature on SME taxation reforms.

The study is divided into seven chapters. Chapter one is the background to the study and also provides the methodology used in the study. Chapter two provides a brief overview of SME taxation in Ghana. Chapter three presents the country characteristics and the economic and general tax environments. Chapter four is the description of the Tax Stamp project. Chapter five is the analysis of the outcomes of the project, identifying success factors and risks of the project. Chapter six identifies good practices and lessons learned. Chapter seven is the conclusion and proffers suggestions to other ATAF member countries interested in the implementation of such scheme.

I. BACKGROUND

This chapter provides the background to the Small and Medium Enterprise (SME) taxation study commissioned by the African Tax Administration Forum (ATAF) with the support of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The chapter also discusses the methodology used in the study.

1.1 Introduction

The research project on "Taxation of Small and Medium Enterprises in Africa-good practices and lessons learned" is an African Tax Administration Forum (ATAF) initiative derived from the *ATAF regional studies on reform priorities of African tax administrations* published in 2012. The *ATAF regional studies on reform priorities of African tax administrations* presents an in-depth African perspective of major issues, challenges, reform needs and priorities of tax administrations as well as areas for ATAF support. The predominance of the informal sector and the design of an effective taxation of the informal sector are among the key priorities identified in the continent. It has been argued that in many Sub-Saharan countries, most of the SMEs constitute almost the size of the informal sector (Fjose, Grunfeld, and Green, 2010); thus taxation of SMEs is critical in building a good tax system in these economies. In Ghana, the Small Taxpayer's Office (STO) has implemented simplified schemes in order to encourage small and micro businesses to be tax compliant. Taxes such as: the Vehicle Income Tax (VIT), the VAT Flat Rate (VFRS) and the Tax Stamp are currently levied on small and micro businesses. The VIT is collected from commercial vehicle operators on quarterly basis whilst the Tax Stamp is a scheme designed to collect income tax from small-scale self-employed persons in the informal sector. The VAT Flat Rate Scheme is a special method for collecting and accounting for Value Added Tax (VAT) which is designed for businesses operating in the retail and services sector (Ghana Revenue Authority, 2012). The study is intended to enhance the understanding of the tax Ghana tax stamp administration reform that includes a description of success factors and lessons learned.

1.2. Methodology

This study on taxation of small and medium enterprises in Ghana focuses on good practices and lessons learned on the Ghana Tax Stamp reform measure. The mission was done in organizing an expert field research was conducted in Accra during the last week of September 2013. This study makes use of extensive key stakeholder interviews with, among others, include Commissioners and senior staff of GRA, business associations, and key officials from the Ministry of Trade and Industry. The aim of this field visit was to equip the expert with the following: the collection of information on SMEs and the tax system in Ghana; the identification of cases of reform process within the Ghana Revenue Authority; and finally the description and analysis of the reform measures that have been implemented by Ghana to allow a similar implementation in another country.

The scope of this study covers the period 2008 to 2013 but in certain cases, much earlier information, especially on reform measures, was collected to better our understanding on SME taxation reform in Ghana. Data collected are presented in tables and graphs. The study also reviewed documentations such as: the GRA Annual Reports, Budget Statement and Economic Policy of the Government of Ghana, different tax legislative instruments, Micro, Small and Medium Enterprises project documents and related literature on SME taxation reforms. One of the motives in selecting Ghana on its strategy of reforming SMEs is that this study should be one of the first on the road to conduct studies of good practices and lessons learned targeting the introduction of tax stamp reform measure on the continent.

II. THE SME CONTEXT IN GHANA

This chapter provides the criteria used in Ghana to segment enterprises into micro, small and medium businesses. It also provides an overview of the importance of the SMEs sector in the country in terms of job creation and revenue contributions.

2.1 Definition of SMEs

There is no universally agreed or uniformly accepted definition of SMEs. Revenue Authorities in different countries have different sizes of turnover for defining SMEs depending on their level of development and the general scale of economic activities. Perhaps even more important is the variation in the definition within country among different government agencies like the Ministry of Trade and Industry and the Revenue Authority. In Ghana, the Ministry of Trade and Industries (MOTI) and the Ghana Revenue Authority (GRA) segment the SME sector using different criteria as shown in table 1.

Table 1: Within country definitions - Ghana

Category	Ministry of Trade and Industry	Revenue Administration (Ghana Revenue Authority)
Micro	5 employees with fixed asset not exceeding the value of US$10,000	Turnover of less than Ghanaian Cedis (GH¢)10,000 or US$5,000
Small	6-29 employees with fixed assets of US$100,000	Turnover between GH¢ 10,000-GH¢ 90,000 or US$ 5,000-US$ 45,000
Medium	30-99 employees with fixed asset of up to US$1 million	Turnover greater than GH¢ 90,000 up to GH¢5 million or greater than US$45,000 up to US$2.5 million.

Source: Ghana Revenue Authority, Profile of the Ghana Revenue Authority (2012) and Mensah (2004).

From table 1, it is observed that the Ministry of Trade and Industry of Ghana considers both investment capital and number of employees as criteria in their classification whilst the revenue administration uses business turnover in the segmentation of taxpayers into Micro, Small and Medium Enterprises (MSME).

Whilst there is no single definition of SMEs suitable for all countries and for all tax-related purposes, there is nevertheless some commonality of meaning that underlies much of the discussions in this area. In general the SME is characterised by small scale level of activity; self-employment, with high proportion of family workers and apprentices; little capital and equipment; labour intensive technologies; low skills and low level of access to organised market (Motsoto, 2010) .

2.2 Importance of SMEs in Ghana

SMEs are often considered the bedrock of economic development of any given nation as they constitute by far the majority of enterprises, especially in transition and developing economies, providing a considerable source of employment in both rural and urban areas (Master, 2009). In Ghana, SMEs provide 44.9% of private sector jobs in 2007 (Ayyagari, Demirguc-Kunt and Maksimovic, 2011) and the informal sector contributed about 37.5% to the GDP in 2008 (Elgin and Oztunali, 2012). The existence of a sizeable informal sector implies that there is room for the Ghanaian economy to expand its tax base and increase revenue collection. More importantly, there could be potential broader governance gains if the tax system encouraged effective action among informal sector operators, and more institutionalised channels for state-society bargaining (Joshi, Prichard and Heady, 2012) .

With regard to the number of businesses identified and/or registered, table 2 shows that in 2012 there were 93,325 micro-businesses, accounting for 49.7% of all businesses identified, 77,702 (41.4%) small businesses, 16,170 (8.6%) medium enterprises and 634 (0.3%) large businesses. The tax administration of both micro and small businesses is done by the Small Taxpayers Office (STO) and this office accounts for 91.1% of all businesses identified.

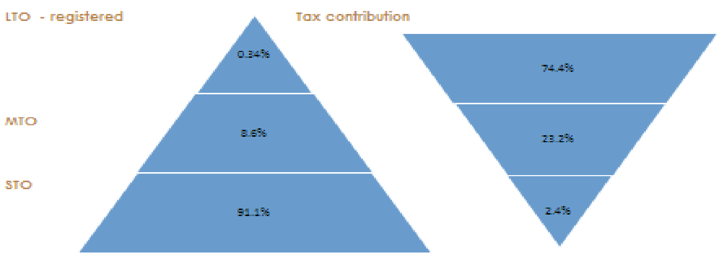
Table 2: Number of businesses by size in Ghana, 2012

Category of taxpayer	Number of businesses	Percentage to total businesses identified/registered
Micro	93,325	49.7%
Small	77,702	41.4%
Medium	16,170	8.6%
Large	634	0.3%
Total	187,831	

Source: Ghana Revenue Authority (2012).

Despite the large percentage of businesses in this sector, Figure 1 shows that the 91.1% of businesses administered by the Small Tax Office (STO) only account for 2.4% of domestic tax revenue whilst 74.4% of domestic tax revenue comes from the large enterprises which accounts for 0.34% of all businesses. The medium enterprises which form 8.6% of all businesses contribute 23.2% to domestic tax revenue.

Figure 1: SMEs contribution to tax revenue in Ghana



Source: Author's computation based on data provided by the Statistics Unit of the Ghana Revenue Authority (2012).

III. COUNTRY CHARACTERISTICS AND ECONOMIC AND TAX ENVIRONMENT

This chapter provides some overview of the dynamics of the SME tax policy environment in Ghana between 2008 and 2013. The analysis in this section provides an insight into the general macroeconomic and tax environment and institutional structures of the country that may have supported the implementation of the Tax Stamp project.

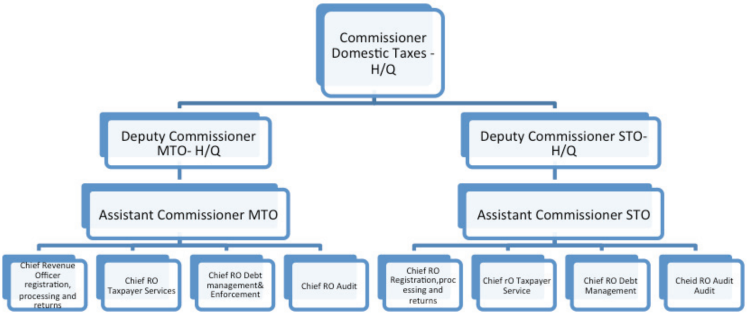
3.1 General tax environment in Ghana

Recognising that tax reform measures are of prime importance for strengthening fiscal space and governance relations, the government of Ghana has since the 1980s embarked on major reform measures in its tax administration. For instance, in 1986 the government launched the National Revenue Secretariat (NRS) in order to sustainably strengthen tax administration (Devas, 2001). The NRS was empowered with ministerial responsibilities and shared policy formulation with the Ministry of Finance (MOF). With the aim of giving some level of operational autonomy away from the civil service structure, two separate revenue authorities were created: the Internal Revenue Service (IRS) and the Customs, Excise and Preventive Service (CEPS), both of which were placed under the NRS. The NRS was set up to formulate revenue policies, manage tax reforms and supervise the activities of CEPS and IRS. Between 1985 and early 1991, the NRS was headed by a Minister of State and Chief Director (equivalent of principal secretary) who reported directly to the Cabinet and Office of the Head of State (now President). This set-up met some resistance from top hierarchy of the civil service (Jenkins, 1994). The persistence of this opposition, coupled with the fiscal policy conflicts between the NRS and the Ministry of Finance (MoF) led in early 1991 to a policy roll-back which resulted in the two revenue authorities being brought under the control of the MoF and the Chief Director (Technical) in the Ministry (Jenkins, 1994). The NRS was now accountable to the Minister of Finance and the Chief Director (Technical). In 1998, the Value Added Tax Service (VATS) was established to administer the Value Added Tax (VAT) and other consumption taxes; and by the end of 1998, the Parliament of Ghana passed a law to create the Revenue Agencies Governing Board (RAGB) to replace the NRS and to increase the autonomy of the three revenue agencies. In 2009, the three tax agencies, CEPs, IRS and VATS together with the RAGB secretariat were merged through the enactment of the Ghana Revenue Authority ACT, 2009. In Ghana domestic resource mobilization receives direct support from development agencies including the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), financed by the German Federal Ministry of Economic Cooperation and Development and the State Secretariat of Economic Affairs - Switzerland (SECO). Ten million euro was committed by GIZ for the day to day implementation of GRA tax reforms (UN, 2012).

Since the passage of the law establishing the Ghana Revenue Authority Act 2009 (ACT 791), the institution has been engaged in re-engineering processes and procedures which include the reorganization of the three main divisions of the GRA, the development of departmental organograms and job descriptions, realignment of staff to fit the new structure, relocation of offices and identification of offices to be used as Small and Medium Taxpayer Offices. As of 2013, there are currently 15 Medium Taxpayer Offices (MTOs) each headed by an Assistant Commissioner and 52 Small Tax Offices (STOs) headed by Chief Revenue Officers.[1] GRA has a total staff of 6,601, of which 485 or 7.3% are senior management staff, 2,904 or 44% are senior staff and the remaining 48.7% are junior staff (Ghana Revenue Authority, 2011). It is estimated that on average there are 125 active taxpayers to one SMTO field staff (Ghana Revenue Authority, 2013). The proposed organogram is shown in the figure below.

1 The organogram however required that these field offices be headed by Assistant Commissioners, whilst the Deputy Commissioners remain in the Headquarters.

Figure 2: New Organizational Chart MTO/STO in Ghana



Source: Ghana Revenue Authority (2012).

In addition to the reform measures in the general tax administration, reforms targeting SME taxation have also been undertaken by the Ghana tax administration. Since 1970, the revenue administration in Ghana has embarked on several measures to tax the micro and small enterprises, a sector characterised as having very limited skilled labour, poor entrepreneur skills, poor recording keeping culture, low literacy and highly itinerant. Table 3 below shows the different measures implemented by the Ghana Tax Administration to bring the SMEs into the tax net.

Table 3: Different measures to tax Small taxpayers in Ghana

Taxing measures	Description	Date of implementation and duration
Standard Assessment	Fixed lump-sum tax levied on individuals and businesses on the basis of activities. This system was discontinued because of its inherent risk of high corruption	1970 - 1986
Identifiable group tax administration.	Specific groups given agency role by the Internal Revenue Service to collect taxes from their members. The idea was that groups can easily identify potential taxpayers and collect revenue from them. Some of the challenges with this measure were the failure on the part of group executives to properly account for taxes collected from members; falsification of receipts and other documents; linking-up of membership fees and dues to payment of tax; imposition of illegal penalties by associations for non-payment of taxes; etc.	1987-2004
Vehicle Income Tax Stickers.	Tax on presumed income of commercial vehicle operators depending upon type and use of vehicle.	2003 to date
Tax Stamp on small businesses.	Tax on presumed income of micro business operators according to location, activities and volume.	2005 to date
VAT Flat Rate Scheme	Turnover Tax (TOT) of 3% initially levied on all traders but the scheme was reviewed in 2011 to cover only VAT traders with turnover between US$ 5000-US$ 4500[1]	2006 to date
Withholding Tax	An advanced income tax of 1% levied on Costs Insurance and Freight of all imports. A measure implemented to minimise tax evasion	2009 to date
Segmentation of taxpayers into LTO, MTO and STO	Tax administration that focuses on specific taxpayer segments based on the characteristics of that segment	2013
Turnover Tax	Bill proposed to introduce 6% TOT on businesses with turnover between US$ 5000 and US$ 45000	Bill drafted in 2011 but yet to be enacted

Source: Extracted from Internal Revenue (Amendment) Regulations, 2002, 2004, 2003, 2006, 2011 and Ghana Revenue Authority (2012).

One major challenge with the taxation of SMEs in Ghana is the absence of collaboration between the Local Councils or District Assemblies and the GRA in the SME tax administration. This has resulted in a multiplicity of taxation, with the local authorities collecting fees and levies whilst the GRA collects income taxes from the same taxpayers. This may have impact on the tax compliance given the size and nature of business of these targeted taxpayers.

3.2 Basic macroeconomic indicators in Ghana

The buoyancy of the general macro-economy is critical for the growth in tax revenue. Considering the macro-economy in Ghana, the table below shows that real GDP has displayed a much stronger growth of 7.1% in 2012 relative to the Sub-Saharan average of 4.8% for the same period. All sectors recorded a positive real growth rate since 2008, with the Service sector, which is the largest sector (49.3%) of the economy, recording the highest growth of 8.8% in 2012, followed by Industry (5.0%) and Agriculture (2.6%). Within the Service sector, Transport and Storage grew by 11.4% in 2012 whilst Trade and Household Goods grew by 4.1% for the same period.

Table 4: Macroeconomic indicators in Ghana

Indicator	2008	2009	2010	2011	2012
Real GDP growth %	8.4	4.0	8.0	14.4	7.1
Agriculture growth %	7.4	7.2	5.3	0.8	2.6
Industry growth %	15.1	4.5	6.9	14.1	5.0
Service growth %	8.0	5.6	9.8	8.3	8.8
Transport growth %	3.8	4.4	8.0	3.3	11.4
Trade growth %	9.5	5.4	13.3	17.9	4.1
Tax revenue to GDP ratio	12.4	12.6	13.3	16.3	17.5

Source: Ministry of Finance (2013).

3.3. Legal environment

It has often been argued that effective state-business relations increase the productivity of firms and reduce policy and institutional failures that arise from poor policy coordination and asymmetric information (Bwalya, Phiri and Mpembamoto, 2009). In Ghana, tax policies are initially proposed to Parliament through the National Budget. When the budget is adopted, tax bills are then submitted through the Parliamentary Committee for Finance for discussion and onward tabling to the General Assembly for enactment. There are no institutional and legal arrangements for soliciting contributions from non-state actors in budget formulation. However tax legislations are discussed with business associations. Therefore the level of participation of SMEs in tax policy design is rather limited and access to budget information by non-state actors is quite restricted. This might lead to mistrust and prevents the business community from engaging constructively with the government in reform processes, and which might result in policy failure.

3.4 Political and institutional support to SMEs in Ghana

Many African economies recognise that more pro-active strategies are needed to formalise the operation of SMEs. Formalising SMEs operation is not only important for economic growth but also provides inherent benefits to the SMEs in the form of gaining access to credit, training, dispute resolution, securing property rights and reducing harassment (Joshi, Pricahard and Heady, 2012). In Ghana, the government initiated the SMEs Project to provide essential financing and technical support to enhance SME development in the country. The project which started in 2006, financed by the World Bank group and the Government of Ghana, provides a comprehensive range of integrated interventions to address the major constraints that affect the growth of SMEs in Ghana. The interventions include access to finance, access to markets, entrepreneurship development, trade facilitation and improving the general business environment by enhancing business registration, standardization, certification and accreditation. On the political landscape it has been shown that (Joshi, Prichard and Heady, 2012) political leaders often have weak incentives to tax the informal economy because it raises little revenue, makes them unpopular, and formalisation may deprive them of influence over votes. However, with financial and legislative support from government, the GRA had continued to reinvigorate and re-organise the management of revenue administration generally over the years. In 2013, the Domestic Taxes Revenue Division was segmented into STO, MTO and LTO. The creation of the STO as well as the implementation of special tax regimes, such as the tax stamp scheme, have helped reduce compliance cost for SMEs in Ghana (GRA STO Chief Revenue Officer, 2013). Thus formalisation and taxation of such a sector would require stronger political and institutional support.

IV. DESCRIPTION OF THE REFORM: THE TAX STAMP PROJECT

This chapter presents in detail the Tax Stamp project, an income tax regime designed by the GRA for micro and self-employed businesses. The aim of this chapter is also to identify the good practices, success factors and challenges of the project.

4.1 Description of the project

The Tax Stamp system was introduced by the Internal Revenue (Amendment) Regulations, 2004 but it came into effect on 1st of February 2005. The system targets the income of micro-enterprises and small-scale self-employed persons in the informal sector. Tax Stamps are sold by the STOs of GRA and are purchased by these target groups every quarter (i.e. 15th January, 15th April, 15th July and 15th October) and the participant is required to display the stamp at a conspicuous place on his/her business premise. Hawkers are required to carry with them the stamp for inspection at any time.

Under the Tax Stamp regime, business operators are grouped according to activities, location and size. A flat amount ranging from US$ 1.50 to US$ 22.50 is then levied on each category or group. As at 2013, there are 3 broad categories (A, B, C) of participants in this scheme with each category having 4 sub-subgroups (i.e. Large, Medium, Small and Table Top) to ensure equity in the system (see table below). The scheme is enforced and monitored by the staff of the STOs. In addition, senior officers from the Domestic Taxes Department often make on-the-spot verification exercises in different tax zones, ensuring that various business classes have the correct tax stamp and to enforce tax compliance. To enhance compliance, the tax jurisdictions are divided into zones, with each zone headed by a Revenue Office who reports to the Senior Revenue Officer at the STO head office. The administration ensures that in each zone the functions of assessment and collection are separated i.e. some tax officers are responsible for the assessment and classification of taxpayers into different groups whilst others do the collection of the income tax from tax stamp. This is meant to serve as a control measure against collusion and compromise on the part of the designated tax officer.

To ensure easy identification of participants or compliance with the tax, a different colour of stamp is assigned to each category of taxpayers. The Tax Stamp for category A is red, that for category B is green, and category C is black. Hawkers or Table-Top, though a sub-group, is given a different (i.e. blue) tax stamp in all three categories. The shape of the Tax Stamp is circular and contains information such as the name of the taxpayer, amount paid, and the period in respect of which the payment is made. All stamps have security features to avoid duplication and forgery.

Table 5: Quarterly tax payable by specified small scale enterprises

Category		Rate per quarter (GH₵)	Rate per quarter (US$)
A	Large	45	22.5
	Medium	30	15
	Small	10	5
	Table-Top	3	1.5
B	Large	35	17.5
	Medium	20	10
	Small	5	2.5
	Table-Top	3	1.5
C	Large	25	12.5
	Medium	15	7.5
	Small	3	1.5
	Table-Top	3	1.5

Source: Ministry of Finance (2011).

Category A as stated in the table above comprises enterprises generally engaged in commerce. These include: retail trade; "susu[2]" collectors; drinking and chop bar owners; bakeries; business centres; estates and accommodation agents; block and terrazzo manufacturers; sand and stone sellers and contractors; and licensed diamond and gold winners and buyers. Category B are generally enterprises engaged in vocation which include: dress makers and tailors; hairdressers, beauticians and barbers; artisans; hiring services; freelance photographers; and car washing bays. Category C are mostly agriculture related activities which include: butchers; corn and other millers; charcoal and firewood vendors; traditional healers; and other businesses determined by the Minister and published in the Gazette. All businesses other than hawkers operating in the cities are classified as large, those in bigger towns not categorised as cities are classified as medium, whilst those operating in rural and small communities are in the C category.

For commercial vehicle operators, a Vehicle Income Tax Sticker (VITS) is sold by the STOs of GRA and are purchased each quarter and displayed on the windscreen of the commercial vehicle. Stickers range in price from US$ 3 to US$ 60 depending upon type and use of vehicle. There are 22 types of vehicles broadly grouped into four classes i.e. A, B, C, and D (see Appendix). The VITS is enforced by the Ghana Police Service and monitored by the STOs.

Payment of Tax Stamp/Sticker is made "on-account" and is not a final tax; therefore a taxpayer in this regime is expected to file normal annual income tax returns although in practice this does not happen.

4.2 Project objectives

There are three main objectives of the Tax Stamp Project, which are:

- To identify small scale businesses in the informal sector.
- To simplify business classification or group businesses by business type and volume in an equitable manner.
- Design an effective monitoring and enforcement mechanism to increase revenue from the informal sector.

2 Thrift and credit.

4.3 Reform Planning, management and governance of the Tax Stamp

The Tax Stamp scheme was initiated by the senior management of erstwhile IRS when the challenges about the Identifiable Group Scheme such as the failure on the part of group executives to properly account for taxes collected from members; falsification of receipts and other documents; linking-up of membership fees and dues to payment of tax and the imposition of illegal penalties by associations for non-payment of taxes, as listed in table 3, were brought to their attention. The Tax Stamp project did not follow a systematic and consistent project management framework for reform programmes resulting in the lack of documentation and appropriate monitoring and result frameworks.

When the idea to introduce the Tax Stamp scheme was conceived by senior management, an ad hoc project management committee of seven people was constituted, drawing staff from Field Offices, the Statistics Unit and the Research and Planning Department of IRS. The committee was headed by an Assistant Commissioner who reported the findings of the committee directly to senior management. No detailed workload analysis was done so it is not clear what percentage of each committee member's time was allocated to the project. There was no additional salary paid to members for the assignment, however, the committee was provided with a budget to organize retreats for members and those co-opted as a strategy to make them fully committed to deliver on the new mandate. Despite the ad hoc nature of the committee, the project was successfully implemented within a period of two years owing to the level of commitment on the part of the members and the strong support received from Senior Management. The table below provides a summary of project activities with the expected and actual outcomes.

Table 6: Summary of Tax Stamp project activities

Activity	Target group	Planned input	Expected outcome	Actual outcome
Formation of committee	Staff from Field, Statistics and Research offices	Staff time and workload	Preparation of work plan to clearly map out the path for implementation of project	Work plan submitted to Senior Management for approval.
Identify and categorize taxpayers	Micro and small business	Survey instruments and personnel	Collect data on target group by activities and volume	Taxpayers categorized into groups
Produce survey report	Senior Management	Time	Report that contains type and classes of taxpayers for regime	Report submitted to Senior Management for approval
Establish Small Taxpayers Bureaus (STD)[2]	Field offices	Office space and staff	Unit that can effectively administer tax stamp/sticker	STDs established in Field Offices
Amend Internal Revenue Regulations	Ministry of Finance and Parliament	Staff time	Propose taxpayer type, class and rates	Taxpayer categories and rate approved by Parliament
Design Tax Stamp	STDs	Time	Stamps that distinguishes taxpayers by category	Tax Stamp submitted and approved by Senior Management
Educate taxpayers on categories of stamp, rate and administration.	Micro and self-employed enterprises	Public address system, leaflets and radio programmes	Informed taxpayers on Tax Stamp/ Stickers	Tax payers educated on tax stamp and compliance enhanced
Implement project	Taxpayers and STDs/ STOs	Staff	Efficient implementation	Project implemented by zones

Source: Ghana Revenue Authority STO Chief Revenue Officer, Interview (2013).

V. OUTCOMES, SUCCESS FACTORS AND RISKS

5.1 Outcome of the reform

One main objective of the Tax Stamp scheme is to identify businesses in the informal sector. The table below shows that in 2012 a total of 93,325 businesses in the informal sector were identified and issued Tax Stamps. The number of businesses identified represents about 35% of the number of self-employed businesses registered (266,760) by the Registrar General's Office to conduct business operation in Ghana (Amamoo, 2012). Out of the number of identified micro businesses 49,331 (52.9%) are in the class C category, 29,501 (31.1%) are in class B, 9,360 (10.0%) are Hawkers and the remaining 5,133 (5.5%) are in class A**.** Owing to the current segmentation project at GRA which involves physical movement of files, no data is available on the growth of taxpayer base for the Tax Stamp Regime. Thus, revenue projections for 2013 are based on the number of taxpayers identified in this regime in 2012. Variation in revenue projection between 2012 and 2013 is due to rate increase. For instance, in 2012 Class A Large was paying US$ 7.5 per quarter in 2012 but this was increased to US$ 22.5 per quarter in 2013 on the same number operators in this category.

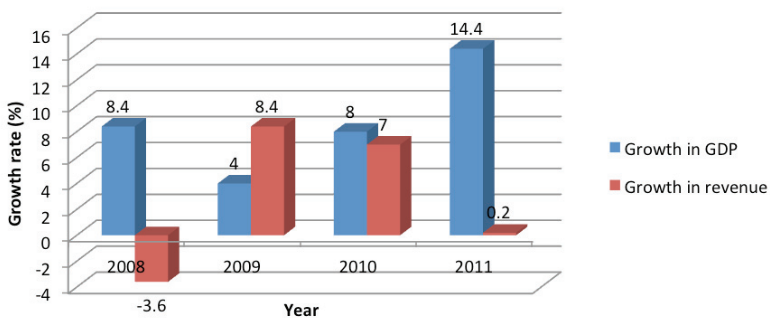
Table 7: Businesses identified in the informal sector

Category	Large	Medium	Small	Total
Class A (commerce)	1,343	1,609	2,181	5,133
Class B (Vocation)	7,556	9,933	12,012	29,501
Class C (Agricultural related activities)	12,985	15,425	20,921	49,331
Table Top/Hawkers				9,360
Grand Total				93,325

Source: Ghana Revenue Authority (2012).

With regard to the revenue outturn from this scheme, the figure below shows that in 2008 revenue growth from Tax Stamp was negative even though the general economic activity showed a stronger growth rate of 8.4%. This trend led to a re-launch of the tax stamp scheme in 2009 resulting in a significant growth in revenue, higher than the GDP growth in 2009. However growth in revenue, though positive, has been declining and is not only less than the economic growth but is also below projected revenue from this source by 5.4% in 2012.

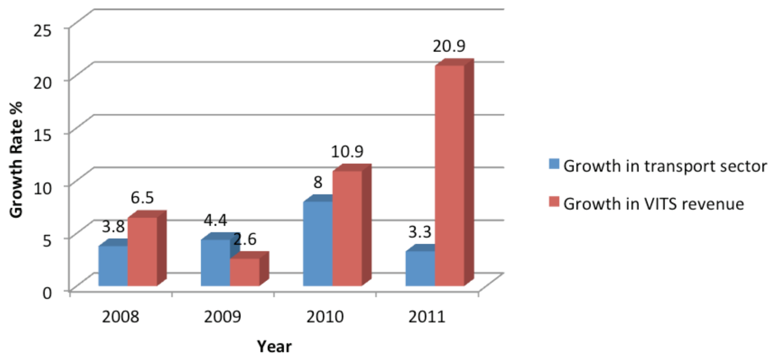
Figure 3: Growth in revenue from Tax Stamp



Source: Author's computation based on data provided by the Statistics Unit of GRA.

On the other hand, the VITS regime is reasonably more successful as the compliance rate is reasonably high. For instance, in 2010 there were estimated 312,994 commercial vehicles of which 219,096 (70%) were declared to be road worthy by the Vehicle and Licenses Agency. The average quarterly VIT sticker sold were 187,349 with a compliance rate of 85.5%. Figure 4 also shows that VITS revenue continues to grow more than that of the growth rate in the Transport sector which confirms the relative success of the regime.

Figure 4: Growth in VITS revenue vs. Transport Sector growth



Source: Author's computation based on data provided by Planning Division of GRA.

For the same period, 2010, the table below shows that slightly over two-fifth of stickers were sold in Accra (i.e. Zones I & II) followed by the Ashanti region with 21% sale of the total amount sold. Other regions such as Upper West and Upper East recorded the lowest sales owing to the small number of commercial vehicles in these regions but particularly due to the late arrival of stickers in the regions because of administrative challenges (Ghana Revenue Authority, 2011). It was reported that at the time of the study no staff from the STO was officially charged with the responsibility of collecting, collating and analysing the number of VIT stickers sold every quarter thereby leading to underestimation of the number of stickers to be printed.

Table 8: Amount of Vehicle Stickers sold per region in 2010

Region	Number of Stickers sold	% of sticker sold to total amount sold
Greater Accra Zone I	155601	20.8
Greater Accra Zone II	158334	21.1
Ashanti	157470	21.0
Central	57055	7.6
Western	64101	8.6
Eastern	59763	8.0
Brong Ahafo	50942	6.8
Volta	30767	4.1
Northern	9890	1.3
Upper East	3266	0.4
Upper West	2207	0.3
Total	**749396**	**100**

Source: Ghana Revenue Authority (2011).

Overall, the success of the Tax Stamp has shown mixed results. Whilst a reasonable number of micro businesses have been identified and assigned tax stamp, the revenue outturn relative to the growth in the general economic activities has been fluctuating, recording a downward trend in 2008, thereafter increased significantly in 2009. Since then the growth in revenue, though positive, has been declining. However, the VITS regime is reasonably more successful as the compliance rate is reasonably high and the revenue growth from this source has consistently recorded an upward trend since 2009. Despite the mixed result, the tax stamp scheme should be assessed, to a large extent, in the context of developing fiscal citizenship and inculcating the culture of tax compliance among small business enterprises and of facilitating graduation from the presumptive tax into standard tax regime rather than merely collecting revenue.

5.2 Success factors

The following are identified as factors responsible for the successful implementation of the Tax Stamp/sticker project in Ghana:

- Strong support from Senior Management and Board of GRA in the form of continuous monitoring of the process of implementation and the funding to undertake activities. Note that the entire activities of the project were funded by the revenue administration.
- National government support to ensure that the legislation to enable the project implementation was enacted without delay. Such a high level leadership was required to ensure successful implementation of such a scheme, more so when the scheme is affecting such a politically sensitive target group.
- Third party collaboration: this factor has been more effective in the case of VITS where the police service was given the responsibility to enforce compliance,[3] even though no Memorandum of Understanding or legal instrument is available to cement such collaboration. However, during the project planning and initial implementation stages the Police Commissioner, who was previously a Member of the IRS Board, sold the idea to the Police Service and ensured that they considered the new assignment as a part of their constitutional responsibility of enforcing laws. With that, no financial compensation was provided to the Police Service for enforcing the tax law. For the Tax Stamp project, tax rates are often discussed with businesses associations before the tax bill is finally enacted.
- On-the-spot verification exercise by senior staff in the domestic taxes department. Senior officers from the Domestic Taxes Department often make on-the-spot verification exercise in different tax zones, checking on whether business classes have the correct tax stamp and to enforce tax compliance.
- Taxpayer education in the form of public announcements, radio discussions on the rates, classifications and payment mechanisms and dates for the Tax Stamp participants. The tax jurisdictions are divided into zones, with each zone headed by a Revenue Office who reports to the Senior Revenue Officer at the STO head office. The administration ensures that in each zone the functions of assessment and collection are separated i.e. some tax officers are responsible for the assessment and classification of taxpayers into different groups whilst others do the collection of the income tax from tax stamp.

3 The Police Service are not allowed to collect taxes but required to arrest and send defaulters to the tax offices for payment of outstanding taxes. Regular monitoring of the process by GRA is required to minimise the risk of malpractice.

5.3 Risks to project and challenges

One major risk to the Tax Stamp project is the reverse migration of small taxpayers from the normal regime into the tax stamp regime. The treatment for such risk could be to ensure that a robust monitoring and result framework is put in place. In addition, a quarterly report on the number of Tax Stamp participants that have graduated into the normal regime and those that have entered the tax stamp regime should be made available to senior management for effective monitoring of the scheme and the performance evaluation of revenue officers responsible for implementing the scheme.

There is apparent discretion by zonal staff to determine business sizes (i.e. risk of misclassification) and amount to pay. This itself might be a risk and open to corrupt practices by administrators.

The major challenges confronting the project are:

- High cost of printing of stickers and receipts causing delays in the supply of stickers to different regions and zones.
- Existence of parallel levies by the District Assemblies and other local authorities as there seems to be no form of collaboration between GRA and the District Assemblies.
- Cash handling by zonal staff: zonal tax officers at the STOs do outdoor collections, i.e. collect taxes at the business premises. Officers sell tax stamps at business premises. Whilst the compliance cost on the part of the taxpayers is low, the administrative cost could be high (very labour intensive) and open to mismanagement.
- Poor data quality resulting in poor monitoring of the regime. As at the time of the research, there is no clearly designed data monitoring system at the STOs, making it difficult to ascertain the number of micro businesses that have graduated into the normal scheme or even moved from medium classification to large within each group.
- The revenue administration environment is still manual, resulting in inefficient processes and procedures. There seem to be a considerable human contacts, as zonal tax officers do the physical business identification, assessment and collection of tax stamp.
- Inadequate resources and logistics as the system is highly labour intensive.

VI. GOOD PRACTICES, LESSONS LEARNED

This study has provided as assessment of the reform measures undertaken by the GRA on the SME taxation, describing the underlying success factors and challenges which could be relevant to other ATAF member countries.

The most important "good practice" observed from the Tax Stamp project is the design of a special tax regime for micro businesses. Whilst it has been argued in the text that small taxpayers have common characteristics, it seems that these characteristics vary in degree between very small and small taxpayers hence the need for a separate regime to address the compliance needs of each category. The scheme however should be seen as an "academy" to groom the informal sector and inculcate the culture of tax compliance rather than a source of short-term revenue gains.

However, there are several lessons that can be learned from this project:

- Firstly, there is need for a systematic project management design for any reform programme instead of the formation of an ad hoc committee to undertake the reform programme, as this can result in poor monitoring design and documentation.
- Secondly, SME taxation requires effective third party collaboration either in the form of exchange of information or joint implementation of project. This is clearly manifested in differences observed in the level of success between the Tax Stamp project which is solely administered by the revenue administration and the VITS system that is jointly administered by GRA and the Police Service. However, the need for a transparent and more institutionalised relationship cannot be over emphasised to ensure effective monitoring of the scheme, national ownership of the project and cost sharing.
- Thirdly, there is need for an effective monitoring and verification framework to ensure the smooth transition from micro regime to the normal regime. Failure to have such a framework might risk the project being a "rent seeking" venture. And such a framework might also prevent a reverse migration from normal to Tax Stamp regime as reported by officials from the STOs in GRA.
- Finally, strong support from senior management and national government is required to overcome resistance, particularly from such a politically sensitive target group.

VII. CONCLUSION AND RECOMMENDATIONS

This chapter proffers suggestions for other revenue administrations that might be interested in implementing a similar scheme to address the problems of the taxation of SMEs in their countries.

RECOMMENDATIONS

The table below highlights some recommendations that could help improve the effectiveness and efficiency of this reform measure by other revenue administrations.

Table 9: Recommendations for effective implementation

Recommendation	
Strategic policy	Countries that undergo this reform measure must run the Monitoring and Evaluation process and the Review of the administration of the reform in the medium-term
	Enhance third party collaboration with other relevant government departments to facilitate the information sharing and harmonise all related registration systems.
Tax Policy	Introduce self-assessment system for small taxpayers
Tax Administration	Identify and assign Taxpayer Identification Number (TIN) to all businesses.
	Design a monitoring and reporting framework for Tax Stamp and Stickers
	Reduce cost of printing stickers and minimise cash handling by Zonal Staff

CONCLUSION

Designing a tax reform measure for small businesses is often a challenge and there is no one-size-fits-all solution for a simple, transparent and equitable tax system. This study has indicated that, in countries where there are high levels of informality and with a good number of potential taxpayers that have poor records, low capital and are itinerant, there is a need to further segment taxpayers to address the compliance needs of various category. The Tax Stamp is a good instrument to be used for easy identification of tax compliant small businesses, and with effective institutional collaboration more potential taxpayers can be brought into the tax net through this scheme. However it is learned that such a system requires an effective monitoring and verification framework to ensure the smooth transition from presumptive regime to the normal regime. Failure to have such a framework might lead the project to be a “rent seeking” venture.

REFERENCES

African Tax Administration Forum. (2012). *ATAF Regional Studies on Reform Priorities of African Tax Administrations.* AFrican Tax Administration Forum.

Amammoo. (2012). *Lessons from cooperation with private sector and with Local Government in tax collection from small businesses.* unpublished.

Amamoo. (2012). *Lessons from cooperation with the private sector and with Local Government in tax collection from small business.* unpublished.

Authority, G. R. (2012). *Ghana Revenue Authority Research Statistics Unit Database.* Accra: Research, Planning and Monitoring Department, Ghana Revenue Authority.

Ayyagari, Demirguc-Kunt and Maksimovic. (2011). Small Vs. Young Firms across the World: contrbution to employment, job creation and growth. *Policy Research Working Paper 5631*, 33-34.

Bwalya, Phiri and Mpembamoto. (2009). *How non-state actors lobby to influence budget outcomes in Zambia.* UK: Research Programme Consortium for Improving Institutions for Pro-Poor Growth.

ChiefRevenueOfficer. (2013, October). SME Taxation. (S. Jibao, Interviewer)

Devas, N. (2001). Revenue Authorities: are they the right vehicle for improved tax administration? *Public Administration and Development*, 211-222.

Elgin and Oztunali. (2012). Shadow Economies around the World: model based estimates. *RePEc:bou:Wpaper:2012/05*, 38-39.

Fjose, Grunfeld, and Green. (2010). *SMEs and growth in Sub-Saharan Africa: identifying SME roles and obstacles to SME growth.* Menon-14/2010.

Ghana Revenue Authority. (2012). Statistics Unit Database. Ghana Revenue Authority Research and Monitoring.

Ghana Revenue Authority. (2011). *Annual Report.* Accra: Ghana Revenue Authority.

Ghana Revenue Authority. (2011). *Report on Vehicle Income Tax sticker system.* Planning Division, GRA.

Ghana Revenue Authority. (2012). *Annual Report.* Research, Planning and Monitoring Department, Ghana Revenue Authority.

Ghana Revenue Authority. (2012). Country Submission. *SME conference, Lusaka.* Unpublished.

Ghana Revenue Authority. (2012). *Organisational chart: GRA Domestic Tax Division. Ghana Revenue Authority.* Research, Planning and Monitoring Department, Ghana Revenue Authority.

Ghana Revenue Authority. (2012). Small Taxpayer Office. *Hand Bills on Taxpers Offices in Ghana*. Ghana Revenue Authority, Domestic Tax Revenue Division.

Ghana Revenue Authority. (2013). *Research, Planning and Monitoring Department Database*. Research, Planning and Monitoring Department Database.

Ghana RevenueAuthority. (2012). Ghana Revenue Authority Research and Monitoring.

GRA. (2011). Accra: Planning Division, GRA.

GRA. (2012). *Profile of the Ghana Revenue Authority.* Ghana Revenue Authority.

GRA. (2012). *Statistics Unit database.* Accra: Ghana Revenue Authority.

GRA STO Chief Revenue Officer. (2013, October). (S. S. Jibao, Interviewer)

Jenkins. (1994). Modernisation of tax administrations: Revenue Boeard and Privation as instruments for change. *International Tax Programme, Harvard Institute for International Development*, 6-7.

Joshi, Pricahard and Heady. (2012). Taxing the Informal Economy: challenges, possibilities and remaining questions. *International Centre for Tax and Development Working Paper 4*.

Joshi, Prichard and Heady. (2012). Taxing the informal economy: challenges, possibilities and remaining questions? *International Centre for Tax and Development Working Paper Series 4*.

Joshi, Prichard, and Heady. (2012). *Taxing the Informal Economy: challenges, possibilities and remaining questions?* Brighton, UK: International Centre for Tax and Development.

Master. (2009). Small taxpayer regimes an African case study. *IMF conference on small taxpayer taxation.* Accra.

Mensah. (2004). A review of SME financing schemes in Ghana. *UNIDO Regional Workshop of Financing Small and Medium Scale Enterpirses*, (p. 1).

Mensah, S. (2004). A review of SME financing schemes in Ghana. *Unido Regional Workshop of Financing Small and Medium scale Enterprises*, (p. 1).

Ministry of Finance. (2013). *The Budegt Statement and Economic Policy.* Accra: Government of Ghana.

MOF. (2011). *Internal Revenue (Amendment)Regulations.* Government of Ghana.

Motsoto, C. (2010). *Harmonisation of EAC policies and laws: proposal for taxation regime for fostering small business development and regional growth.* BIEAC Project: CUTs, GRC under assistance by Deutsche Gesellschaft fur Technische Zusammersarbelt (GIZ).

UN. (2012). *Preparing for the 2012 development cooperfricaation: aid as a catalyst to increase domestic revenue mobilisation in Sub-Saharan A.* New York: Department of Economic and Social Affairs United Nations.

APPENDIX

Table A 1: Quarterly tax payable by owners of commercial vehicles-2013

Vehicle Class	Description	Quarterly rate (GH¢)	Quarterly rate US$
A1	Tractor, power tiller and tanker	10	5
A2	Taxis and private taxis	6	3
A3	One pound, one pound, Peugeot cars, Fork-lift and recovery towing trucks	15	7.5
A4	Trotro (which carries up to 15 persons)	8	4
B1	Hiring cars (saloon and caravan)	40	20
B2	Hiring cars (4x4) Four Wheel Drive	60	30
B3	Troto (which carries 20 and 23 persons)	11	5.5
B4	Troto (which carries between 24 and 32 persons	15	7.5
C1	Commuter (which carries up to 15 persons)	10	5
C2	Commuter (which carries between 16 and 19 persons)	14	7
C3	Ford Buses, commuters (which carries up to 23 persons)	10	5
C4	Tour operator vehicle (which carries up to 15 persons)	80	40
C5	Tour operator vehicle (which carries between 16 and 23 persons	100	50
C6	Tour operator vehicle (which carries between 24 and 38 persons	70	35
C7	Tour operator bus (which carries above 45 persons)	150	75
D1	Pay loader with capacity to carry dry cargo below 2 tons	35	17.5
D2	Motor vehicle which carries dry cargo of between 2 and 3 tons; tankers with a capacity of not more than 2000 gallons; sewage tankers; garbage trucks and cranes	64	32
D3	Tankers with capacity of more than 2000 gallons; graders and bulldozers	101	50.5
D4	Vehicles with the capacity to carry dry cargo of between 4 and 7 tons	120	60
D5	Tipper trucks (single axle)	80	40
D6	Tipper trucks (double axles)	120	60
D7	Articulated truck and trailer with capacity of 18 cubic metres and timber trucks	200	100
D8	Tipper truck (ranging from 12 to 14 wheeler)	150	75
D9	Ambulance and motor hearse	22	11

Source: (MOF, 2011).

1 All currencies have been converted at the 2013 rate of GH¢ 2.0= 1 US$

2 With the on-going modernization of the revenue administration Small Taxpayer Offices are now created to handle both Tax Stamp and normal Small Taxpayer's regimes.

NOTES

NOTES

NOTES