Gift tax compliance in Ghana: Evidence from Kumasi Metropolis

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Received 23 October 2014, Accepted 16 January, 2015

The study examined the awareness and level of compliance of gift tax among taxpayers in Kumasi Metropolis in Ghana. Two hundred and fifty-two respondents were sampled for the study using the purposive sampling method. Questionnaire and interview guides were used to solicit data and information from the respondents. Data collected were analyzed using descriptive and inferential statistics with the help of excel package. The results of the study revealed that the level of compliance with the gift tax is very low. The key reason identified by the study for the low level of compliance with gift tax among Ghanaian taxpayers is unawareness of gift tax obligations. Hence, the low level of education offered by the Ghana Revenue Authority on the gift tax and non-enforcement of the law has contributed to the low level of compliance. The study therefore recommends that the Ghana Revenue Authority step up education on the gift tax law to improve revenue from gift tax.

Key words: Gift tax, tax compliance, Kumasi Metropolis, tax payers, Ghana.

INTRODUCTION

Since taxation is a compulsory levy on individuals, entities, and property by a tax authority (the government of a tax jurisdiction) for the purposes of supporting its expenditure (Sally, 1999; Nakyea, 2008; Alabede, 2014; Bruce-Twum, 2014), incomes and/or gifts are usually the subject matter of taxation. Incomes are usually paid in the open and directly to the beneficiaries (that is the person earning the income) and are, most of the time, documented and hence easily identified and assessed for tax. However, that is not the case of gifts received or receivable. According to Part V- Interpretation Section 110 (1) of the Internal Revenue Act, 2000 (Act 592 as amended), a gift is defined to mean a receipt without consideration or for inadequate consideration. In other words, a gift is something one receives without adequate compensation paid to the giver by the receiver. Further, Section 105(1) of the Internal Revenue Act, 2000 (Act 592 as amended) provides that a gift, which is taxable under the Act, shall be taxed at the specified rate on the total value of taxable gifts received by a person within a year of assessment.

Although the tax laws of Ghana, specifically Internal
Revenue Act, 2000 (Act 592 as amended), provides for this, in practice compliance is almost non-existence (Terkper, 2003; Gatsi and Acquah, 2010; Bruce-Twum, 2014). Interestingly, this observation was also made by Tusubira and Nkote (2013) in Uganda, suggesting that non-compliance is a problem (Andreoni et al., 1998) in taxation systems in other parts of the world (Abdul-Razak and Adafula, 2013). To the researcher, compliance to gift tax is both statutory and a civic obligation, accordingly non-compliance may result in liability. The purpose of this paper therefore is to educate the public on the provisions of the tax law relating to the gift tax and the responsibilities of the taxpayers or the citizenry of Ghana have to abide by the law, whilst recommending ways of improving the collection rate. As observed by Gatsi and Acquah (2010), Bruce-Twum (2014) and others around the world, notably McKerchar and Evans (2009), Tusubira and Nkote (2013) and Alabede (2014), lack of knowledge of tax laws and its provisions account for the non-compliance to tax among tax payers. Currently the level of compliance is almost non-existing; meanwhile it is perceived that people do receive gifts almost on daily basis ranging from cash gifts, hampers, cars and other tangible assets.

This is an exploratory study intended to determine the level of compliance with gift tax among Ghanaian taxpayers in Kumasi, the capital city of the Ashanti Region of Ghana. It is hoped that upon completion of this study, the following specific research questions shall be answered:

1) What is the level of compliance with gift tax among Ghanaians?
2) Why do Ghanaians not want to comply with the gift tax?
3) How can the problem of non-compliance be resolved or discouraged?

REVIEW OF RELEVANT LITERATURE

Since tax revenue has been accepted as the most importance source of revenue for governments (Sally, 1999; Nkyeaa, 2008; Martina et al., 2008; McKerchar and Evans, 2009; Abdul-Razak and Adafula, 2013; Bruce-Twum, 2014), every effort should be made to assist the government, not only to maintain the level of tax revenue, but also to create voluntary compliance among taxpayers or citizenry of a country like Ghana. To the researcher, this is very important in the advent of the current financial situation facing developing nations after the financial crunch from the western world leading to massive reductions in donations and grants emanating from the developed world to the developing world, mostly Africa, for which Ghana is not an exception (OECD, 2014). Many scholars and analysts assert that for Ghana to have adequate financial resources to finance its developmental programs and agenda (Moss and Majerowicz, 2012), it needs to properly develop its taxation systems in order to rake in more tax revenue (Nakyea, 2008; Martina et al., 2008; Brautigam, 2008; McKerchar and Evans, 2009; Gatsi and Acquah, 2010; Abdul-Razak and Adafula, 2013). This accounts for the recent moves by the government of the day to introduce new taxes to raise tax revenues for development projects and financing of recurrent budget items. In assessing a taxpayer’s tax liability, incomes are usually and easily identified and assessed for tax even if the taxpayer attempts not to disclose it (Dressler, 2002; Akhand, 2012). This may be partly because incomes are mostly paid by one party to the other leaving a trail; also, it is paid in the open directly to the beneficiary (that is the person earning the income); in addition, most of the time, the incomes received are usually documented.

Gifts of a certain nature are the subject matter of tax laws of Ghana specifically Internal Revenue Act, 2000 (Act 592) as amended. According to Part V-interpretation Section 110 (1) of Act 592 (amended), a gift is defined to mean a receipt without consideration or for inadequate consideration. Section 105(1) of the Act, Act 592 (as amended) further provides that, a gift which is taxable under the Act, shall be taxed at the specified rate on the total value of the taxable gifts so received by a person within a year of assessment. Section 106 of the Act, (Act 592 as amended) defines “taxable gift” to mean

(a) any of the following assets situated in Ghana:

i. Building of a permanent or temporary nature;
ii. Land;
iii. Shares, bonds and other securities;
iv. Money, including foreign currency;
v. Business and business assets;
vi. Any means of transportation (that is, by land, air or sea);
vii. Goods or chattels not included in the means of transportation; and
viii. Part of, or any right or interest in, to or over any of the assets referred to above or

(b) An asset or a benefit, whether situated in Ghana or outside Ghana, received by or for the benefit of a resident person as a gift where the asset has been or is credited in an account or has been or is invested, capitalized or otherwise dealt with in the name of or on behalf of or at the direction of the person or

(c) A favour in money or money’s worth or a consideration for an act or omission or the forbearance of an act or omission that inures or inures to the benefit of a resident person.

It is worthy of note that it is immaterial whether or not the person being taxed physically received the asset, so long as the act, omission or transaction inures or inures to the
benefit of that person (Internal Revenue (Amendment) Act, 2003 (Act 644).

The provision of the tax law in respect of gift, is however, liberal requesting voluntary compliance from the taxpayer. Thus, the law provides that under procedure relating to gift tax (S.108) that a person who receives a taxable gift shall, within thirty (30) days of receipt, furnish the Commissioner General of Ghana Revenue Authority with a return in writing containing the following information:

1. the description and location of the taxable gift;
2. the total value of the gift, how it is calculated and tax payable with respect to that gift;
3. the full name and address of the donor of the gift; and any other information required by the Commissioner.

A skimpy and sketchy opinion is that in Ghana, although, people do receive gifts on a daily basis ranging from cash (Gatsi and Acquah, 2010; Bruce-Twum, 2014) in the form of local and foreign currency to landed property as well as means of transportation to mention but few, they do not honour their gift tax obligation thereon (Bruce-Twum, 2014). Consequently, in compliance with the provisions of the tax law, especially in respect of gifts, these should be subject to taxation. It is, however, worthy to mention that it is not every gift received that shall be taxable. Under section 105(2) gifts received by a person under or for the following reasons are exempt from tax:

1. by a person under a will or upon intestacy;
2. by a person from that person’s spouse, child, parent, brother, sister, aunt, uncle, nephew or niece;
3. by a religious body which uses the gift received for the benefit of the public or a section of the public; or
4. for charitable or educational purposes.

In assessing the value of the gifts subject to tax, the market value of the gift received or receivable is usually used.

The questions that need to be answered then are:

a) Are the taxpayers or citizenry aware of the gift tax?

b) If yes, what is the level of compliance to the gift tax?

The few empirical studies on gift tax in Ghana attempted to provide some answers to the above questions as follows: Gatsi and Acquah (2010) in their study on information asymmetry and gift tax concluded that gift tax is one of the conduits through which tax revenue can be enhanced for development with a call on Ghana Revenue Authority for better education on the tax. Later, Bruce-Twum (2014) tried to determine the extent of knowledge about gift tax especially in the Accra-Tema metropolis and reached the conclusion that the level of awareness is very low resulting in non-compliance with gift tax in Ghana. Empirically, there were a series of research studies on taxation and tax compliance in general, for example: enhancing voluntary tax compliance by reducing compliance costs (Jenkins and Forlemu, 1993); tax compliance costs for the SMEs business sector (Evans et al., 2013); investigating tax compliance (Myles et al., 2013); and social norms and tax compliance (Onu and Oats, 2014) all undertaken in advanced economies. In addition to the above, there have been studies undertaken on making large corporations tax compliance in other developing economies like Bangladesh (Akhand, 2012); and income tax compliance among SMEs in Uganda (Tusubira and Nkote, 2013). In Ghana, studies on income tax non-compliance among Ghanaian self employed (Baba and Asante, 2012), and taxpayers’ attitude and its influence on tax compliance decisions (Abdul-Razak and Adafula, 2013) are some of the available compliance studies; however they failed to estimate the level of non-compliance. Although some level of research works have been done on gift tax compliance, notably Gatsi and Acquah’s (2010) study ‘Information Asymmetry and Gift Tax in Ghana’ and Bruce-Twum’s (2014) Gift Tax Compliance in Ghana, an Empirical Study, the researchers, in determining the level of awareness and or compliance to gift tax, did not use a very large sample size: for example, Bruce-Twum (2014) only used one hundred and sixty-seven respondents in his analysis. Further, it was found from the literature review that most studies undertaken in the area of tax in Ghana were on income tax and not gift tax. Therefore, this research set out fills this research gap by assessing the level of compliance to gift tax among the Ghanaian taxpayers generally.

METHODOLOGY

The general approach adopted for this research was a survey using a questionnaire as the data collection instrument which was administered to the research respondents in the field. The population for the study was basically every working Ghanaian, specifically those with formal employment and capable of receiving gift(s) in the course of a year of assessment. The formal sector workers were selected and used for this research because it is assumed that, as they are in formal employment and are mostly literates, they might have had some level of knowledge on the tax and hence provide an opportunity to measure the level of compliance among them. However, due to the vastness of the population, a purposive sampling approach was then adopted, whereby the research assistants administered the research questionnaires to any respondents they came across at their work places; these being mostly factories, shops, offices, service stations, campuses etc. To ensure a good response rate, some time was given to the respondents to fill out the questionnaires and return them almost immediately. In a few cases however, a day or two elapsed before they returned the questionnaires. This happened at some factories and offices visited where the questionnaires were collected in bulk by the heads of those institutions to be distributed to the staff for appropriate responses. Out of 500 copies of research questionnaires printed, only 253 (50.40%) copies were administered while 252 questionnaires were returned answered (representing an 99.60% response rate) and analysis.

The data collection instrument used in the study was a self-administered questionnaire. Attempts were made to administer the
questionnaire to all the respondents approached at their various places. The questions in the data collection instrument were basically closed-ended questions. Closed ended questions were used because, to the researcher, this was expected to obtain the needed data within the shortest possible timeline within which respondents were expected to complete the instruments, coupled with acquiring the number of respondents that the study intended to use. Also, to ensure the highest response rate, the researcher and his assistants assisted the respondents in completing the research questionnaires on site in some cases. The responses were edited and coded for analysis and interpretation to enable inferences to be made for possible conclusions. Descriptive and inferential statistics with the help of excel package were used to produce frequency tables, graphs and percentages for the analysis.

RESULTS AND DISCUSSION

The result of the study revealed that out of the sample of 252 respondents studied, 131 (being 51.98%) were males, while 121 (48.02%) were females (Table 1), which indicated that there were more males than females.

The age characteristics of the sample studied revealed that those between the ages of 20-29 were about 50.00%; 30-39 forms about 28.97%; followed by those above 40 and more representing 21.03% (Table 2). Interestingly this observation is similar to that of the observations in the 2010 Ghana national population and housing census (GSS, 2013).

An attempt was made to ascertain the educational background of the respondents as it does have an impact on the level of compliance with the tax in question and it was observed that about 90% of the respondents are literates and only about 10% have not had formal education. The details are shown in Table 3.

From Table 3, those respondents who possessed degrees represent 44.44% followed by those with SSCE (22.62%), diplomas (15.48%), O' and A' levels (7.54%) and 9.92% not having any educational qualifications. Besides the demographic characteristics discussed above, the researcher was quick to dive into the working experience of the respondents. This is partly because it was assumed that those who have worked for some time may have had some experience of paying taxes including gift tax. Interestingly, although those who have been working between 1 to 5 years dominate with 46.83%, those who have worked for more than 5 years were in the majority as shown in Table 4.

Thus, those who have working experience ranging between 1 to 5 years dominated the respondents while those with work experience of 31 years and above formed the smallest part of the population; though 1.98% did not indicate their number of working years experience.

Compliance with gift tax has been explained to the respondents as submission of returns on gifts received and receivable and paying the gift tax thereon in accordance with Section 108 of Internal Revenue Act, 2000 (Act 592 as amended). In this case a question was post as to whether the respondents have ever paid taxes. About 90% indicated that they had paid tax in the form of direct tax such as Pay As You Earn (PAYE) on employment income, as well as indirect tax such as VAT. Out of 252 respondents 226 responded in the affirmative (about 89.68%); 19 respondents (being 7.54%) indicated not ever having paid any tax; while 7 respondents (making up 2.78%) were not sure if they have ever paid any tax (Table 5).

Narrowing further to gift tax, the researcher attempted to find out whether the respondents have ever received gifts since if one does not receive gift; there is no likelihood of being liable to gift tax. The research revealed that while about 81% of the respondents have received gifts, 11% have not received gifts, and about 4% were not sure whether they have received gifts or not; while further 4% respondents did not indicate any response as shown in Table 6.

The main sources or donors of the gifts as per the research findings were mainly from parents, children and other close relatives to business contacts as well as friends as depicted in Table 7. In some cases the gifts
Table 4. Years of working experience of the respondents.

<table>
<thead>
<tr>
<th>Years of work experience</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 yrs</td>
<td>118</td>
<td>46.83</td>
</tr>
<tr>
<td>6-10 yrs</td>
<td>59</td>
<td>23.41</td>
</tr>
<tr>
<td>11-15 yrs</td>
<td>27</td>
<td>10.71</td>
</tr>
<tr>
<td>16-20 yrs</td>
<td>17</td>
<td>6.75</td>
</tr>
<tr>
<td>21-30 yrs</td>
<td>19</td>
<td>7.54</td>
</tr>
<tr>
<td>31 &amp; above</td>
<td>7</td>
<td>2.78</td>
</tr>
<tr>
<td>No response</td>
<td>5</td>
<td>1.98</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey, July, 2014

Table 5. Whether respondents have ever paid tax.

<table>
<thead>
<tr>
<th>Have you ever paid tax</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>19</td>
<td>7.54</td>
</tr>
<tr>
<td>Yes</td>
<td>226</td>
<td>89.68</td>
</tr>
<tr>
<td>Not Sure</td>
<td>7</td>
<td>2.78</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.00</td>
</tr>
</tbody>
</table>


Table 6. Whether respondents have received gifts.

<table>
<thead>
<tr>
<th>Have you ever receive any gift</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>27</td>
<td>10.71</td>
</tr>
<tr>
<td>Yes</td>
<td>204</td>
<td>80.95</td>
</tr>
<tr>
<td>Not Sure</td>
<td>11</td>
<td>4.37</td>
</tr>
<tr>
<td>No response</td>
<td>10</td>
<td>3.97</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey, July, 2014

were from a combination of the above mentioned sources.

Based on the above explanation offered to the respondents on compliance with gift tax the study sought to find out whether the respondents had been complying with the gift tax laws by submitting and paying the gift taxes. The research revealed that even though a good number of the respondents received gifts 80.95% (Table 6), being the majority do not regularly submit returns on the gifts so received as required by the tax law.

The result indicates that 71.43% do not regularly submit returns on the gifts they do receive and only 6.75% do submit returns on gifts they receive. However 21.83% were not sure whether they do submit returns or not on the gifts they receive as shown in Table 8. This means non-compliance in terms of non-submission of returns on gifts is very high. This indicates, in other words, that compliance is very low.

As a follow up to this the researcher sought to find out whether gift taxes are regularly paid on gifts that the respondents received regularly; and it came to light that only 15 respondents (making 5.95%) responded yes, 31 respondents (being 12.30%) said no, and a large number of 206 respondents (being 81.75%) were not sure as shown in Table 9. This still indicates very low compliance in terms of payment of gift tax. In an attempt to find out the reasons for the non-compliance among the respondents, the respondents were asked to indicate the reasons why they were not paying the gift tax on the gifts they received: 71.03% indicated that they were not aware of the gift tax law, 9.13% said they just do not want to pay, 8.33% indicated that the values of the gifts they received was below the threshold amount, 7.94% pointed out the Commissioner General of the Ghana Revenue Authority in charge of the collection and administration of the tax has never asked for it, while 3.57% revealed that they have never received gifts (Table 10).

Following the responses above, the research put across a follow up question as to whether the respondents were aware of the requirement of the tax law for the submission of return on gifts received or receivable within 30 days of receipt. The results are depicted in Table 11. About 74% claimed they were not being aware of the requirement; 12% indicated their awareness; 9% were not too sure if they are aware; and about 5% did not give a response. This revealed a very high level of unawareness of the gift tax requirement and hence the high level of non-compliance in terms of submission and non-payment.

Besides the low level of compliance, it was surprising and more confusing to find out at this point that the respondents were aware of their obligation under gift tax law, and that more than 60% of the respondents are not willing to comply as shown in Table 12.

While 34.52% of the respondents indicated their readiness to honour the gift tax henceforth, 38.49% said no, 18.25% said they are not sure while 8.73% did not give a response.

CONCLUSION AND RECOMMENDATIONS

This study revealed that, the taxation of gifts is provided for in the tax laws of Ghana specifically Internal Revenue Act, 2000 (Act 592 as amended) making compliance both statutory and civic obligations. However, the level of non-compliance is very high among the Ghanaian taxpayers. Some of the reasons identified by the study for the low level of compliance with gift tax among Ghanaian taxpayers are: unawareness of gift tax obligations, those taxpayers who are aware do not feel obliged to pay; the non-enforcement by the tax officials; some taxpayers simply never receive taxable gifts; or the value of the gift is not above the exempt threshold. It was obvious from the study that the low level of education provided on the gifts tax by the tax officials and non-enforcement on their part coupled with the unwillingness by the taxpayers to voluntarily comply, largely account for the very low level
of compliance with gift tax among taxpayers in Ghana, specifically in the Kumasi metropolis. The above findings are very striking as Ghana, like all other developing countries, needs to exploit taxation as a means of sourcing revenue to finance developmental programmes and activities as donor funds and grants are not
Table 11. Awareness of the tax laws requirement for the submission of gift tax return on gifts received within 30 days after receipt of the gift.

<table>
<thead>
<tr>
<th>Are you aware that the tax laws require the submission of a tax return on gifts received within 30 days after receipt of the gift?</th>
<th>F (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>186 (73.81)</td>
</tr>
<tr>
<td>Yes</td>
<td>31 (12.30)</td>
</tr>
<tr>
<td>Not Sure</td>
<td>23 (9.13)</td>
</tr>
<tr>
<td>No response</td>
<td>12 (4.76)</td>
</tr>
<tr>
<td>Total</td>
<td>252 (100.00)</td>
</tr>
</tbody>
</table>

Source: Field Survey, July, 2014

Table 12. Whether respondents will pay the gift tax any time they receive a taxable gift henceforth.

<table>
<thead>
<tr>
<th>Now that you are aware of the gift tax, will you pay the tax any time you receive taxable gifts henceforth?</th>
<th>F</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>97</td>
<td>38.49</td>
</tr>
<tr>
<td>Yes</td>
<td>87</td>
<td>34.52</td>
</tr>
<tr>
<td>Not sure</td>
<td>46</td>
<td>18.25</td>
</tr>
<tr>
<td>No response</td>
<td>22</td>
<td>8.73</td>
</tr>
<tr>
<td>Total</td>
<td>252</td>
<td>100.00</td>
</tr>
</tbody>
</table>

forthcoming due to the economic challenges facing various nations after the financial meltdown in the west. From the foregoing, it is therefore recommended that the Domestic Tax Revenue Division of the Ghana Revenue Authority intensifies tax education especially on the gifts tax obligations immediately, and puts in place measures to enforce such obligations.

Conflict of Interests

The authors have not declared any conflict of interests.

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CITATIONS