TAX POLICY AND STRATEGY DURING AND AFTER THE PANDEMIC IN GHANA

CRITICAL SURVEY-BASED INSIGHTS

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Tax Policy and Strategy During and After the Pandemic in Ghana: Critical Survey-Based Insights

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List of Abbreviations

Abbreviation	Definition
AfCFTA	African Continental Free Trade Area
ATI	Addis Tax Initiative

ATO	African Tax Outlook
AU	African Union
BMZ	German Federal Ministry of Economic Cooperation and Development
CIT	Corporate Income Tax
COVID-19	Coronavirus Disease of 2019
CSO	Civil Society Organizations
CST	Communication Service Tax
DRM	Domestic Revenue Mobilization
ESRD	Economic Strategy and Research Division
GDP	Gross Domestic Product
GETFL	Ghana Educational Trust Fund Levy
GETFUND	Ghana Education Trust Fund
GH	Ghana
GHC	Ghanaian Cedi
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GovID	Governance for Inclusive Development Programme
GRA	Ghana Revenue Authority
GRD	Government Revenue Dataset
HNWI	High-Net-Worth Individual
ICTD	International Centre for Tax and Development
IFF	Illicit Financial Flows
IMF	International Monetary Fund
MoF	Ministry of Finance
NFSL	National Fiscal Stabilisation Levy
NHIL	National Health Insurance Levy
PAYE	Pay-As-You-Earn
PIT	Personal Income Tax
SASE	Society for the Advancement of Socio-Economics
SDGs	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SPL	Sanitation and Pollution Levy
TAQAD	Tax Audit & Quality Assurance Department
TIN	Taxpayer Identification Number
TPU	Transfer Pricing Unit
VFRS	VAT Flat Rate System

Executive Summary

This policy brief provides a discussion of the recent assessment of the tax policy and strategy of Ghana over the period 2020 to 2022. The analysis utilized data from secondary sources, corroborated with a survey of key actors, namely private sector, the government sector, civil society organisations and academia.

The study reveals the general need for improvements in the tax system of Ghana as a requirement to balance the economic outcomes with social outcomes. The study also reveals the need for tax education as a vital component of the reforms within the tax system. Based on the various findings, the study proceeded to make relevant recommendations for policy, practice and consideration by the various stakeholders. First, it is **STRONGLY RECOMMENDED THAT THIS ANNUAL TAX POLICY AND STRATEGY ASSESSMENT FORUM SHOULD BE INSTITUTIONALISED**. The report should be the flagship outcome of such a forum. Greater stakeholder consultation should be adopted as the government finalizes the national tax policy and strategy documents. This would help ensure stakeholder ownership of such document and generate greater compliance.

Second, the government should take another look at the VAT decoupling and systemically align the VAT application with the African continent as we move deeper into the implementation of the AfCFTA. The VAT standard rate should be merged with the straight levies and pegged at not more than 18%. Again, monitoring and reporting mechanisms should be strengthened around the newly passed Exemptions Act so it is not observed more in breach than in compliance.

Finally, the government should establish, through a consensus approach underpinned by an empirical tax estimation framework such as the Stochastic Frontier Tax Analysis, the country's tax potential or fiscal capacity which would be the basis for target setting in the national budget. The gap analysis (deviation of actual tax from tax potential) should form a basis for a strategy to bridge the gap to the advantage of the economy. This would help the country to determine whether the gap in revenue collection is more from policy or from administration and compliance. This should take into consideration gender dynamics, poverty and inequality, given their macro criticality.

1.0 Motivation and Problem Statement

One basic function of the state is to collect taxes. Any country that fails to collect sufficient tax revenue in the face of rising expenditure whilst also accommodating huge inefficiencies in its public investment process would end up in a debt crisis. That is the fate of Ghana whilst it struggled to qualify for the International Monetary Fund Supported Programme. Domestic Revenue Mobilization (DRM) holds the key to the achievement of Sustainable Development Goals (SDGs) following the Addis Tax Initiative (ATI-Addis Tax Initiative) declaration of 2015 and the enhanced declaration of 2025 in linking DRM to SDGs predicated on five pillars namely: *equitable tax policies*, *efficient and transparent revenue administration*, *capacity development*, *policy coherence*, and *accountability*. Ghana has recorded an average fiscal deficit of 6.6% of GDP as of 2022,[1] underpinned by the low revenue-to-GDP ratio of below 14% whilst her peers raised between 18-20% of GDP as revenue. This is also well below the United Nations recommended tax-to-GDP ratio of 20% which is required to achieve the SDGs and below the Ghana Revenue Authority's (GRA) Strategic Plan targets, a tax-to-GDP ratio of 17.5% within 3 years ending 2022.[2]

With Ghana's structurally low tax performance, the effect of COVID-19 pandemic on the country's tax performance has been enormous with the World Bank Group reporting that the COVID-19 pandemic led to the decline of tax revenues by 12% in real terms at the global level and by 15% for the low- and lower-middle income countries.[3] It is therefore not unexpected that policies and strategies to boost revenue mobilization in the post-COVID-19 economic recovery would be at the forefront of policy prescription and implementation. To close this and economic governance in general, there have been efforts to contribute to the development of governance by improving transparency, internal accountability, participation, and delivery of public services. To this extent, the GIZ-GovID programme with support from BMZ and SECO, commissioned an assignment in 2021 to assess Ghana's Tax policy and strategy from the period 2015 to 2020. This current policy brief emanated from the second assessment covering the period 2020 to 2022 which was carried out recently. Specifically, the assessment aims to deliver on the following:

i. Review the previous assessment report for the period 2015-2020 and draw conclusions to ascertain if the recommendations made were adopted to improve the formulation of coherent tax policies and strategies for the period under study.
ii. Evaluate the period 2021 and 2022 to ascertain if there were any other policies and strategies in place – introduced and implemented in response to the COVID-19 pandemic.
iii. Evaluate government tax systems (policies and strategies) implemented over the period to determine their effectiveness in achieving intended policy objectives in an efficient, fair, and sustainable manner.
iv. Review the intended macroeconomic change such as economic growth or growth in income that has been achieved.
v. Determine how responsive the government's tax policies and strategies are to gender issues given the fact that women constitute the largest proportion of actors in the informal sector of Ghana.
vi. Make recommendations to improve the effectiveness of government tax policies and strategies.

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[1] https://mofep.gov.gh/sites/default/files/budget-statements/2023-Budget-Statement_v2.pdf

[2] https://gra.gov.gh/wp-content/uploads/2023/04/Abridged-GRA-4TH-Strategic-Plan.pdf

[3] https://blogs.worldbank.org/voices/raising-fiscal-revenue-times-crisis

To fully satisfy the objectives of the assessment, a thorough review of the country's tax environment was conducted by focusing on various regulatory documents. This includes reviewing the laws such as the Tax Revenue Administration Act, Act 915, The Electronic Transfer Levy Act, 2022 (Act 1075), and Electronic Transfer Levy (Amendment) Act 2022 (ACT 1089), Ghana Revenue Authority (GRA) 3rd Strategic Plan for 2020-2022, Income Tax Act 2015, Act 896 and other documents such as GRA End of Year Reports (2019-2022), Budget Statements and Economic Policy Statements of government for the various years. To achieve the stated objectives of the assessment, we adopted a mixed method approach involving an extensive desk review of the tax environment including tax laws, tax policies as contained in the various budget statements and economic policy statements for the various years, and primary data collection through the development and deployment of an approved data collection instrument. The survey data collection focused on key actors including the government (Ministry of Trade and Industry, Private Sector, CSOs, academics, and tax policy experts).
The remainder of this policy brief is organized as follows. The next section discusses Ghana's tax policy and the global and African tax policy context. Section 3 provides a review of Ghana's tax policy and strategy while Section 4 discusses the tax performance of Ghana during the pandemic. Section 5 provides critical insights from the survey on the tax policy and strategy of Ghana while the last section draws conclusions and provides recommendations.

2.0 Placing Ghana's Tax Policy in the Global and African Tax Space

In the global economy, there are implications of the tax policy and strategy of Ghana, regarding how it positions local industry and citizens to be competitive in the regional or global market. **There is evidence that reveals the regressive concerns about taxes in developing economies and the general problems in the tax structure as evident in these economies**.

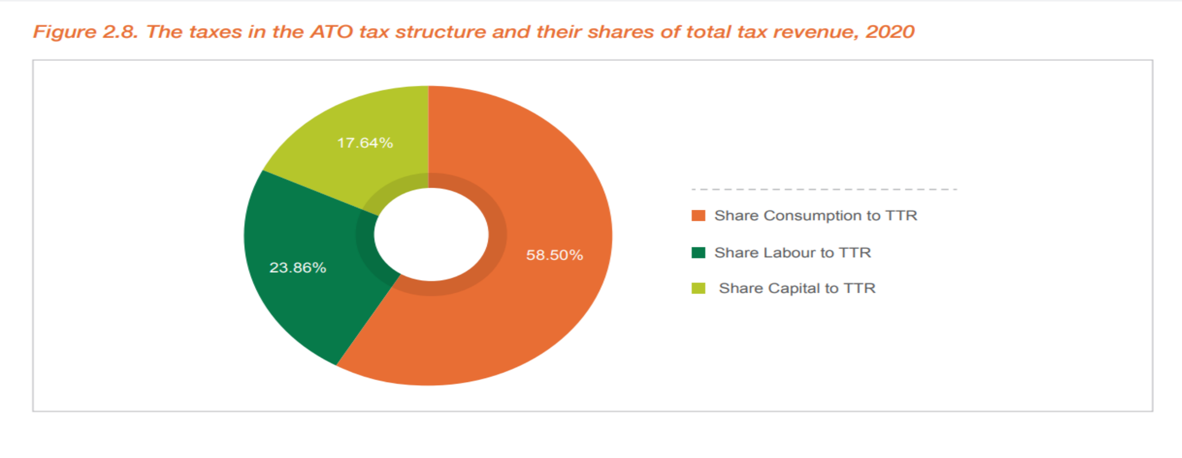

Figure 1. The taxes in the ATO tax structure and their shares of total tax revenue, 2020
Source: African Tax Outlook, 2021

One critical assessment benchmark for tax policy is the structure of the tax whether it is progressive or regressive. **The more progressive the tax structure, the better, or whilst it is judged to be regressive, then inequality worsens as low earners pay a higher percentage of their income on taxes than high earners thereby shifting the burden of taxation to the poor**. The general tax structure as per the African Tax Outlook (ATO) is presented in **Figure 1**.

Panel A: Direct-Indirect tax split by decade and income group

Panel B: Tax Categories by Countries in Africa

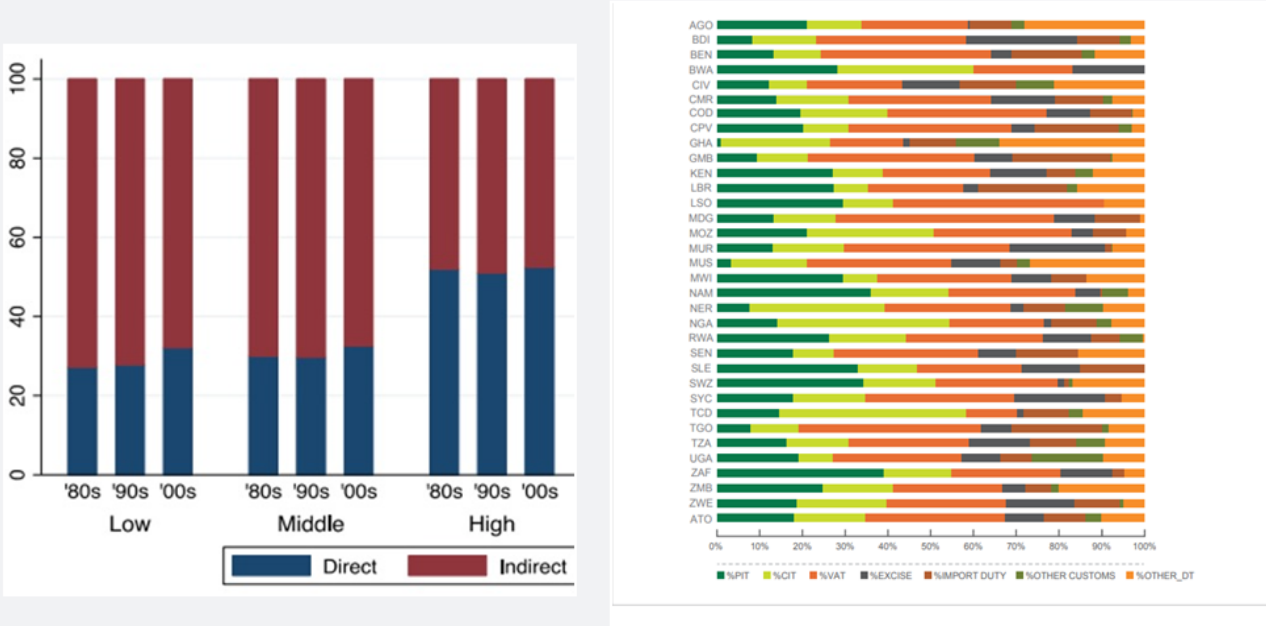

Figure 2. Direct-Indirect Tax Split and tax Categories by African Countries
Source: ICTD GRD (2014); ATO, 2021

Emerging and advanced economies have a tax structure that is more progressive whilst low-income developing economies have the opposite, partly due to low income and the extent of the informality of their economies. The IMF (2020) in establishing the growth ranking of taxes, found corporate and personal income taxes to be more harmful to growth than consumption and property taxes whilst income taxes tend to reduce inequality more than consumption taxes.[4] From the Africa Tax Outlook 2021, African governments rely heavily on indirect consumption-based taxes [followed by labour (personal income) and capital-related taxes] as shown in **Figure 1**. The results in **Figure 2** (Panel A) also show that low- and middle-income countries rely heavily on indirect taxes, as compared to high-income countries.

In comparison to advanced, emerging, and developing countries, it is obvious that advanced and emerging economies rely more on direct tax handles compared to developing countries including Ghana as shown in **Figure 2** (Panel B). In terms of the contribution of different tax heads to total revenue, it is obvious that Ghana does poorly relative to the continent when it comes to

[4] https://www.imf.org/-/media/Files/Publications/WP/2020/English/wpiea2020271-print-pdf.ashx

personal income tax as shown below from the Africa Tax Outlook 2021.

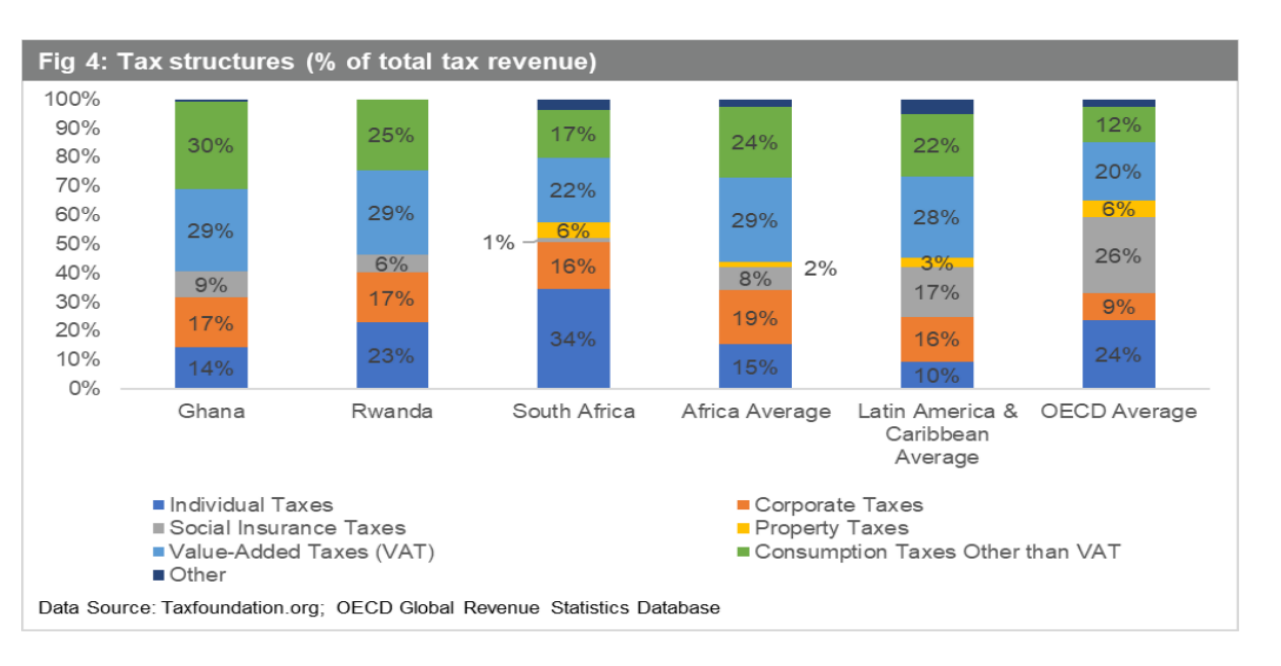

Figure 3. Tax Structure (% of Total Tax Revenue)
Source: IMANI (2021)[5]

As depicted in **Figure 3**, individual taxes contribute only 14% in Ghana to the total tax revenue, whilst in the case of Rwanda it is 23%, 34% in South Africa, and below the African average of 15%. In the consumption taxes, Ghana records 30% whilst Rwanda records 25%, 17% for South Africa, and above the African average of 24% implying that **Ghana relies heavily on indirect taxes which is more regressive rather than progressive**.

Ghana's standard VAT rate to the consumer is higher than what is quoted as the official standard rate when the other straight levies of up to 6% are added thus increasing the burden of VAT incidence on the final consumer. For businesses, it also adds directly to the high productive cost-base of doing business in the country. VAT contribution to total revenue as presented in **Table 1**, has Ghana ranking low among the selected countries at 18.7% followed by Nigeria with 22.1% whilst Ghana's standard VAT rate stands at 12.5% with Nigeria at 7.5%. Looking at the various standard rates across the selected countries, it is obvious the marginality has to do with the combination of rates efficiency popularly known as the *c efficiency*. The *c efficiency* is the ratio of collected revenue to collectable revenue when the standard VAT rate is applied implying the potential, or theoretical, revenue when the standard VAT rate is applied to the tax base proxy. A widely used proxy is final consumption (ATO, 2021). **Ghana's decision therefore to use the accounting treatment of decoupling the levies from the standard VAT rates creates the false impression of scope to scale up VAT revenue by increasing the VAT rate to 15% in the 2023 budget statement when in the fact final consumers are burden hugely under the dwarfed old rate of 12.5%.**

Table 1. VAT Rate in Selected African Countries

Countries	Standard VAT Rate	VAT to Tax	VAT C-	VAT C-Efficiency

[5] Acheampong, T., Bokpin, A.G., Duho, K.C.T., & Cudjoe, F. (2021). 'Taxation and Ghana's Post-Covid Economic Recovery", IMANI Centre for Policy and Education. https://imaniafrica.org/wp-content/uploads/2021/09/FINAL-Ghana-Tax-Policy-Paper_edit.pdf

		Revenue	Efficiency	to GDP
Ghana	12.5%* 15% 2023	18.7%	0.45	2.84%
Côte d'Ivoire	18%	35.1%	0.21	10.92%
Rwanda	18%	36.5%		
Nigeria	7.5%	22.1%	0.17	4.88%
Kenya	14%	26.3%		
Senegal	18%	36.3%	0.41	8.76%
South Africa	15%	24%	0.92	0.94%

Source: Author's compilation from African Tax Outlook, 2021.

Though the IMF (2015, 2018) contends that one advantage of focusing on the VAT is that it is more growth-friendly than other types of taxes, especially direct taxes but this can be best achieved through the efficiency of the VAT, rather than through increases in VAT rates, as this is less likely to have a negative impact on growth.[6] **Given Ghana's effective standard VAT rate above 21%, it could potentially impact growth negatively consistent with Gunter et al. (2019) who contend that with rates above 18 percent, even small increases in the VAT rate can have a substantial negative impact on growth without ensuring that any potentially negative distributional impact is adequately offset on the expenditure side** (see also IMF, 2018).[7,8] This effectively implies that any rate above 18% is counterproductive and makes the clear case that the country considers urgently merging the straight levies and the standard VAT rate to arrive at an optimal VAT that satisfies the government revenue objective and promotes growth as well. **Certainly, that rate should not be more than 18% and that should be accompanied by adjusting the VAT base and improving efficiency.**

In addition to VAT, Ghana seems to be employing more of a backdoor approach to burdening taxpayers whilst creating another of using lower rates to promote the private sector or the growth of the economy. Whilst a decision was taken a couple of decades ago to reduce the corporate tax to enable private sector competitiveness, it has effectively increased the effective corporate tax by introducing other levies applicable on profit before the normal or official tax rate. As can be seen in **Table 2**, **Ghana's standard corporate tax rate is not that high compared to other countries on the continent, but companies end up paying more CIT than these selected countries given Ghana's effective CIT rate. Ghana has used a backdoor approach to effectively increase CIT to more than 35% in banking and in some cases more than 35%.** This has the tendency of undermining the country's investment climate and distorts the outlook. Private sector competitiveness could be undermined if the tax revenues especially are not used efficiently. These changes to the country's tax environment have been unpredictable thus adding to the general economic uncertainty of operating in the country.

Table 2. Comparative Results of CIT Rates in Selected African Countries

Country	CIT Rate	Country	CIT
Ivory Coast	25	Ghana	25 (35-38% for large companies)
Kenya	30	Rwanda	30
Nigeria	30	Senegal	30
Algeria	25	South Africa	25

Source: Author's compilation

[6] IMF (2020). Tax Policy and Inclusive Growth. International Monetary Fund. WP/20/271

[7] Gunter, Samara, Daniel Riera-Crichton, Carlos A. Vegh, and Guillermo Vuletin. (2019). "Policy Implications of Non-linear Effects of Tax Changes on Output." Policy Research Working Paper Series 8720, The World Bank

[8] IMF (2018). SSA Regional Economic Outlook April 2018

Ghana is classified as a medium tax-collecting country performing below its fiscal capacity as shown in **Figure 4** below. This shows that the tax revenue mobilization and the tax frontier are still low, relative to the best-performing peers.

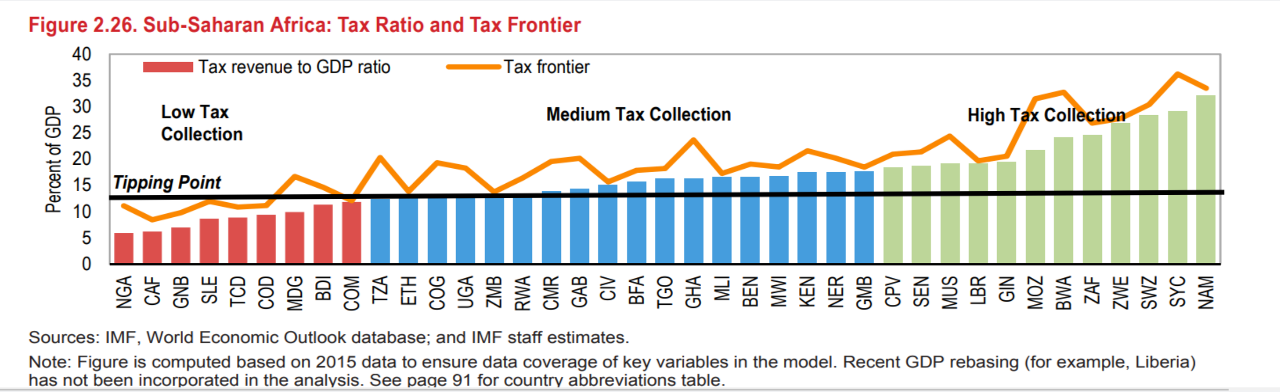

Figure 4. Sub-Saharan Africa: Tax Ratio and Tax Frontier

3.0 Review of Ghana's Tax Policy and Strategy

There were various tax policies and strategic measures implemented during the period under assessment. We provide some insights on the policies introduced through the budgeting systems, some discussions on Ghana's tax potential, the forecasting regime and some of the management strategies that the GRA has been pushing in recent times.

Table 3. Tax Policies and Strategies for 2020 to 2022

2020[9,10,11]	2021[12,13]	2022[14,15]
Tax incentives and pension relief	New taxes and levies were introduced, which affected different tax handles.	Passage of Exemption Bill into Law
Online filing	COVID-19 Health Levy	Implementation of the Unified Common Platform for Property Rate
Extension of dates for filing and payment of tax returns	Sanitation and Pollution Levy (SPL)	Restoration of the Benchmark Values of imports
Information to aid payment of taxes by bank transfer and the filing of returns by email	Energy Sector Recovery Levy	Zero rate tolls (i.e. remove toll charges) on all public roads
Penalties on principal debts cancelled upon payment of outstanding debts	Financial sector clean-up levy of 5 percent on profit-before-tax of banks	Intensify the Revenue Assurance and Compliance Enforcement (RACE)
RGD extended the deadline for filing of annual company returns	Co-supervise the gaming industry to develop policy to tax them	The Electronic Transfer Levy Act, 2022 (Act 1075) was passed on 31st March 2022

9 https://imaniafrica.org/wp-content/uploads/2021/09/FINAL-Ghana-Tax-Policy-Paper_edit.pdf

10 https://mofep.gov.gh/sites/default/files/budget-statements/2020-Budget-Statement-and-Economic-Policy_v3.pdf

11 https://mofep.gov.gh/sites/default/files/budget-statements/2020-Mid-Year-Budget-Statement_v3.pdf

12 https://mofep.gov.gh/sites/default/files/budget-statements/2021-Budget-Statement_v3.pdf

13 https://mofep.gov.gh/sites/default/files/budget-statements/2021-Mid-Year-Review-Statement_v2.pdf

14 https://mofep.gov.gh/sites/default/files/budget-statements/2022_Budget_Statement_v3.pdf

15 https://mofep.gov.gh/sites/default/files/budget-statements/2022-Mid-Year-Budget-Speech.pdf

Exemption of certain withdrawals from the statutory voluntary pension schemes (Third Tier)	Review existing road tolls and align them with current market rates	Reduce from 3% to 1.5% withholding tax on the sale of unprocessed gold by small-scale miners
Exemption of COVID-19 donation items from the payment of VAT, NHIL and GETFL.	Tax Rebate: hotels and restaurants, education, arts and entertainment, and travel and tours	Modified tax regime in Income Tax Act, and also, Extension of Waiver of Interest & Penalty to Dec 2022
Waiver of income tax on personal emoluments of all health workers and front-line health workers	Tax Stamps	Review the VAT Flat Rate System (VFRS) Introduction of upfront payment of VAT on importers not registered for VAT
COVID-19 donations as deductible expenses for income tax purposes.	Vehicle Income Tax	Compliance measures: audits, identification, rent taxes, and matching National ID data with TIN data
	A waiver of penalty and interest on accumulated tax arrears	A tax diagnostic review

Sources: Authors' Construct with inputs from various sources

Table 3 provides an overview of the various tax policy and strategy changes from 2020 to 2022. We observe that the tax measures implemented in 2020 were mainly expansionary and with the objective of supporting people in the wake of the pandemic. Some researchers noted the poor targeting done in the socio-economic measures but also the regressive nature and the futuristic impact it will have on the pro-poor population.[16]. By 2022, the government entered a full-force mode of raising tax revenue and creating an environment with stringent tax measures.

Table 4. Tax Projections Using Stochastic Frontier Analysis Approach

Country	Tax revenue (A)	Tax potential (B)	Tax gap (B-A)	Tax effort (A/B)
Ghana	13.89	30.78	16.89	0.46

Source: Author's estimation using the stochastic frontier tax analysis.

As presented in **Table 4**, under the Stochastic Frontier Tax Analysis, it is revealed that Ghana has a lot of potentials to raise its tax revenue. Whilst the country's current tax-to-GDP ratio is 13.89%, it has the potential to generate up to 30.78% of GDP though the government indicated revenue to GDP ratio of 18.7% by 2026 as part of a comprehensive macroeconomic target under the upcoming IMF Supported Program. This implies a tax gap of 16.89% of GDP and a tax effort of 0.46. This presupposes that the country has considerable fiscal room to scale up tax revenue without burdening the faithful few. The question is how the country closes the gap. The decision to close the gap should therefore be informed by conducting an appropriate tax gap analysis.

One critical factor in tax administration is the revenue forecasting regime which plays a crucial role in target setting in the standard budget presentation. Currently, MoF does not have a tax policy (processes are in place to develop one soon) out of which the country could develop a medium-term tax strategy. This might be influencing current uncertainty and unpredictability in Ghana's tax environment. However, there is a joint committee of the MoF and GRA who work together to forecast revenue targets for non-oil tax revenue which finds its way into the national budget after Cabinet consideration. The team, i.e. Revenue Forecasting Team is more or less a tripartite committee of Tax Policy, Economic Strategy and Research Division (ESRD) of MoF and Ghana Revenue Authority. Data is sourced from GRA (revenue collections, the Ghana Statistical Service assists with data and the ESRD provides fiscal data for such purposes. An in-

[16] Duho, K. C. T., & Kauppinen, A. R. (2021, June). Fiscal Relations, Class Politics, and the Election Year in Ghana's Covid-19 Context. In *Society for the Advancement of Socio-Economics (SASE) 33rd Annual Meeting*. https://dx.doi.org/10.2139/ssrn.3885997

house model together with the Duke's model have underpinned the revenue forecasting recently. When the target for the year is finally agreed after cabinet approval the Board of GRA adds percentage points to the target to motivate GRA. Concerns have been raised as to how challenging the forecasting regime has been given the annual revenue performance report indicating overperformance sometimes by 9.6% as in 2020 as presented in **Table 5**.

Table 5. Revenue Collection and Deviations

Year	Target. Total Revenue	Actual Total Rev.	Nominal Dev.	% Deviation
2020	**42,769.50**	**46,857.59**	**4,088.09**	9.6%
2021	**57,055.57**	**57,433.38**	**377.81**	0.7%
2022	**71,948.76**	**75,706.34**	**3,757.58**	5.2%

Source: Author's compilation from GRA data for various years

During the period under review, GRA exceeded its revenue target by an average of 5.2% with the highest variance in 2020 being the COVID-19 year. This under normal circumstances should call for celebration but given the overall tax-to-GDP ratio of less than 14%, (though it is not every aspect of GDP and its redistribution that is taxable), there is the need to review the process of the target setting.

From a strategic point of view, the GRA as a state institution continues to pursue its mandate as per Section 3 (a & b) of GRA Act 791 (2009) to assess and collect taxes, interest and penalties on taxes due to the state and pay the amounts collected into the Consolidated Fund. Currently, the institution is pursuing a transformation program through the roadmap to increase the tax-to-GDP ratio from the current 13.1% to 18% by 2025 (comparable to other countries in Africa). To achieve this feat, GRA has come up with several measures which include:[17] 1) 10-pillar technological transformation programs to improve efficiency, and voluntary compliance, reduce tax administration cost, reduce compliance cost and enhance cost-effectiveness; 2) use periodic strategic plans to guide tax administration; 3) structure audits with the establishment of a *Tax Audit & Quality Assurance Department (TAQAD*); 4) Operation drag net; 5) Debt management and compliance enforcement, 6) Focus on Client Experience; 7) Establishment of the Tax Court; and 8) Focus on Tax Research.

4.0 Ghana's Tax Performance During the Pandemic and Future Outlook

Our assessment is based on a broad categorization of the taxes as direct, indirect, and customary.[18] The **direct tax handles** include *Pay As You Earn (PAYE)*, *Self-employed tax*, *Corporate Income Tax (CIT)*, *rent income tax*, *mineral royalty tax*, *airport tax*, *National Fiscal Stabilization Levy (NFSL)*, and *Financial Sector Recovery Levy*. The **indirect tax handles** include *domestic VAT*, *domestic excise*, *domestic NHIL*, *domestic GETFUND*, *CST*, *COVID-19 Health Recovery Levy (flat and standard rates)*, *Special Petroleum Tax* and *E-transaction levy (E-levy)*. The **customs tariffs and levies** include *import duties and levies*, *import VAT*, *import NHIL*, *import GETFund*, *import COVID-19 Health Recovery Levy*, *petroleum debt recovery levy*, *energy debt recovery levy*, *energy sector recovery levy* and *sanitation and pollution levy*.

[17] Based on information provided by GRA officials at the various stakeholder validation workshops.

[18] This is based on GRA's own categorization in management reports.

4.1 Direct Taxes and Levies

Direct taxes and levies are one of the major sources of revenue collection for the Ghana Revenue Authority (GRA). The various direct tax handles used by the GRA include Personal Income Tax [PIT] (PAYE and Self-employed tax), Corporate Income Tax (CIT), National Fiscal Stabilisation Levy (NFSL). Others include the Rent Income Tax, Mineral Royalty Tax, Airport Tax, and Financial Sector Recovery Levy. Revenues collected from the aforementioned tax handles vary considerably, as some sources contribute more than others as presented in **Table 6**.

Table 6. Direct Taxes and Levies

Tax Type	2019	2020	2021	2022	2023 (Jan-Feb)
	GH¢'M	**GH¢'M**	**GH¢'M**	**GH¢'M**	**GH¢'M**
DT (Direct)	**21,838.42**	**23,022.91**	**27,597.00**	**34,337.33**	**5,710.69**
PAYE	7,275.45	7,879.74	9,723.55	12,065.41	2,640.63
Self-Employed	406.51	413.73	491.45	659.17	90.8
Companies (CIT, etc)	11,913.28	12,361.25	14,479.64	17,650.36	2,506.36
Others	273.35	247.81	227.16	317.3	33.08
Rent					3.46
Mineral Royalty	1,006.67	1,391.24	1,369.04	1,796.19	322.19
Airport Tax	521.34	185.29	359.88	789.58	105.47
NFSL	441.81	543.85	683.49	693.48	8.13
Financial Sector Recovery Levy			262.78	365.85	0.56

Source: GRA Data for various years

Specifically, direct taxes saw a cumulative increase year-on-year from 2019 to 2022. According to the data, direct taxes increased from GHS21,838.42 million in 2019 to GHS34,337.33 million in 2022, representing a 57.23% growth. This is consistent with the general rise in the specific direct tax types; CIT and PAYE which remain the largest direct tax revenue sources over the period. Respectively, these contribute GHS11,913.28 million and GHS7,273.45 million in 2019, and GHS17,650.36 million and GHS12,065.41 million in 2022. Considering the percent growth of these tax handles, we see CIT increase by 48.16% while PAYE increased by 65.8% over the same period.

Payroll deductions, termed Pay-As-You-Earn (PAYE), are most commonly used to deduct tax on employment income. PAYE is applied based on a well-defined formula implemented on a monthly basis and individuals are liable to pay the tax in accordance with the PIT schedule. While PAYE is deducted from the wages of employees in formal employment from source, taxes from other sources of income such as relate to self-employed people or investments are either payable directly by the individual or collected through withholding taxes (for example, withholding tax on rent). PAYE, a major component of PIT, contributes immensely to the growth of PIT. Between 2015 and 2022, PAYE as a share of total tax revenue averaged 16%, rising from 15% in 2015 to 17% in 2021 and then declined to 16% in 2022 as presented in **Figure 5**. This is despite the fact that PAYE has been increasing consistently over the years. Consequently, the PAYE tax increased from GHS7,275 million in 2019 to GHS12,065 million, reflecting a growth of 65.8% over the period. In 2020, during the COVID-19 pandemic, the PAYE increased marginally year-on-year by 5%. Since PAYE is taxable to individuals in formal employment, the extent to which it increases correlates with the percentage of people in formal employment.

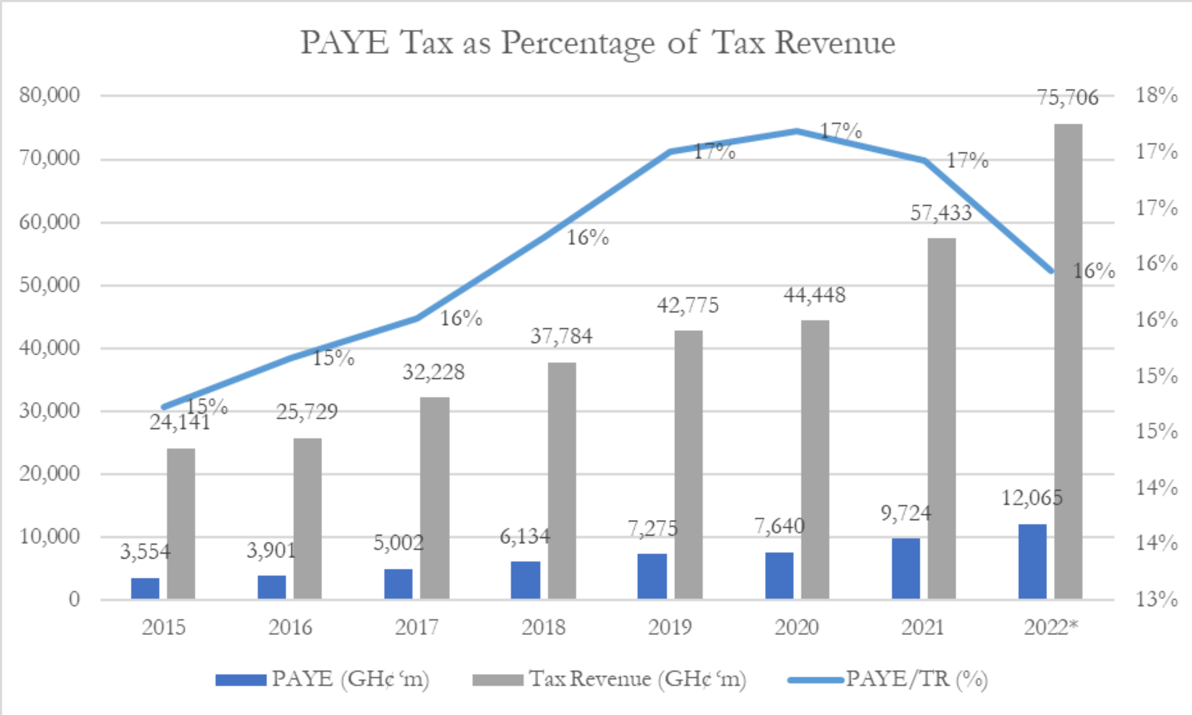

Figure 5. PAYE Tax as Percentage of Tax Revenue

In the context of providing a detailed view of the CIT over the years, we explore the trend performance of CIT as a percentage of tax revenue over 2011 to 2022 as presented in **Figure 6**. Though in nominal terms, CIT has been increasing over the years, when looked at from its contribution to total tax revenue, a different story emerges. The data reveals a fluctuating trend throughout the period under consideration. Between 2011 and 2014, CIT as a percentage of tax revenue increased by 4 percentage points and thereafter declined to 16% in 2016 from 20% in 2014, indicating a 4-percentage point decrease. Similarly, from 2017 to 2021, CIT as a share of tax revenue increased from 19% to 28%, representing a 9-percentage point increase, though between 2020 and 2021, the extent of increase has been declining. More importantly, this recent phenomenon could be attributed to the decline in companies' profits due to the high cost of doing business. This is characteristic of the worsening economic downturn as a result of the COVID-19 pandemic and the cascading impact of Russia-Ukraine war on certain priority sectors of the economy and activities of major corporations. Due to the inefficiencies with the tax system, some companies who are eligible to pay CIT either evade or avoid paying taxes, and others do not declare the right tax amounts.[19] Recently, the GRA published a controversial list of major corporations within the energy and telecommunication sectors who owed taxes as far back as 2018, to which the companies in question have since denied owing such amounts.[20]

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19 Akoto, D. (2020). Assessing the effectiveness of the tax system in Ghana as a tool for economic development. *Journal of Finance and Economics*, *8*(3), 127-134.

20 https://www.bnnbloomberg.ca/growing-list-of-companies-ordered-by-ghana-to-pay-back-taxes-1.1878322

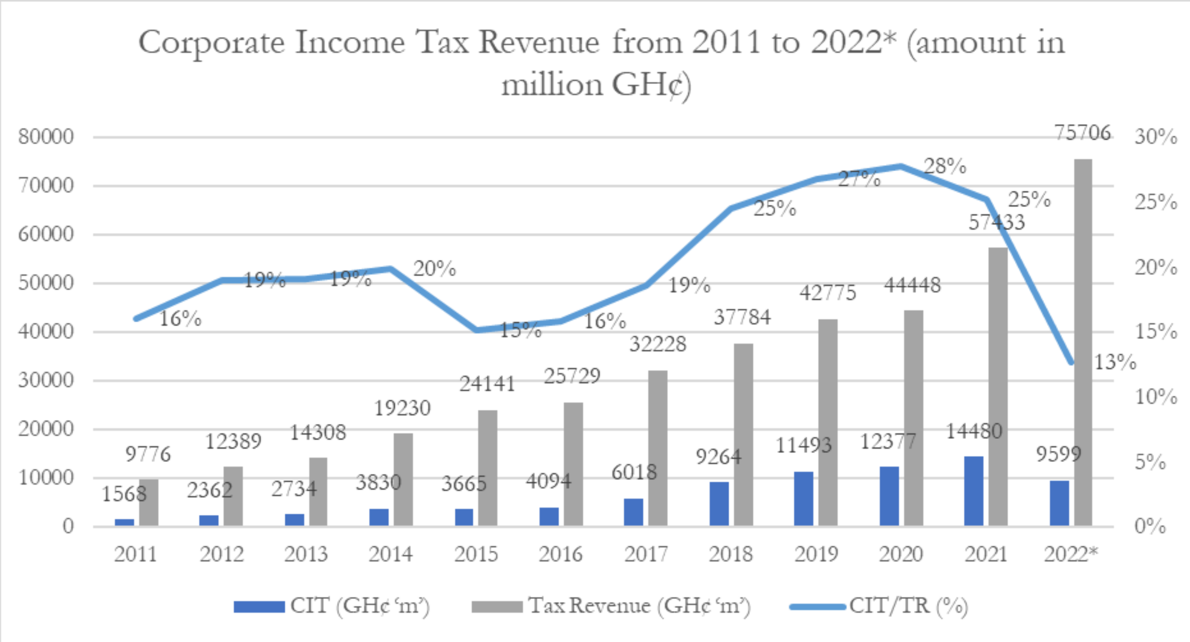


Figure 6. Corporate Income Tax Revenue

4.2 Indirect Taxes and Levies

The indirect tax handles continue to be a policy haven for the tax authorities in Ghana, especially in recent times when direct tax collection has continued to decline.

Table 7. Indirect Taxes and Levies

Tax Type (in GHC millions)	2019	2020	2021	2022	2023 (Jan-Feb)
DT (Indirect)	**10,032.66**	**10,967.68**	**13,749.86**	**18,462.69**	**3,699.39**
Domestic VAT	5,237.03	5,660.75	6,905.22	8,963.92	1,777.00
Domestic Excise	385.27	440.15	526.48	604.82	113.97
Domestic NHIL	1,027.24	1,128.90	1,446.24	2,472.27	554.35
Domestic GETFUND	1,027.24	1,128.90	1,446.24	2,472.27	554.35
CST	427.84	566.63	428.73	532.29	101.3
Covid-19 Health Recovery Levy (Flat Rate)			285.3	206.53	9.3
Covid-19 Health Recovery Levy (Standard)			372.81	972.92	221.74
Special Petroleum Tax	1,928.05	2,042.36	2,338.84	2,237.68	367.38
E-Transaction Levy				*643.35*	*159.38*

Table 7 provides the performance of the country in collection of indirect taxes and levies. The GRA has been collecting a number of indirect taxes and levies including VAT, excise, NHIL, and GETFUND at the domestic level. Besides the CST, the newly introduced COVID-19 Health Levy, the specialized petroleum tax and the e-transaction levy are other taxes under this category. Over the period 2019 to 2022, domestic indirect taxes increased from GHC 10,032.66 million to GHC 18,462.69 million, which represent a total growth of 84.03% (or at 21% yearly).[21]

[21] The records for January to February 2023 are reported, if annualized, will result in GHC 22,196.34, which will still support the regressivity assertion.

Comparing this with the 57.23% growth for the direct taxes (annualized at 14.3% yearly) shows the increasing rate at which tax collection is shifting towards the indirect taxes rather than the direct taxes. This discussion, which we will further demystify, explains the increasing concerns of some tax policy experts about the regressivity of the tax system of Ghana and the implications for worsening inequality.[22] [23]

We observed the introduction of 3 unique indirect tax handles, namely the COVID-19 Health Recovery Levy (both flat and standard rate) and the controversial e-transaction levy. The COVID-19 Health Recovery Levy, 2021, Act 1068,[24] is applied on the supply of goods and services and imports to raise revenue to support the COVID–19 expenditures and other related matters.[25]

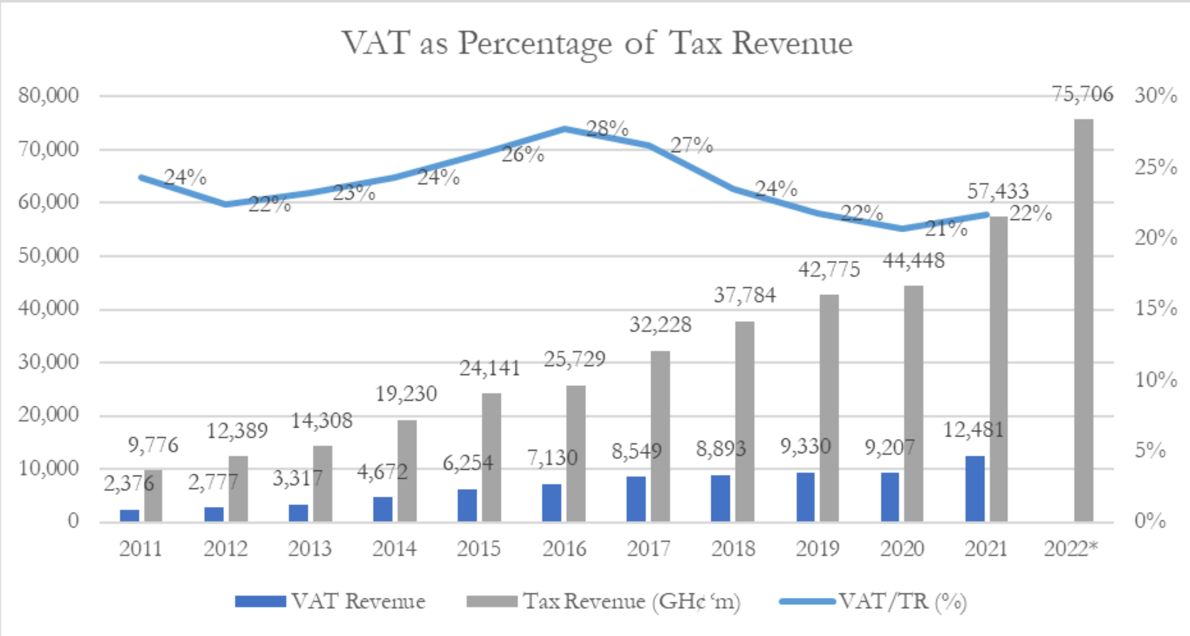


Figure 7. VAT as Percentage of Tax Revenue

We further provide nuanced discussions focusing on VAT. As regards the VAT, in **Figure 7**, the results show that since 2012 to 2015, VAT revenue proceeds have been increasing as a percentage of total tax revenue. Yet, this trend is regressive in form, thus from 2016, there have been efforts to increase the direct tax revenue and other tax handles leading to continuous decline from a high of 28% to 21% in 2020. Conversely, after the government started applying various tax revenue measures after the pandemic, the results show an increase in this trend which shows a return to an increasingly regressive tax regime.

[22] https://theconversation.com/ghanas-e-levy-is-unfair-to-the-poor-and-misses-its-revenue-target-a-lesson-in-mobile-money-tax-design-201303

[23] https://citinewsroom.com/2022/12/be-sympathetic-and-stop-the-regressive-taxing-tax-justice-coalition/

[24] https://gra.gov.gh/wp-content/uploads/2021/05/Covid-19-Health-Recovery-Levy-Act.pdf

[25] https://taxnews.ey.com/news/2021-0929-ghana-revenue-authority-issues-administrative-guidelines-on-various-tax-measures

4.3 Custom Tariffs and Levies

The customs tariffs and levies are another major source of revenue collected by the Ghana Revenue Authority under the Customs Division.[26] We proceed to analyze the results of customs tariffs and levies as reported by the GRA and presented in **Table 8**.

Table 8. Customs Tariffs and Levies

Tax Type (in GHC millions)	2019	2020	2021	2022	2023 (Jan-Feb)
Customs	**12,036.05**	**12,867.00**	**16,086.52**	**22,262.97**	**3,479.15**
Import Duties & Levies	5,280.38	5,513.81	6,871.67	10,139.39	1,549.62
Import VAT	3,693.16	3,905.98	4,857.03	6,824.72	1,101.22
Import NHIL	704.73	744.45	919.17	1,287.66	190.08
Import GETFUND	739.32	756.5	919.9	1,287.65	190.06
Import Covid-19 Health Recovery Levy			251.06	536.45	81.9
Petroleum Excise & Levies	1,618.45	1,946.26	2,267.68	2,187.11	366.27
Energy Debt Recovery Levy	*1,704.02*	*2,050.11*	*2,373.89*	*2,269.64*	*378.07*
Energy Sector Recovery Levy			*566.09*	*959.86*	*158.09*
Sanitation & Pollution Levy			*264.82*	*452.01*	*74.55*

The results show that generally, customs tariffs and levies increased from GHC 12,036.05 million in 2019 to GHC 22,262.97 million in 2022 representing an 84.97% increase (also 21.24% yearly). The results generally show that increases in 2020 were minimal, which can be attributed to the limited economic activities in terms of exports during the lockdown period of the pandemic. The results however picked up in 2021 after the restoration of most economic activities, especially in international trade matters. The results show that import duties and levies increased by 92.02% (also 23% yearly), import VAT by 84.79% (also 21% yearly), import NHIL by 82.72% (also 20.68% yearly), import GETFUND by 74.17% (also 18.5% yearly), petroleum excise and levies by 35.14% (also 8.8% yearly), energy debt recovery levy by 33.19% (also 8.3% yearly) within the same period.

The post-pandemic context saw the introduction of new tax handles including the import COVID-19 Health Recovery Levy, the Energy Sector Recovery Levy and the Sanitation and Pollution Levy with collection of proceeds starting from 2021.

4.4 Tax Buoyancy in Ghana

Our next measure of efficiency is tax buoyancy of the governments over the period. Tax buoyancy is an indicator that measures the efficiency and responsiveness of revenue mobilization in response to growth in the Gross domestic product or National income. A tax is said to be buoyant if the tax revenues increase more than proportionately in response to a rise in national income or output. In our case, we show results from 2010 to 2022 as presented in **Table 9**.

Table 9. Tax Buoyancy From 2011-2022

Year	Tax Revenue (GH¢ 'm')	Nominal GDP (GH¢ 'm')	Revenue Growth [A]	GDP Growth [B]	Tax Buoyancy [A/B)
2010	**6,295**	**44,342**	**-**	**-**	**-**
2011	**9,776**	**56,282**	**55%**	**27%**	**2.05**
2012	**12,389**	**71,847**	**27%**	**28%**	**0.97**
2013	**14,308**	**124, 478**	**15%**	**73%**	**0.21**
2014	**19,230**	**158,684**	**34%**	**27%**	**1.25**
2015	**24,141**	**183,526**	**26%**	**16%**	**1.63**
2016	**25,729**	**219,595**	**7%**	**20%**	**0.33**
2017	**32,228**	**262,798**	**25%**	**20%**	**1.28**

[26] https://gra.gov.gh/customs/

2018	**37,784**	**308,587**	**17%**	**17%**	**0.99**
2019	**42,775**	**356,544**	**13%**	**16%**	**0.85**
2020	**44,448**	**391,941**	**4%**	**10%**	**0.39**
2021	**57,433**	**461,695**	**29%**	**18%**	**1.64**
2022*	**75,706**	**610,222**	**32%**	**32%**	**0.99**

We find evidence to suggest that tax buoyancy in Ghana fluctuates significantly as evidenced in the random nature of the tax buoyancy scores, driven by spiral movements in both revenue growth and GDP growth reported by the government. We recorded a downward slope followed by a spike as recorded in 2011-2013, 2015-2016, 2017-2020 and 2021-2022. The somewhat 3-year horizon that this volatility cycle follows could be dependent on cosmetic factors like GDP adjustment, the 3-year medium-term framework, and the persistent implementation of 'nuisance' taxes. Also, the downward-sloping nature of the trends shows that there are still inefficiency gaps that the tax authorities need to fill.

We also show another result for the regressivity of the tax handles over the period. We show this in **Table 10**, using the growth rates of the direct taxes as compared to the indirect taxes, coupled with the increasing introduction of indirect tax handles like the e-levy, COVID-19 levy and others. Using the growth data for 2020 and 2021, we found that direct taxes grew from 5% in 2020 to 18% in 2021 (the 2022 figures are not conclusive). Conversely, the indirect taxes grew at 4% in 2020 to 39% in 2021 when the new tax handles were introduced. This gives evidence to suggest that the new tax measures by the government are significantly regressive in nature.

Table 10. The Regressivity of the Tax Handles

Years	**2019**	**2020**	**2021**	**2022***
Tax Revenue/Direct Taxes				
PIT	7,313.11	7,507.06	9,250.29	7,937.38
		3%	*23%*	*-14%*
CIT	10,567.41	11,425.72	13,065.56	9,598.60
		8%	*14%*	*-27%*
ODT	2,594.49	2,781.85	3,067.77	3,794.98
		7%	*10%*	*24%*
Total Direct Taxes	22,683.10	23,728.56	27,971.42	24,787.22
		5%	*18%*	*-11%*
Tax Revenue/Indirect taxes				
VAT	9,923.59	10,158.30	11,114.38	10,332.77
		2%	*9%*	*-7%*
NHIL	1,895.10	2,009.32	2,373.88	2,391.29
		6%	*18%*	*1%*
GETFUND	1,895.10	2,009.32	2,388.55	2,391.97
		6%	*19%*	*0%*
COVID-Levy			889.07	1,150.98
				29%
Total Indirect Taxes	17,151.66	17,792.09	24,733.52	20,888.95
		4%	*39%*	*-16%*
E-Levy				643.35

Ultimately, the goal of the government is to increase its tax revenue to GDP ratio. Several changes to the tax environment have been geared to scale up the tax revenue to GDP ratio. The biggest challenge over the years has been the low tax-to-GDP ratio which has been below the country's peers who are doing between 18-20% though the country in 2011 recorded 17.37% of GDP. Our analysis based on the results in **Figure 14** reveals that despite the many tax mobilization measures by the government, there was only a little surge in tax to GDP within the pandemic period and the figures are below the 2017 rate of 16% or the 2011 rate of 17%. The tax to GDP-rate lingered along the 12% rate in 2020 but saw a marginal increase to 13% in 2021 and 2022. This growth cannot be compared with the limited fiscal space and the financing gap which the government of Ghana seeks to fill. In fact, the 13% tax to GDP is still below the Sub-Saharan African average of 16%.[27]

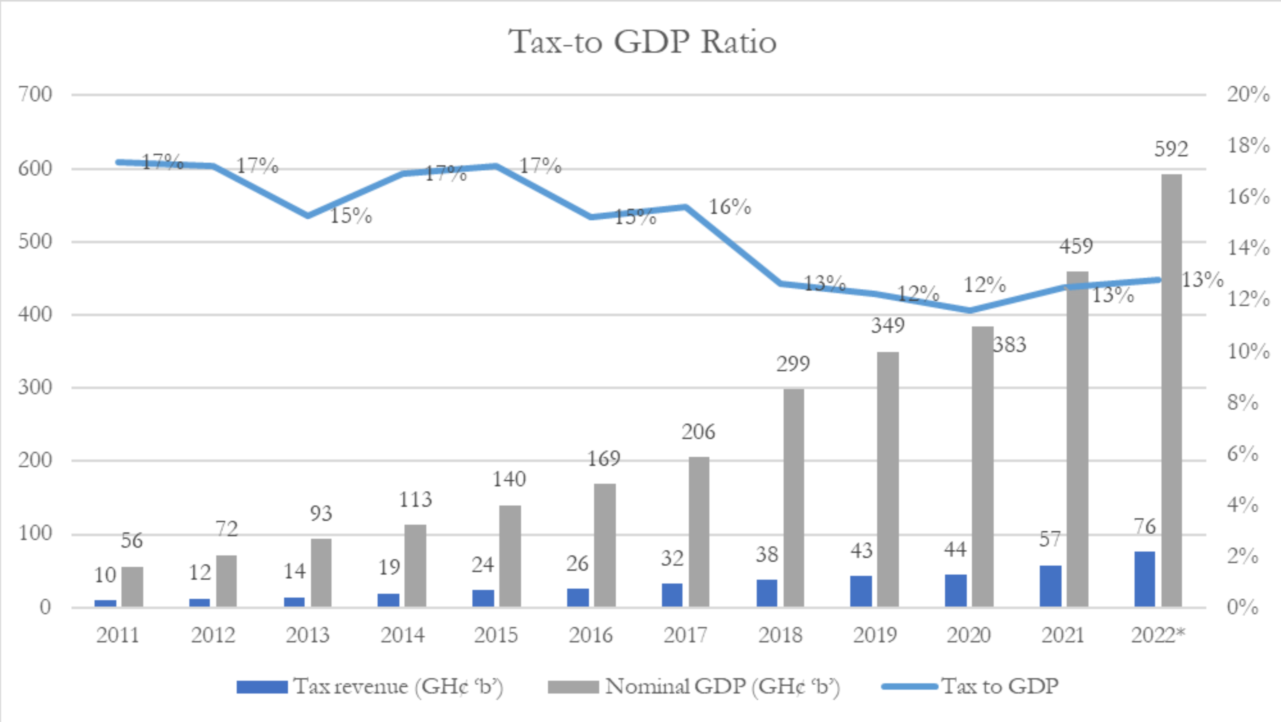


Figure 8. Tax-to GDP Ratio

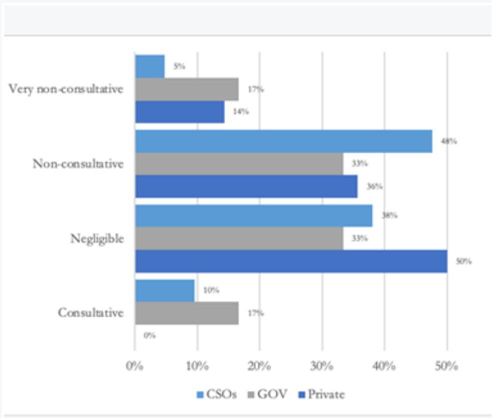
5.0 Insights from Survey on Tax Policy and Strategy in Ghana

Our survey focused on the unions, groups, coalitions and broader stakeholder associations, thus, the views expressed were at the association or union levels. From the perspectives of the respondents on the existence and quality of tax policy and strategy, the general results show the need for more policy action. We provide a general overview of the key insights from the survey with a brief diagrammatic analysis coupled with summaries of the key insights of the indicators.

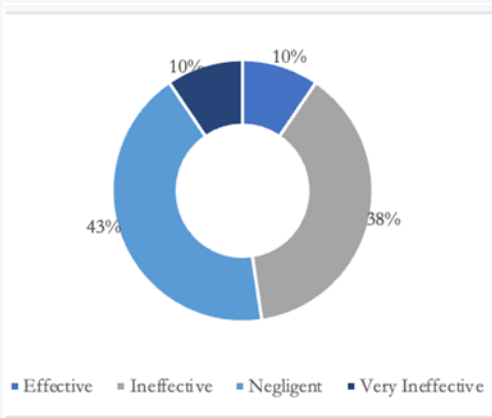
5.1 Existence and Quality of Tax Policy & Strategy

This section focuses on the extent of the quality of the tax policy and strategy. Here, we delve into the governance issues surrounding the tax system. The areas of focus include the extent of harmony in tax policy and strategy, the presence of a consultative process for tax policy and strategy, and the gender sensitivity of the tax system. The results provide useful insights which have been discussed as follows.

27 https://www.oecd.org/tax/tax-policy/revenue-statistics-africa-ghana.pdf



To what extent is the tax policy and strategy formulation process consultative? (Panel A)



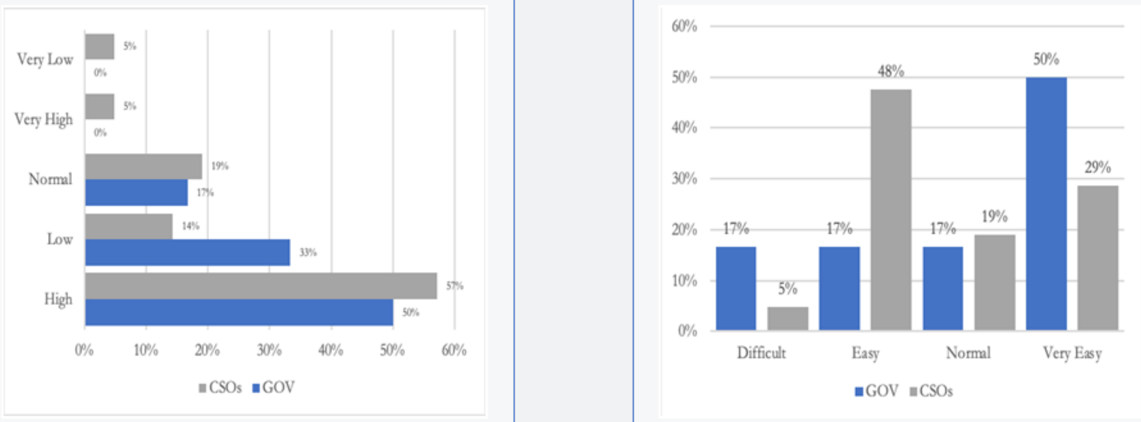
How do you assess the performance of Parliament in relation to taxation? [CSOs] (Panel B)

Figure 8. Consultation and Role of Parliament

- The majority of the respondents from the three groupings noted the nonexistence of a single integrated tax policy and strategy document
- Over half of the respondents noted that the minor pieces of documents that guide tax strategy and policy currently are either very incomprehensive, incomprehensive, or negligible.
- Over 80% of the respondents noted that the tax policy and strategy consultation processes are not consultative (see Panel A of **Figure 8**)
- Over 60% of the respondents note that there is no consultation at all, or there is limited consultation of key stakeholders in the private sector, academia and the CSO space.
- 83% of the government actors noted that they believe the government will consider institutionalizing a tax consultative process going forward.
- Over 50% of the respondents noted that gender sensitivity to taxation is not considered in Ghana's tax system.
- 90% of the respondents noted that tax policy and strategy only promote transparency in tax administration to a little extent.
- 90% of the respondents noted that tax information is readily available only to a little extent.
- None of the respondents believes that tax policy and strategy create to a large extent avenues for citizens to demand accountability from relevant state agencies.
- Similarly, none of the respondents believe that tax policy and strategies to a large extent create opportunities for citizens' participation in the policy formulation processes.
- Only 10% of the respondents noted that Parliament's role in taxation issues is effective (see Panel B of **Figure 8**).

5.2 Effectiveness, Tax Net and Data-Centric

Improving tax revenue generation depends on a variety of factors. This includes among other things, the tax authority's ability to raise taxes, ensure the effectiveness of a tax administration, broaden the tax net, and encourage the use of adequate and reliable data to inform tax decisions. Based on these broad themes, this section focuses on respondents from the government sector and the CSO space to provide further insights into the performance of tax policy and strategy. This section explores tax efficiency issues including tax leakages as well as the costs associated with tax administration. The results provide useful insights which have been discussed as follows.



How do you rate the cost of tax administration? (Panel A)

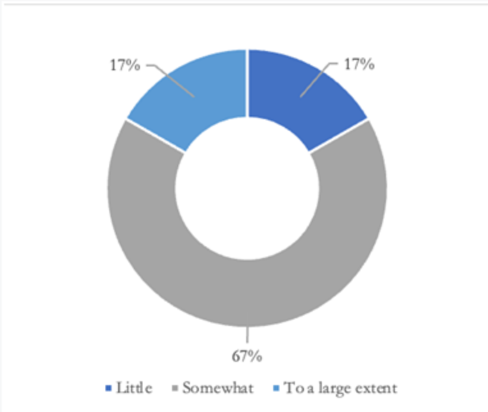
How easy is it to avoid or evade taxes so that they will not be noticed? (Panel B)

Figure 9. Cost of Administration, Avoidance or Evasion

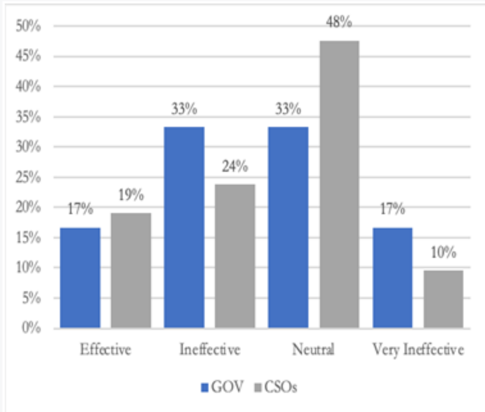
- The results show that 83% of the respondents from the government sector and only 10% of the CSO actors indicated there is a clear tax-to-GDP target in the medium to long term.
- Results show that 62% of the respondents from CSOs indicated that tax structure is heavily influenced by indirect taxes, whereas only 33% of respondents from the government sector believe so.
- Less than 80% of the respondents believe that the tax policy and strategy make enough room for innovative ways to tax the new economic models (e.g. digital services taxation, gaming industry taxation, e-commerce taxation and eco-taxation, among others).
- Most of the respondents indicated tax buoyancy analysis (30%), revenue adequacy approach (30%), and stochastic tax frontier analysis (20%) as the top three. In the CSO space, they indicated the revenue adequacy approach (44%) and tax elasticity analysis (19%) as among the top two tax models used for tax projections.
- More than half of the respondents are of the view that the cost of tax administration is high (see Panel A of **Figure 9**)
- More than 80% of the respondents noted how easy it is to engage in tax avoidance and evasion and most government sector respondents noted it is very easy (see Panel B of **Figure 9**)
- All respondents noted that tax policy, strategy and property administration can avert leakages but CSO actors believe this is practically of little significance in the Ghanaian context.

5.3 Certainty and Capacity Building

The capacity of the tax officials involved in tax administration, policy and strategic planning is relevant to enhance the overall tax system. This is also vital to the objective of optimizing the government tax revenue as the technical acumen developed by the officials will help shape the operational activities on the ground. In this session, we provide a discussion of the responses on the level to which certainty is achieved in tax policy and strategy by the focus on capacity building among the tax officials. The results provide useful insights which have been discussed as follows.



To what extent does the government (GRA and TPU) have the technical capacity to drive tax collection from emerging areas (e.g. e-commerce, HNWI, etc) given that it requires significant monitoring and technical acumen? [GOV]



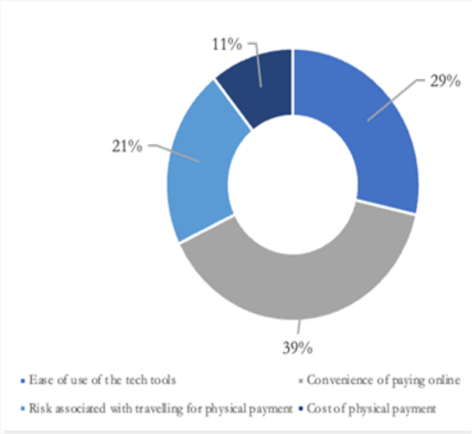
How effective are tax education programs of GRA?

Figure 10. Technical Capacity and Tax Education at the GRA

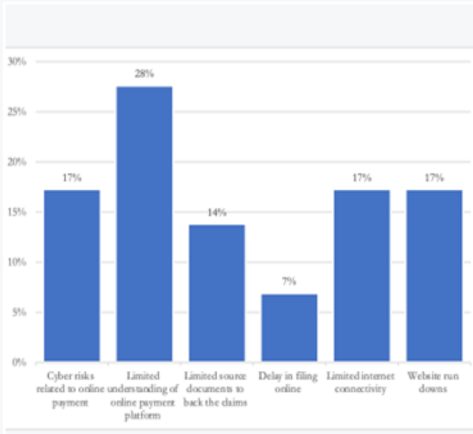
- Only 17% of the government sector respondents believe GRA and the TPU have the technical expertise to a large extent to drive tax collection from emerging tax handles necessary because of the changes in the economic models (i.e., e-commerce, etc.) (see Panel A of **Figure 10**)
- Over 60% of the respondents believe that the staff and officials of government agencies (GRA, MoF, etc.) do little to have regular sessions to scale up their capacity in tax policy analysis.
- On the other hand, over 70% of the respondents noted that GRA and government institutions need capacity building to march their role as tax formulators and administrators, in the face of recent tax disputes between the private sector and the government.
- Less than 20% of the respondents believe that tax education programs of the GRA are effective (see Panel B of **Figure 10**).

5.4 Use of Tax Payment System

We further extend the analysis to cover the views of the respondents in using the tax payment systems in Ghana. In this vein, we assess how the respondents perceive the use of the various platforms in filing their taxes and whether they seek some support from tax consultants in this regard. The results provide useful insights which have been discussed as follows.



Which of the following best explains your decision to e-file? (select as many as apply) [Private]



Which of the following best explains your decision not to e-file? (select as many as apply)[Private]

Figure 11. The Decision to e-File or not to e-File

- The results reveal that of the respondents from the private sector, 43% do online filing, 29% visit GRA offices to file while 29% use a hybrid of online and physical filing.
- Half of the private sector respondents make use of professionals to assist them in an aspect of the tax payment processes.
- The predominant modes of payment of tax liabilities include bank transfers (47%), cheques (29%), mobile money (12%) and cash (12%).
- The majority of taxpayers (39%) file their taxes because of the convenience of paying online. This is followed by the ease of using the tech tools in the filing process (29%), the risk associated with travelling for physical payment (21%) and the cost of physical payment (11%) (see Panel A of **Figure 11**).
- Factors that drive non-compliance include limited understanding of online payment platforms (28%), limited internet connectivity (17%), website rundowns (17%), cyber risk related to online payment (17%), limited source documents to back the claims (14%), and delay in filing online (7%) (see Panel B of **Figure 11**).

5.5 Tax Education

Tax education has been a vital tool to enhance tax compliance among various taxpayers. The literature shows that countries with high human capital development have improved tax compliance rates. In recent times, various government entities including the GRA have been using both traditional and emerging mediums to educate the populace about various tax policies and strategic decisions. The respondents provided some perspectives on the various reforms that they expect in the tax system as presented in **Figure 12**. The major issues they consider critical are tax education, the use of technological innovations to support the tax system and the need to drive tax efficiency.

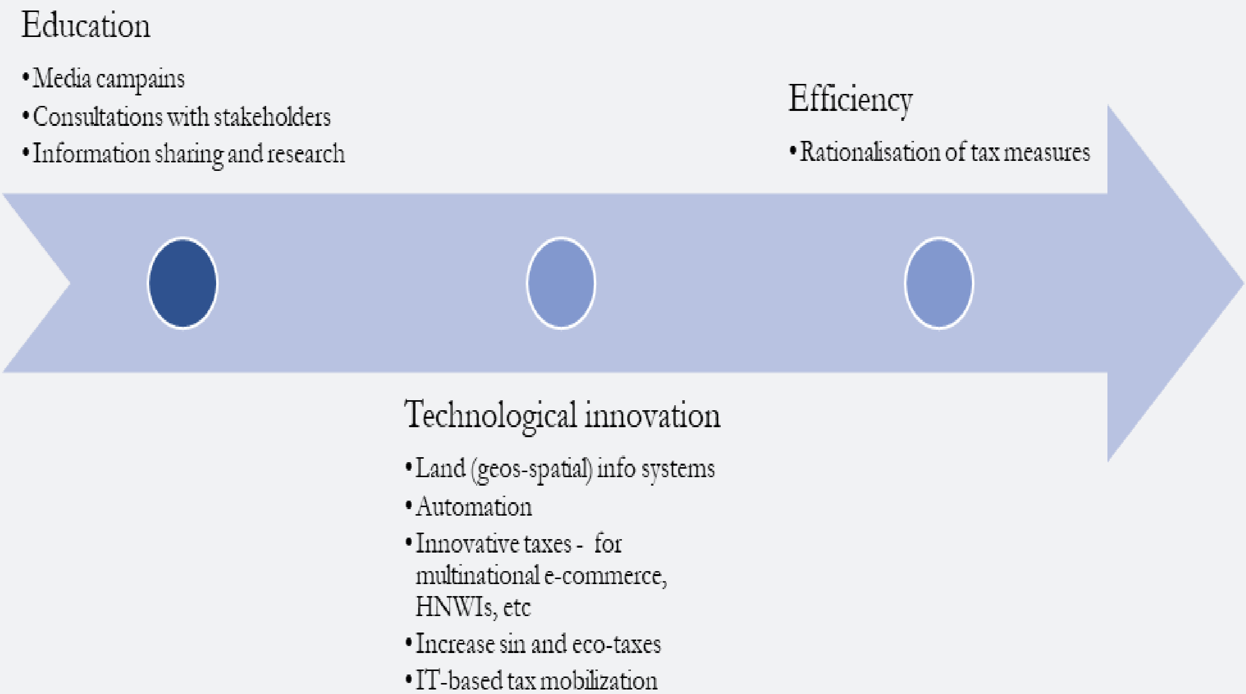
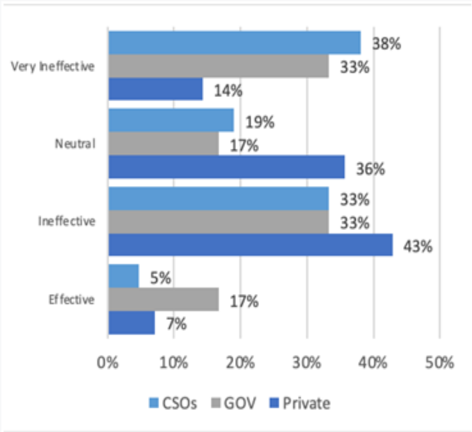


Figure 12. Strategies to Broaden Tax Net and Reach Untaxed Population

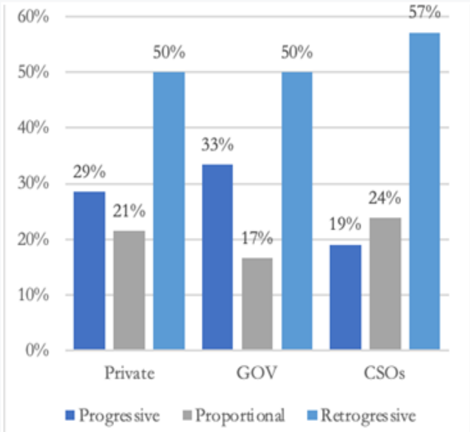
- The results indicated that 48% of the respondents benefited from radio and television programs by the tax authorities, followed by 17% who benefited from GRA text messages and 17% from one-on-one education and support. Besides, 9% benefited from some market broadcasts, 4% from online lessons on the website and 4% from information from the GRA website.
- During the period under review, 64% of the respondents only self-learned tax-related issues, 7% attended professional training programs, 7% got some explanation or training from a GRA official and 21% received no form of training.
- From the various means of tax education, the most trusted is radio and television (31%), followed by the GRA website (29%), social media accounts of the GRA (19%), direct in-person education by the GRA officials (17%), and finally market broadcasts (5%).

5.6 Redistribution and Tax Reforms During COVID-19

There have been various tax reforms implemented during the COVID-19 period which have affected various development factors. Among the canons of taxation include the need for taxation to play a redistribution role in supporting the pro-poor while applying an appropriate effective tax rate on the rich. In this quest, there is usually the call for taxes to be progressive rather than regressive in nature. In this session, we discuss the perspectives of the respondents on the various reforms during the COVID-19 pandemic. The results provide useful insights which have been discussed as follows.



What is your assessment of the introduction of the electronic levy (including the recent amendments made)?



During the pandemic, there were various changes made by the government. In your view, what is the net effect of these changes?

Figure 13. E-Levy and Regressivity of the Taxes

- Less than 10% of the respondents believed the phase of tax administration and implementation has not changed in the insurgence of the COVID-19 pandemic.
- Most of the respondents noted the role of online filing, followed by e-VAT, and e-invoicing. Others also noted the key role of TIN verification, e-auction, tax stamp authenticator and tax calculators.
- The respondents noted that e-levy was a major change, followed by the replacement of the TIN with the Ghana Card Number, the COVID-19 Health Recovery Levy, and the Penalty and Interest Waiver Act, 2021 (Act 1065). Others also noted the role of the Income Tax (Amendment) Act, 2021, Act 1066.
- Less than 20% of the respondents from all believe that the introduction of the e-levy was effective (see Panel A of **Figure 13**)
- While over 33% of the respondents noted they are not sure, over 20% of them noted that digital automation has enhanced tax collection.
- Less than 30% of the respondents noted that the process of using digital automation and e-filing to pay taxes is still a difficult process.
- The majority (over 50%) of the respondents believe that tax policy changes during the pandemic were regressive in nature on the net (see Panel B of **Figure 13**)
- Over 80% of the respondents believe that the tax policy and strategies do not ensure a fair distribution of income within the economy.

5.7 Customer Satisfaction

The government and tax authorities engage with a wide number of customers and clients within the tax-paying population. Thus, service quality and customer satisfaction is a key factor that needs to be considered in all aspects of the tax system to ensure that service delivery does not impede tax payment or tax compliance in any way. In this vein, we explore how the tax-paying population feels about using the platforms created by the government for tax payment and engagement with the tax authorities. The results provide useful insights which have been discussed as follows.

Table 11. Interactions with the GRA and the use of media platforms

Form of interaction	Often	Always	Sometimes	Rarely	Never
In person (local office)	**29%**	14%	**50%**		7%
Telephone	**21%**		**64%**	7%	7%
Email	14%		**43%**	**29%**	14%
Letter	**36%**	7%	**36%**		21%
GRA website	**36%**		**43%**	7%	14%
WhatsApp	7%		**50%**	**21%**	**21%**
Facebook	14%		**43%**	**29%**	14%
Twitter	7%		**50%**	**21%**	**21%**
Instagram			**50%**	**29%**	21%

- Only 21% of the respondents noted they did not file their taxes during the period under review.
- Though the results show that taxpayers engage the GRA through both traditional means and social media platforms, the means used always continue to be through in-person local office visits and formal letters addressed to the GRA (see **Table 11**).
- Only 29% of the respondents rated the GRA's service quality as good in addressing the concerns of taxpayers on all the various traditional and social media platforms.
- As regards the use of the GRA website, most visitors were motivated by the timeliness, relevance and updated information available (50%), others by the ease of navigation (29%) and the reliability of the information (21%).

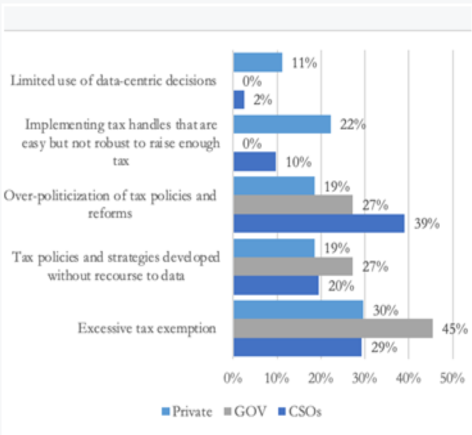
5.8 Accountability and Tax Administration

The survey explored the perspectives of the respondents on the extent of accountability in the tax policy space and how tax administration is executed. The primary focus of the survey instrument is on the views of the private sector players on the tax officials from the government side as well ass, their coping strategies in avoiding or evading taxes. The results provide relevant insights as presented below.

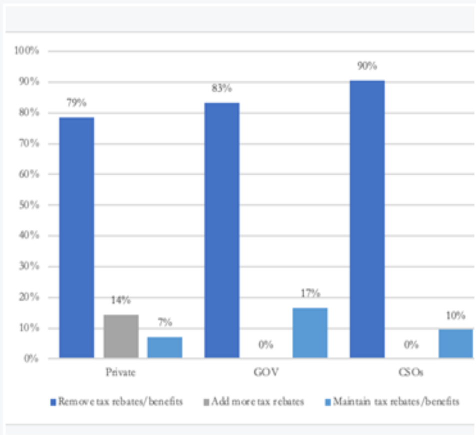
- 43% of the respondents believe that tax officials do not properly account for the tax proceeds they collect.
- 83% of the respondents believe that some tax officials take bribes from some taxpayers to under-declare their tax liabilities.
- 14% of the respondents surveyed noted that they have ever been involved in activities with some tax officials to avoid or evade the payment of tax.
- Over 70% of the respondents noted that it is difficult to comply with the tax laws which they believe have cost implications for their businesses.
- 50% of the respondents noted that it is difficult to engage in tax evasion and avoidance without being noticed.

5.9 Tax and Development

Taxation has an impact on various developmental variables. In this session, we explore the perceptions of the government sector, CSOs and private sector on development issues. We considered the appropriateness of the tax policies and strategies in addressing issues of poverty, inequality, and wealth distribution. The results provide relevant insights as presented below.



Which of the following are the 2 key political economy challenges that the tax institutions of government face in Ghana? (Kindly select 2 options)



Tax policy and strategies aim to drive private sector development when structured well. Given various tax rebates to the cocoa sector, mining sector, oil and gas sector and others, what is your assessment of the impact on economic growth?

Figure 14. Political Economy Challenges and Tax Rebates/Benefits

- Most of the respondents noted excessive tax exemption, over-politicization of the tax policies and reforms, and tax policies and strategies developed without recourse to data as the three key problems (see Panel A of **Figure 14**)
- Over 60% of the respondents believe that tax exemptions and subsidies are often not well-targeted and monitored.
- Over 79% of the respondents believe that the government must remove tax rebates and tax benefits as offered in the mining sector, oil and gas and others (see Panel B of **Figure 14**)
- Over 65% of the respondents noted that tax policy and strategy do not consider inequality and poverty issues which are critical development outcomes.
- Over 50% of the respondents noted that tax policies and strategies do not expressly incorporate poverty and inequality targets.
- All respondents from the private sector and 95% from CSOs noted that the tax policy unit does not conduct an annual tax incidence analysis on the private sector and households but 67% of the respondents from the government sector noted that they do.
- 79% of the respondents noted that they consider the gamut of taxes in Ghana as constraints for business expansion.
- Aside from access to finance and access to reliable and efficient energy, 71% of the respondents noted that taxation is among the 3 key business constraints they face.
- 86% of the respondents noted that in the face of the African Continental Free Trade Area (AfCFTA), the current tax outlook of Ghana reveals it is not supportive of private sector leadership and competitiveness, and the rest 14% are indifferent.

6.0 Conclusions and Recommendations

Tax revenue is fundamental to nation building. How much tax a country collects is important. But more important is the manner (tax policies, administrative and compliance measures) in which those taxes are collected. Ghana's structure is regressive and has implications for poverty reduction and inequality. It also has implications for job-rich growth, economic transformation, and inclusive productivity growth. Stakeholders have expressed dissatisfaction about the frequent and unpredictable changes to the country's tax environment which undermines planning and private sector competitiveness. They have underscored many backdoor approaches to collecting more than revenue whilst portraying an official impression of shifting from taxation to production. Particularly concerning is the government's decision to decouple the standard VAT rate from the straight levies. Whilst this strategy contributes directly to increasing the productive cost-base of doing business in the country, it increases the incidence of the tax on the consumer particularly given the low-income level, high household expenditure on food and other consumables. Post-covid tax policies and administrative and compliance adjustments have been too drastic and largely unsupportive to the private sector. Given the conclusion and observations from the survey instrument, interaction with stakeholders and review of relevant documents, we make the following recommendations: These should be taken together with the previous recommendations which are still outstanding.

It is **STRONGLY RECOMMENDED THAT THIS ANNUAL TAX POLICY AND STRATEGY ASSESSMENT FORUM SHOULD BE INSTITUTIONALISED**. The report should be the flagship outcome of such a forum.

- Greater stakeholder consultation should be adopted as the government finalizes a comprehensive national tax policy and strategy document. This would help ensure stakeholder ownership of such document and generate greater compliance.
- This should in addition to many objectives aim at ensuring the progressivity of the country's tax structure taking into account poverty, inequality and gender dynamics.
- Government should take another look at the VAT decoupling and systemically align the VAT system with the African continent as we move deeper into the implementation of the AfCFTA. To this extent the VAT standard rate should be merged with the straight levies and peg at not more than 18%
- Monitoring and reporting mechanisms should be strengthened around the newly passed Exemptions Act, so it is not observed more in breach than in compliance.
- Government should establish through a consensus approach underpinned by an empirical tax estimation framework such as the Stochastic Frontier Tax Analysis the country's tax potential or fiscal capacity which would be the basis for target setting in the national budget. The gap should form a basis for a strategy to close the revenue gap to the advantage of the economy. This would help the country to determine whether the gap in revenue collection is more from policy or from administration and compliance. This should take into consideration gender dynamics, poverty, and inequality given their macro criticality.

Existence and Quality of Tax Policy & Strategy

- The government through Cabinet, Parliament and the key MDAs; (Ministry of Finance, Ministry of Trade and Industry, Ghana Revenue Authority, Ghana Investment Promotion Centre, National Development Planning Commission) must as a matter of urgency develop a very comprehensive and long- term Tax Policy and Strategy document through a multi-stakeholder approach to promote an equitable fiscal governance system that ensures progressivity and pro-poor conditions are adequately covered and facilitate domestic resource mobilization for national development.

- The Ministry of Finance should periodically monitor and evaluate all tax policies and strategies on their effectiveness and achievement of targeted outcomes and take the necessary remedial actions.
- CSOs and other non-state actors must also undertake a periodic independent evaluation of the effectiveness of the tax policies and strategies of governments and advocate for appropriate policy and administrative reforms.
- The Government must intensify its digitalization agenda which has the potential to propel the formalization of the Ghanaian economy and widen the tax net. Efforts towards the taxation of the digital economy, high net-worth individuals and properties must also be intensified with learning from global and sub-regional best practices.

Effectiveness, Tax Net and Data-Centric

Both tax policy and administration should jointly estimate the country's fiscal capacity (tax potential) and follow that with tax gap analysis. The tax gap analysis should embrace both the policy gap and the administrative or compliance gap. The policy gap would also identify the cost of tax expenditures, resulting directly from a political decision to reduce the tax burden of the investor or the consumer or whether the policy aims at stimulating investments or at protecting the poorest.

The administrative or compliance gap would annually assess the capacity of tax and customs administration or tax authorities to enforce current tax laws and the compliance behaviour of firms and individuals to pay their taxes. Overall, the tax gap analysis should focus on all individual tax handles (CIT, PAYE, VAT, etc.) as well as tax-paying population segments, HNWI, etc

Ghana should consider reversing the backdoor approach to effectively increase the tax burden and revert to a predictable approach and focus on improving the tax through efficiency and high productivity going forward.

- The Government should put the necessary measures in place towards the achievement of its Tax -to GDP target of 20% by 2023 (and beyond) and ensure an efficient balance between total tax revenue and the growth in GDP. Or the 18.7% in the 17th IMF-Supported Program
- The government should set a clear target for its medium to long-term target for tax-to-GDP performance with an operational mandate for the GRA to achieve it.
- The tax structure is still heavily focused on easy-to-charge indirect tax handles that lead to a regressive tax system and so the government should find ways in which they can apply a data-centric approach to targeting taxpayers to ensure the tax system is progressive.
- Indexation - several fixed values in tax laws should be indexed to say inflation to allow for almost automatic adjustments in fixed values to reflect current circumstances.
- Tax target or tiered system and segmentation should be adopted given the extent of the informal economy rather than the current one size fits all strategy.
- The government needs to provide all necessary resources and technical support to the tax authorities to create systems to ensure that the tax policies and strategies are innovative enough to tax the new and emerging economic models with a focus on e-commerce, the gaming industry, environmental taxation, and wealth taxation among others.
- The data management system of the government is weak regarding taxation. The GRA with the support of the government should explore avenues to digitize the various tax data (with a special focus on data disaggregation) with avenues for data access to allow

for deeper analysis of tax issues that can provide observational data insights instead of the over-focus on perception-based insights.

Use of Tax Payment System and Customer Satisfaction

- The government through the GRA should invest in enhancing the consumer interaction experience for taxpayers that engage the digital platforms for tax filing and for tax related issues.
- There has been a focus on requiring taxpayers to file their taxes. Another behavioural aspect is for the GRA to take the bold step to report annually by email to taxpayers within its system on their early tax payments and nudge them to complete the process to receive their filing clearance.
- The GRA should enhance its online interactive systems to allow taxpayers who utilize these tools to access information that is timely, relevant and reliable with ease of navigation.

Tax Education, and Certainty and Capacity Building

- The GRA must intensify public and taxpayers' education on self-assessment and online filing and payment systems to further reduce tax administration and compliance costs for GRA and taxpayers respectively.
- Ghana Revenue Authority must intensify its public education efforts as mandated. This will promote voluntary tax compliance and thereby increase tax revenue.
- GRA should take the necessary steps to redeem its image and strengthen its internal controls so as to prevent unethical behaviour among its staff. Award systems must be instituted to motivate professional conduct.
- Government must be more accountable through periodic reporting and branding of projects funded with tax revenue.
- Finally, the dispute resolution mechanism should be improved to make it easy for taxpayers to mount a challenge of tax decisions. The calls for the implementation of the independent tax appeals board should be given priority.

Redistribution and Tax Reforms During COVID-19

- The government should put in place the necessary mechanisms to guarantee the attainment of the objectives of the existing corporate income tax structure which considers location, sector, and social inclusion in order to attract the needed investment into the priority sectors of the economy.
- The Government must develop and implement strategic measures to help bridge the current corporate income tax gap of 85.6% over a ten-year period, including a more robust tax system that prevents tax evasion and avoidance.
- The Government should reconsider its decision on decoupling the VAT rate as it has resulted into a reduction in VAT to total tax revenue with cascading effect of tax on tax and thereby leading to high prices of goods and services and the cost of doing business in Ghana. VAT should be a single tax rate with the levies built into it as this will promote compliance.
- The Ministry of Finance and GRA should reconsider their position on denying businesses the opportunity to benefit from or deduct their corresponding input VATs in relation to GETFUND (2.5%), NHIL (2.5%) and COVID (1%) components as this is

being absorbed by some businesses and thereby increasing their operational cost, hence reducing their profitability. There is an urgent need to reform our general consumption tax regime by allowing levies associated with VAT to operate as VAT.

- The Ghana Revenue Authority should put in place measures to ensure the efficient implementation of the Fiscal Electronic Device System. Its implementation will enable easy monitoring of the VAT invoicing and possibly increase revenue generation.
- The exemptions and the reduced rates under the VAT law should be reviewed and changed to reflect the Modern VAT concept (see New Zealand approach). As much as possible, there should be limited exemptions. The exemptions granted under a VAT law should be objective. The government should take the bold step to implement the Exemptions Act, 2022 (Act 1083) effectively and report the gains made over time.

Accountability and Tax Administration

- The government should expedite action on the adoption and domesticate the recommendations of the AU High-Level Panel on IFFs.
- Government should review Ghana's fiscal regime with the aim of identifying and plugging loopholes that allow for tax avoidance. It must also institute punitive sanctions that could deter tax evasion.
- Government should resource (equipment, technology, human capacity etc) the Ghana Revenue Authority; especially the Tax Audit and Transfer Pricing Units to help ensure higher audit quality curbing of IFFs.
- The GRA should avoid Selective Enforcement.
- There should be a separate Capital Gain Tax Regime. Capital gains should be taxed separately from employment, business, and investment income. This is necessary because most companies and investors take undue advantage of the current regime/treatment prescribed in the Incomes Tax Act 2015, Act 896 to set off business and investment losses against the capital gains made for the period.
- The GRA should effectively monitor and track companies' asset base in order to obtain all the necessary information regarding disposals, determine the corresponding capital gains and the appropriate tax liabilities.
- The GRA should effectively collaborate with mandated state institutions and partners for efficient enforcement of the capital gains regime in Ghana.
- Withholding tax approach should be introduced to the design of Capital Gains Tax to make the collection of the tax more efficient.

Tax and Development

- The government should lead the efforts to implement the Exemptions Act effectively without any form of selective bias.
- The Ministry of Finance should factor Tax Gap analysis in its budget control.
- Government should lead efforts to conduct annual tax incidence analysis on the private sector and households to understand the impact of its tax policies (on socio-economic outcomes like poverty reduction, reduction of inequality, etc) and the remedial courses of action to take.
- The government should work collaboratively with the private sector and researchers to set appropriate tax policies and strategies that support competitiveness of Ghanaian businesses especially within the context of the AfCFTA. Besides, there should be efforts to use tax policies as a tool for climate action and gender mainstreaming in Ghana.

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