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THE IMPORTANCE OF PERSONAL INCOME TAX IN GOVERNMENT REVENUE IN GHANA

The aim of this article is to spell out and examine the relative importance of Personal Income Tax in the revenue structure of the Ghanaian economy. The need for this arises from the fact that the size of any government development programme depends to a large extent on the capacity of its tax system to tap the necessary resources, or the required revenue to the disposal of the government. Moreover, the pressure of steeply rising government yearly expenditure and the means of financing it is sufficient to appraise critically the existing revenue sources and to explore new sources of revenue.

1. PLACE OF PERSONAL INCOME TAX IN GHANAIAN TAX SYSTEM

Ghana's tax system has developed over many years under the influence of economic and political forces. Today, taxes provide the central government with the major revenue required to meet the manifold responsibilities in the sphere of social and economic services, interest on debt, defence *etc.*

The kind of taxes operating in Ghana can be grouped under the following:

- a) Personal Income Tax,
- b) Corporate Tax,
- c) Taxes on domestic goods,
- d) Taxes on foreign trade and transition,
- e) Others like capital gain tax, property tax estate duty *etc.*

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Graph 1. shows the various kinds of taxes operating in Ghana. It is evident from the graph that the bulk of the budget revenue is collected through taxes on foreign trade and transaction which is an indication that taxes from this source play a very important role in the budget revenue of Ghana. The performance of this source of revenue is due particularly to the high revenue from taxes on cocoa exports and general import duty. From the graph it can be deduced that revenue from this source in 1996 was 35%, followed by a decrease in 1997 to 29% but there was an increase in 1998 to 37%.

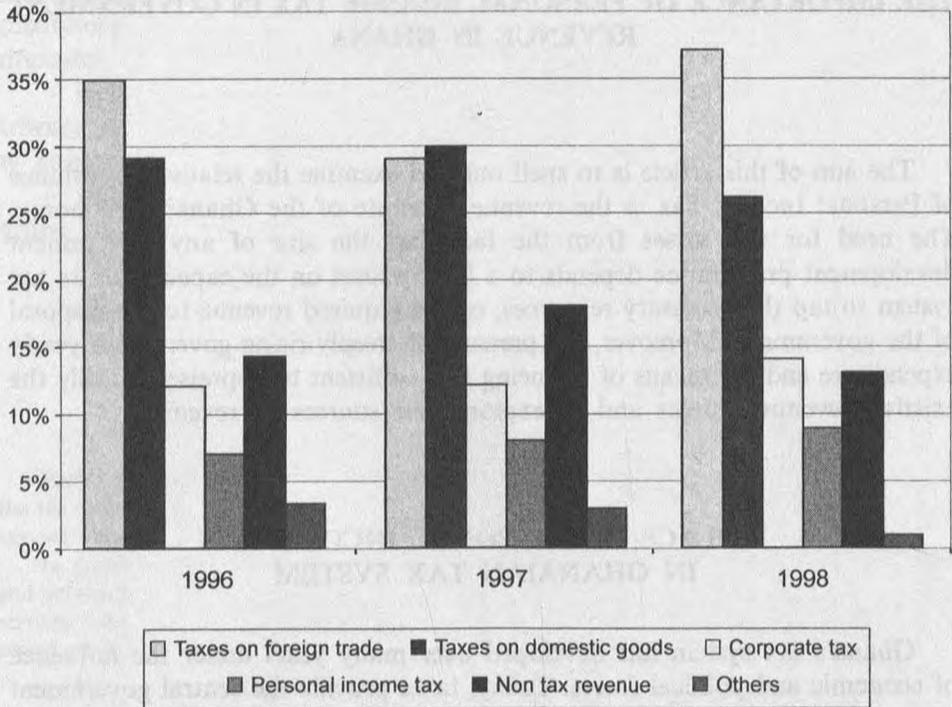


Fig. 1. The share of individual tax contribution to total budget revenue

Taxes on domestic goods which rank second from the graph gave out 29, 30 and 26% in 1996, 1997 and 1998 respectively. With the introduction of the new VAT system in the country contribution from this source has the prospect of improving.

Non tax revenue which include grants and aids is also a very important source of government revenue. This source contributed 14, 18 and 13% in 1996, 1997 and 1998 respectively.

Corporate tax which comes after non-tax revenue contributes average about 11% to total revenue. Taxes like capital gain tax and estate duty

which come under the label "other" sources do not contribute much to the government revenue. Revenue from these sources is merely below 5%. This is mainly due to the fact that these type of taxes are underdeveloped and greatly under-utilised in Ghana.

Personal Income Tax which is the main tax under discussion ranks fifth when it comes to the contribution to total budget revenue. In 1996, revenue from PIT was 7%, followed by a further increase of a 1% increase in 1997. It went up again in 1998 to 9%. It can be deduced from the graph that apart from personal income tax which has a steady increase from year to year non of the taxes from the graph behaves in a Similar way. The other taxes are characterised by fluctuation from year to year. This is a clear indication that given the necessary support, Personal Income Tax will contribute more than it does at the moment.

2. CONSTRUCTION OF PERSONAL INCOME TAX IN GHANA

2.1. TAX RATES

A feature of the Personal Income Tax as it exists in Ghana is its progressive nature Individuals and bodies of persons pay tax on their chargeable income at the graduated rates set out in the law¹. The global rate is the type of Tax rate existing in Ghana.

There are five rates operating in Ghana ranging from 5 to 35%. These rates have remained unchanged for the past years now, but the tax brackets are adjusted annually for inflation. The chargeable income and their corresponding rates are set out in table 1.

Table 1

Chargeable income and their corresponding tax rates in Ghana 1996-1998 in USA dollars (\$)

Chargeable Income 1996	Tax rate (%)	Chargeable Income 1997	Tax rate (%)	Chargeable Income 1998	Tax rate (%)
0-230	Free	0-260	Free	0-382	Free
231-340	5%	261-560	5%	383-720	5%
341-700	10%	561-1 000	10%	721-1 200	10%
701-4 100	15%	1 001-4 340	15%	1 201-4 590	15%
4 101-7 404	25%	4 341-8 500	25%	4 591-10 200	25%
Above 7 4040	35%	Above 8 500	35%	Above 10 200	35%

Source: Statistical department, Ghana.

¹ P. O. Andah, *Ghana Income Tax Law and Practice*, vol. 1, Accra 1987, p. 15.

In Ghana the first slice of income (\$ 230) is exempted from tax, the next tax bracket is taxed at a low rate of 5%. There after there is a regular increase of 5 until 25%. The terminal rate is 35% on every dollar exceeding \$ 7404.

2.2. EXEMPTIONS

The income Tax decree in Ghana exempts certain incomes from taxation. The most important among them are listed below:

1. The salary, allowances, pension and gratuity of the President.
2. The income of local authority.
3. The income of an ecclesiastical charitable or educational institution of a public character in so far as such income is not derived from a trade or business carried on by such institution².
4. The income of a body of persons formed for the purpose of promoting social or supporting amenities not involving the acquisition of gain by the body of persons or by its individual members, subject to such conditions as the commissioner may determine.
5. The income accruing from any farming enterprise in Ghana that is to say, any enterprise concerned with the production of crops, fish or livestock in Ghana, but if it is income accruing to a person engaged in Such farming enterprise as follows:
 - in the case of tree crops such as coffee, oil, palm, shea butter, rubber and coconut during the 10 years following the date of the first harvest,
 - in the case of fish farming and poultry during the first 5 years following the commencement of the said enterprise,
 - in the case of cattle during the first 10 years following the commencement of the said enterprise,
 - in the case of livestock excluding cattle and poultry, during the first 5 years following the commencement of the said enterprise,
 - Capital sums received by way of retirement on account of old age or retirement or retirement on account of sickness or other infirmity of mind or body, as death gratuities or compensations for death or injuries,
 - The income of rural banks for the first ten years of their commencing operations.
 - Any benefit received under the social security law 1995³ by a minor or any person of the compulsory retiring age,

² *Commissioner of Internal Revenue. Income Tax Decree 1975, Accra 1997, p. 9-12.*

³ *People National Defence council law 247, Accra 1995.*

- The income accruing to the Ghana Stock Exchange during the first 10 years of its existence.

2.3. RELIEFS

Under the existing tax system any individual tax payer is allowed a free tax as well as allowances in respect of life insurance and a contribution made to a pension fund approved by the commissioner or any contribution made under the social security fund. In addition to the above the following reliefs are allowed to the following categories of individuals:

- a) a married man,
- b) a married woman who maintains her husband and their household, provided that the husband of the woman who claims this relief shall not be entitled relief under the one mentioned in (a) above,
- c) an unmarried man with two or more children who depend on him,
- d) an unmarried woman with two or more children who depend on her:
 - provided that no such relief shall be granted to a married person unless that person produces a married certificate or a certified copy of the registration of the marriage to support the claim,
- e) any individual who proves to the satisfaction of the commissioner that he is a disable person and is either self-employed or an employee shall be allowed an account of his disablement a deduction calculated at 25% of the total income accruing to him, from any trade, business, profession in which he is engaged or, as an employee,
- f) children education relief,
- g) old age relief,
- h) relief for aged dependent relative. Under People National Defence Council Law 270 of 1991, any individual who proves to the satisfaction of the commissioner that he has an aged relative who is dependent on him shall be allowed a relief to a maximum of two such relatives⁴.

3. ROLE OF PERSONAL INCOME TAX IN GHANAIAN ECONOMY

Personal Income Tax does not play a significant role in the Ghanaian economy. This is due to the fact the contribution from this source to the budget is quite small. The graph from page 9 indicates that it gave the government budget an average of 8% from 1996-1998. However it can be

⁴ G. C. Aryee, *Notes and Exercises on Ghana Income Tax*, Accra 1989, p. 9-10.

deduced from the graph that the contribution by Personal Income Tax is steady. That is, 7, 8 and 9% in 1996, 1997 and 1998 respectively. This steady increase in Personal Income Tax seems to suggest that this source of tax revenue is very reliable though it forms a small percentage of total budget revenue.

Personal Income Tax together with Corporate Tax are the major reliable direct taxes in Ghana. The other direct taxes notable Property Tax and Estate Duties have not had the necessary attention that would raise their efficiency in Ghana.

4. DRAWBACKS OF PERSONAL INCOME TAX

Personal Income Tax has not been able to perform as it is expected. Several factors are responsible for this.

The first feature is the low taxable capacity of the economy. Majority of the populace falls in the low income group, this makes it difficult for the government to impose huge taxes on them, for example the tax rate on the lowest income earner is only 5%, though these group of people form a larger proportion of the total employee population. On the other hand, the high income group who are expected to pay more form only a small proportion of the total employee population.

This low taxation potential is the first impediment to the attainment of enough revenue taxes for the finance of government expenditure. Apart from this, Personal Income Tax is hardly levied on the agricultural sector which incidentally employs majority of the Ghanaian population.

Moreover, contrary to the situation existing in most developed countries, a lot of people either evade tax or underestimate their income for tax purposes. For instance, a host of self-employed professionals do not declare their income for tax purposes. These group of people which include shoemaker, barbers, tailors *etc.* are scattered over the whole country and their contribution can soar up the contribution of Personal Income Tax to the government revenue, but rather unfortunately most of them do not meet their tax obligation. The lack of efficient tax personal to check these mal-practices add insult to injury.

As graph 1 indicates Personal Income Tax ranks 5th when it comes to the contribution to Government revenue after taxes on foreign trade, excise tax, non-tax revenue and corporate.

5. WAYS OF IMPROVING PERSONAL INCOME TAX

If Personal Income Tax is ever to become an important and growing source of revenue in Ghana, certain problems ought to be tackled. First of all, there is an urgent need to review the whole income tax structure, more especially to train more quality tax personnel in this field.

Secondly if ever Personal Income Tax is to become a good source of revenue, there is the need for a high standard of literacy among tax payers. The illiteracy rate in Ghana according to the 1984 population census is 40% and a high level of illiteracy implies that accurate determination of income is virtually impossible⁵. For instance the application of the tax to the incomes of market women is particularly difficult because these groups of people are not able to keep any records of how much they earn in a year for income tax purposes. Again, there may be a mistaken belief on the part of some illiterate tax payers that only wages and salaries represent taxable income.

Since an income tax will only function well in an atmosphere in which there is a high degree of tax payer knowledge of the law and voluntary co-operation, it follows that a considerable amount of administrative resources should be spent on assisting or encouraging the tax payer to comply with the law rather than forcing him to do so. There are innumerable opportunities for this to be successfully implemented. The opportunities include the publication and wide dissemination of tax payer guides, regulations, instruction sheets on the income tax law, advertising and publicity through news papers, radio and television, educational programmes in the school system and periodical seminars on the income tax system to the self-employed persons in practising trades, professions, businesses and vocations, including petty trading.

There is also the need to make it clear in peoples mind the association between the taxes they pay and the benefits they receive from government expenditure programmes because the more apparent this link is, the greater the likelihood that people will be willing to pay their taxes and perhaps more importantly to work harder in order to earn more money to pay them. In this direction, it is to be expected that if through the medium of the Institute of Adult Education and the Ministry of Information, tax payers can be educated sufficiently to appreciate the need for taxation for government development programmes and can actually be shown some of the benefits they receive, the desire to under-estimate incomes or even evade income will reduce. Thus the necessity to educate the tax payer is most pertinent. A good step which has been adopted by the government to

⁵ *Census office, Demographics Characteristics, population census of Ghana*, vol. 3, Accra 1984.

improve the collection of taxes is the greater use now made of Income Tax Clearance Certificates. No Certificate is issued to any person who has not either settled his tax liability in full or made satisfactory management for its purposes. To ensure maximum success, the various Ministries have been co-ordinating their efforts. For instance, before any expatriate entrepreneur in Ghana is issued with a re-entry permit for travelling purposes from the Ministry of Internal Affairs, he has to produce his tax clearance certificate issued by Internal Revenue Service for inspection.

Honest and efficient administration are therefore other prerequisites for personal income taxation to be a growing and dependable source of revenue to the government. With the introduction of Income Tax Clearance Certificates, there is the need for the government to ensure the absolute incorruptibility of the administrative Staff Charged with the issue of the certificates. If there are severe penalties for non-payment of income taxes, there should also be severe penalties for officials who aid people to evade taxes. To check this, the Internal Revenue Service can devise a system in which tax payers fill in a simplified form on which they will declare their incomes and claim relief, as for example life insurance. The relief to be claimed should be based on how much you declare at the end of the year. The onus will then be on the tax payer to fill in his income tax return and claim reliefs. Thus, an incentive will be created for tax payers to avoid under estimating their incomes and for tax consciousness to be created in the minds of people. Those illiterates who can not fill in the forms can employ others to do it for them. In such instances, officials from the Internal Revenue Service may not have the chance to be bribed since the failure to declare your income will mean failure to claim certain reliefs.

Finally Since Ghana is predominantly an agricultural country, efforts must be made to raise the revenue from the land through agricultural taxation by making the latter more responsive to growth in agricultural out put and prices. Agricultural incomes must be aggregated with non agricultural incomes for tax purposes.

To sum up, for the government to improve upon the contribution of Personal Income Tax to government revenue there is the need to step up measure like training of tax personnels, education of the masses on the need to pay tax, severe penalties to tax evaders and corrupt tax officials. It is only when these measures are resorted to that Ghana as an economy can come somewhere near the developed economies where Personal Income Tax plays a significant role in budget revenue.

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ZNACZENIE PODATKU DOCHODOWEGO OD OSÓB FIZYCZNYCH DLA DOCHODÓW BUDŻETOWYCH W GHANIE

Celem artykułu jest opisanie znaczenia podatku dochodowego od osób fizycznych dla dochodów budżetowych w Ghanie. W rzeczywistości, ze względu na jego mały udział, podatek ten nie odgrywa znaczącej roli w dochodach budżetowych. Jednak udział tego źródła w dochodach budżetowych jest, w porównaniu z innymi źródłami, stały. Artykuł wskazuje na problemy będące przyczyną niskiego udziału podatku dochodowego od osób fizycznych w dochodach budżetowych oraz prezentuje możliwości ich rozwiązania.