



The Awareness of Employees on Tax Relief Scheme in Ghana

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Abstract

Tax relief is a legally approved allowance intended to reduce one's taxable income and thereby lessen the tax burden. It is intended to cushion the effect of tax on the individual and to make it bearable for him or her to pay the tax. Since tax reliefs have as an objective to lessen the tax burden of the tax payer, governments all over the world have come out with different tax relief schemes. Ghana government is no exception to this. Unfortunately, this scheme which is supposed to lessen the tax burden has not been taken advantage of by tax payers in Ghana, according to the Minister of finance of Ghana. This whipped the interest of the researchers to find out the awareness of tax payers particularly, employees on the tax relief schemes in Ghana. The population of the study comprised all employees of the private and public sectors of Ghana. The respondents were purposively selected from Greater Accra, Ashanti and Brong Ahafo regions of Ghana. Primary data was collected to serve as the main source of data through the use of self-structure questionnaire. The researchers distributed one hundred and fifty (150) questionnaires each in Greater Accra and Ashanti regions and one hundred (100) in Brong Ahafo Region. Two hundred and nineteen (219) questionnaires were received and used for the study. The study found that employees are aware of the tax relief schemes available to employees in Ghana, only that few have accessed or claimed from the scheme before.

Key words: Tax; Employees; Tax reliefs; Tax payers

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INTRODUCTION

Governments all over the world depend on all manner of revenues from different sources to run the economy. Among the revenues relied upon by governments is income from tax. Taxation is defined as any system that compulsorily ensures the surrender of control of an entity's private goods and or services to enable a government in the provision of public goods and services (Sarpong, Appiah, Takyi, & Osei, 2011). Tax is also defined by Aheto (2012 cited in Amponsah, Enahoro, and Ali-Nakyea, 2012) as "a form of compulsory contributions or payments from households and firms or organizations to support government expenditure" (p.1). Even though the definitions of taxation above connote compulsory imposition, governments come out with strategies to induce more people to pay their taxes.

Since tax is seen as a burden to taxpayers, they find different ways and methods to avoid and if possible to evade tax. As a result, one of the strategies that governments use in attracting taxpayers to pay their full tax is through the introduction of tax reliefs. The tax relief strategy is to help reduce the tax burden on the individual tax payer. At the same time it induces the taxpayer to file returns which helps to disclose all earnings of the employee which may not have been captured for tax purposes since some of the reliefs are not automatic.

Tax relief is therefore defined as an approved deductible allowance intended to reduce taxable income and thereby lessening the tax burden of the taxpayer. The tax reliefs are given by the government to help reduce the tax liability of the individual tax payer through a reduction in the assessable income of those who qualify. The reliefs are granted on annual basis. According to Sarpong, et al. (2011), the reliefs do not relate to the type of income earned but wholly depend on the status of the individual. Thus, these reliefs are available to all individuals and not restricted to employees only.

In Ghana, there are three (3) main categories of reliefs

according to Ghana Revenue Authority (GRA). These are personal reliefs, relief from double taxation, and roll over relief (Ghana Revenue Authority, n.d). This study only focuses on personal reliefs enjoyed by employees who earn employment income. This is because; the employees who earn employment incomes suffer tax deduction at source; thus their employers are required by law (Internal Revenue Act, 2000, Act 592) to deduct the tax before the employees are paid their salaries or wages.

The personal reliefs available to employees according to Section 39 of Act 592 are: marriage/responsibility, disability, old age, child education, aged-dependant, cost of training/self-improvement, social security and life assurance. These reliefs have been divided into upfront reliefs, and those granted upon filing of returns. Reliefs granted upfront are marriage, child education, disabled and aged relief. On the other hand, reliefs granted upon filing of returns are, aged dependency relief, individual undergoing training and life insurance (Ghana Revenue Authority, n.d).

This study has been necessitated by the observation made by the Minister of Finance and Economic Planning of the Republic of Ghana when he appeared in the Parliament house to present the budget statement for the year 2012. He was quoted as saying, "It has been observed that many individual tax payers are not taking advantage of the tax relief scheme," (Ministry of Finance and Economic Planning, 2012, p. 19). The study therefore seeks to investigate the awareness level of individual taxpayers in Ghana towards the tax relief scheme.

1. LITERATURE REVIEW

1.1 Definition of Taxation and Income Concept

Jones (1999) defined tax as a payment to support the cost of government. Tax comes in different forms ranging from a fine to penalty imposed by a government. To add, taxes are compulsory and as such, anyone subjected to a tax does not have the freedom to choose whether or not to pay. Again, Pratt and Kulsrud (2001) defined tax as a means through which the government derives a majority of the revenue necessary to fund its operations. Tax is not merely a source of revenue to the government but has become a powerful instrument that policy makers use to attain social as well as economic goals. From the above definitions, it can be deduced that tax is monies compulsorily paid by citizens and residents to federal, state, and local governments to help fund for services provided by the government. It serves as one of the main sources of government revenue.

The term "income" is difficult to define since it is very broad. Due to this, the Internal Revenue Act 2000 could not specifically define it. The term income is not specifically defined by Act 592 (2000 as amended). However, it has been regarded to mean a periodic monetary return coming in with some sort of regulatory or expected regulatory from

definite source. The Act further explains that income could be received in cash or in kind. In the meantime, personal income from an employment was defined by section 8(1) of the Act which stipulates that "a person's income from an employment is that person's gain or profit from that employment. Section 2 of the Act stipulates that "the gains or profit from an employment of a person includes any allowance or benefit being in cash or given in kind to, or on behalf of that person from that employment."

According to the Internal Revenue Act, 2000 (Act 592 as amended), income can be either chargeable or assessable. According to the Act, a chargeable income of a person for a year of assessment is the total of that person's assessable income for the year from each business, employment, and investment less the total amount of deductions allowed to that person for the year. Assessable income is also defined as a person's income for a year of assessment from business, employment or investment; in the case of a resident person, the full amount of the person's income from the business.

A person's income from an employment is that person's gains or profits from that employment. Act 592 section 8 states that, the gains and profits from an employment of a person include any allowances or benefits paid in cash or given in kind to, or on behalf of that person from that employment. Any amount, allowance or benefit is a gain or profit from employment if it is provided by the employer or an associate of the employer in respect of past, present, or prospective employment (Act 592, 2,000 amended).

1.2 Tax Reliefs

A tax relief is a legally approved allowance intended to reduce one's taxable income and thereby lessening the tax burden. It is intended to cushion the effect of tax on the individual and to make it bearable for him or her to pay the tax. Tax reliefs are subtracted from an individual's assessable income before applying the tax rate (Ali-Nakyea, 2008). Thus, it may be described as statutory deduction from assessable income in ascertaining the chargeable income of an individual and are granted on annual basis. Also, the Internal Revenue Service of Ghana defines tax relief as an approved deductible allowance intended to reduce the taxable income thereby lessening the tax burden of the individual.

The following reliefs are allowed under Section 39 subsections 1 and 2 of the Internal Revenue Act, 2,000 (Act 592):

- a. **Marriage/Responsibility:** This relief is granted to any person with a dependant spouse or any person with at least two dependent children. In this sense, only one spouse is entitled. Thus, the couple must decide which of them would claim this relief. The relief would only be granted on the production of a marriage certificate or a certified copy of registration of the marriage to support the claim.

- b. **Disability:** This relief is limited to income from business and/or employment only and granted to a person who is certified to be disabled by the Department of Social Welfare only.
- c. **Old age:** This relief is granted to person(s) who are sixty (60) years and above and is/are in receipt of income from business and/or employment.
- d. **Child education:** This relief is granted to persons who have children/wards in recognized educational institutions in Ghana. Both parents cannot claim this relief in respect of the same child. The individual may only claim a relief in respect to only three children or wards. This is granted only on the production of a certificate issued by a head of the educational institution concerned stating that the child or ward is a pupil in that institution.
- e. **Aged-dependents:** This relief is granted up to a maximum of two aged-dependents and only one person can claim this relief in respect of the same aged relative.
- f. **Cost of training/self-improvement:** It is given to any individual taxpayer who undergoes training to update his professional, technical or vocational skills or knowledge.
- g. **Social security:** This relief is granted to persons who contribute to the Social Security Scheme in Ghana.
- h. **Life assurance:** The scheme must be invested in Ghana and annual premium paid is allowed as relief.

Table 1
Summary of Tax Reliefs and Rates Available in Ghana

Kinds of tax reliefs	Year and rates		
	2001-2006	2007-2010	2011- Present
Marriage/ responsibility	GHC30 per annum	GHC35 per annum	GHC100 per annum
Disability	25% of total income per annum (excluding investment income)	25% of total income per annum (excluding investment income)	25% of total income per annum (excluding investment income)
Old age	GHC30 per annum	GHC35 per annum	GHC100 per annum
Children education	GHC24 per child per annum	GHC30 per child per annum	GHC100 per child per annum
Aged dependant relative	GHC20 per dependant per annum	GHC20 per dependant per annum	GHC50per dependant per annum
Cost of training	GHC50 per annum	GHC100 per annum	GHC200 per annum

Note. Source: adapted from Ghana Revenue Authority.

1.3 Empirical Review

An earlier study on *The UK Tax System, Structure and Progressivity, 1948-1982* came to a conclusion that people may be surprised to be aware that income tax allowances have fallen relative to incomes due to changes in the structure of National Insurance contributions and the change from purchase tax to VAT more outweighs the consequent decline in progressivity (Dilnot, Kay, & Morris, 1984, pp. 163-164).

Again, Whittington, Alm, and Peters (1990) conducted a study on fertility and personal exemptions and concluded that although the elasticity of birth with respect to personal exemption is small, statutory changes in the value of this subsidy is relatively large.

Another study by Fuchs and Lietz in 2007 on the effects of changes in tax/benefit policies in Austria 2003-2005 came to a conclusion that tax/benefit reforms between 2003 and 2005 even though produced an average increase of disposable income, but had no strong impact on income distribution and poverty. This they claim is as a result of the reforms not being budget neutral and were implemented at a higher budget deficit.

Also, Commito (2009) drew a conclusion that, the IRS's prompt and comprehensive response on behalf of victims of Ponzi-type schemes is of great value for all financial advisors and tax professionals. He continued that the safe-harbor revenue procedure contains a lot of practical tax advice on the specific for reporting the

investor losses for tax deduction purposes. This he posited in the study titled "IRS Provides Relief for Victims of Ponzi-Type Schemes".

Furthermore, a study conducted by Cosmin, Doina, and Ion (2013) arrived at a conclusion that higher tax rates are offset by the personal deduction resulting in overall smaller taxable income. Lastly, Zeva in 2012 wrote an expert opinion about personal tax relief and concluded that "Personal Tax Relief is a legitimate and accurate way to pay low paid workers" (p. 30).

2. METHODOLOGY

The population of this study comprised all workers/employees of private and public sectors of Ghana. The researchers chose employees because they pay tax at source, thus, Pay-As-You-Earn (PAYE). This leaves this group of people in Ghana with no choice of whether to pay tax or not since it's mandatory for the employer to deduct tax from their salary at source. The study employed convenience sampling method in selecting the respondents.

The respondents were purposively selected from three regions in Ghana. The regions were Greater Accra, Ashanti and Brong Ahafo. The reason for choosing these regions is that they house most employees in Ghana. Data collection was mainly from a primary source. The instrument used for data collection was a self-structured questionnaire. The researchers distributed one hundred

and fifty (150) questionnaires each in Greater Accra and Ashanti regions and one hundred (100) in Brong Ahafo Region. The distribution was based on regional population census conducted by Ghana Statistical Service in 2010. In all two hundred and nineteen (219) questionnaires were received and used for the study.

The questionnaire was designed by the researchers. The questionnaire comprised of closed ended questions. The questionnaire solicited for demographic data and data concerning the objective of the study. The questionnaires received from the respondents were analyzed qualitatively through the use of percentages with the help of Statistical Package for Social Sciences (SPSS) and Microsoft Excel application.

3. RESULTS AND DISCUSSION

The respondents of the study consisted 23.7% females and 76.3% males. This implies that majority of the respondents were males. The age distribution was made up of 51.4% representing the ages of 30 to 39 years, 25.2% within the ages of 20 to 29 years and 18.3% falling within 40 to 49 years. Majority of the respondents were married constituting 58.4% while 39.3% and 2.3% were single and divorced respectively. The sector in which the respondents worked was made up of 47% from the private sector and 53% from the public sector.

The study revealed that 91.8% of the respondents pay tax while just 7.3% do not pay tax. This implies majority of the respondents qualify for one or more tax relief as long as they pay tax. The period for which the respondents have worked in their respective sectors being it private or public were: 30% had worked between 1-4 years, 31% also had worked between 5 and 9 years followed by 19% between 10-14 years, while those that have worked between 15-19 years and 20 years and above were 10% each.

The respondents were asked whether they have children attending basic/senior high school in Ghana, 51% responded yes to the question and 49% responded no to the question. The impulse of this question was to know the total number of respondents who qualify for child education relief.

According to the respondents, when asked about their dependents (thus those who depend on the respondents), 21.1% indicated that they have spouses, 20.5% had siblings as their dependents, 27.5% had parents as their dependents and 30.8% had children as their dependents. The study revealed that 68% had parents who were 60 years and above and 32% did not have parents who were 60 years and above. This means that 68% of the respondents qualify for aged dependent relief.

When the respondents were asked whether they were aware of tax reliefs available to employees who pay tax in Ghana, 78.1% indicated that they were aware while only 21.9% were not aware of the tax relief system in Ghana. Out of the 78.1% who were aware of the tax reliefs

available to employees, only 14.6% were very much aware of its existence, 23.3% were much aware of it and 40.2% were aware of it. This indicates that majority have just fair knowledge about the existence of tax reliefs.

It was therefore not surprising when asked about those who have claimed/enjoyed tax relief before; only 19.2% out of the 78.1% who were aware of the tax relief have claimed it before while overwhelming 58.9% have never claimed tax relief even though they are aware of it. This shows that even though the awareness level of taxpaying employees in the public and private sectors of Ghana is high, their ability to utilize the tax relief system is woefully low.

Furthermore, the issue concerning the type of relief which have been accessed by those who have claimed tax relief before revealed that out of the 19.2%; 6.9% have applied for marriage/responsibility relief, 3.8% have applied for child education relief and 3.5% have claimed cost of training/ self-improvement relief. These were the most claimed reliefs by the employees. Surprisingly, when the employees were asked earlier concerning the people that depend on them, almost every employee had one or more dependent ranging from children out of which 51.1% are attending basic/senior high schools, spouse representing 58.4%, to parents who were above 60 years representing 68%. This means that majority of the employees qualify for at least three reliefs, thus, marriage/responsibility relief, child education relief and aged dependent relief. Unfortunately just 19.2% of these employees have enjoyed one or more of these reliefs available to them.

It is unfortunate that even the percentage of employees that have worked between 5 and 19 years represents 59.8% of the respondents which is even three times higher than the percentage of people who have applied for tax relief before. This indicates that there may be something wrong with the tax relief system of Ghana, or the employees may not have seen the need why they should access this service available to them. This goes to buttress the Finance Minister's observation that "many individual tax payers are not taking advantage of the tax relief scheme."

CONCLUSION AND RECOMMENDATION

Tax relief system/scheme is a mechanism by which governments all over the world use to reduce the tax burden of tax payers. Governments in developed countries like the United Kingdom have looked at ways to let this scheme benefit its tax payers. The tax relief scheme in Ghana is supposed to reduce the burden of the tax payer. For the tax payer to enjoy this scheme, one must file his or her returns to the Ghana Revenue Authority to enjoy this service. Due to the observation by the Finance minister, the researchers sought to find out whether tax payers particularly employees are aware of the tax relief scheme.

The study revealed that, majority of employees (tax

payers) are aware of the tax relief scheme available to tax payers in Ghana only that just minority (19.2%) have claimed or applied for this scheme before. This revelation may be due to the fact that employees may be aware of the tax relief scheme but may not know how it can be claimed. Another reason may be that the employers who are supposed to file on behalf of the employees once they qualify for the upfront reliefs are not doing their best. It may also be that the procedure one must go through to claim the relief may be cumbersome. This can lead employees not to apply for the relief. The last reason may be that the amount involved for the employee to enjoy as a tax relief is not motivating enough for one to go through the trouble to claim the relief.

As a result of these, the researchers would want a further study to be conducted on the reasons why majority of employees have not been accessing the tax relief scheme. Also, Ghana Revenue Authority must embark on serious educational programmes to help bring to the notice of the tax payers the benefits of tax relief schemes and why it must be accessed by all tax payers. The study was limited to only three regions and as such the generalization of the findings is limited. Further studies can be conducted to cover all regions in Ghana, and also larger sample could be drawn from all regions to aid generalization of findings.

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