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## The Influence of Tax Knowledge on Tax Payment Compliance in the Informal SME Sector of Ghana

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### Abstract:

The study investigated the influence of tax knowledge on tax payment compliance in the informal SME sector of Ghana. Specifically, the study looked at the statistically significance effect between (1) Procedural Tax Knowledge and payment tax compliance among SMEs in the informal sector in Ghana, (2) legal Tax Knowledge and payment tax compliance among SMEs in the informal sector in Ghana and (3) general Tax Knowledge and payment tax compliance among SMEs in the informal sector in Ghana. To achieve the objectives, the study collected data from 584 informal SMEs operating in the Greater Accra Region. The study employed correlation and multiple regression analyses to establish the relationship between the dependent variable and the independent variables. The study found a statistically significant positive effect between Procedural Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana ( $B=0.377$ ,  $P=0.000$ ). The study also found a statistically significant positive effect between legal Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana ( $B=0.169$ ,  $P=0.000$ ). The study finally found a statistically significant positive effect between general Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana ( $B=0.273$ ,  $P=0.000$ ). The study provided tailored recommendations for policy directions in the informal SME sector.

**Keywords:** Tax payment compliance, informal SME sector, procedural tax knowledge, legal tax knowledge, general tax knowledge

### 1. Introduction

The informal Small and Medium-sized Enterprises (SMEs) sector is a vital component of Ghana's economy. It contributes significantly to employment and income generation, especially in urban and semi-urban areas. According to the Ghana Statistical Service (GSS), the informal sector employs about 86.1% of the total workforce, making it an essential segment of the economy (GSS, 2021). This sector includes a wide range of businesses, from street vendors and small retail shops to artisanal and service enterprises. Despite its significance, the contribution of the informal sector tax revenue remains insignificant.

Any nation's ability to grow economically depends on its citizens paying their taxes. The degree to which taxpayers fulfil their tax duties as outlined in the tax laws is referred to in this study as tax compliance. For any nation to be economically and socially prosperous, its citizens must be prepared to pay their fair share of taxes (Kiconco et al., 2019). Poor tax compliance has always been a significant issue in the informal sector. The informal sectors SMEs in Ghana have extremely poor compliance rates, which makes it difficult for the government to raise taxes (Peprah, Abdulai & Agyemang-Duah, 2020; Addo, 2022). The government loses out on significant income due to low tax compliance rates in the informal sector, which is essential for paying for social programs, public services, and infrastructure development (Moore, 2014).

The poor tax compliance rates in the informal sector are caused by several reasons. These include the high cost of compliance, the tax system's alleged injustices, and the general suspicion of the government (Fjeldstad & Heggstad, 2012). Due to the sector's informal character, these enterprises sometimes lack the appropriate accounting procedures, which make it challenging to maintain the precise records needed for tax reasons. To further complicate their capacity to comply with tax responsibilities, a large number of SMEs in the informal sector lack basic knowledge of the legal, procedural, and general elements of tax compliance (Atawodi & Ojeka, 2012). Because of this knowledge disparity, efforts must be directed at enhancing tax compliance among SMEs operating in the informal sector to augment revenue collection and bolster national development objectives.

The strategy needed to increase tax compliance in the informal sector is to increase SMEs' tax literacy. The three primary categories of tax knowledge in this study are procedural, legal, and general. Understanding the steps and procedures involved in tax compliance, such as how to submit returns, register for taxes, and when payments are due, is known as procedural tax knowledge. This knowledge is vital to guarantee that taxpayers can fulfil their responsibilities without needless delays or mistakes (Saad (2014).

The term "legal tax knowledge" describes one's awareness and comprehension of tax laws, rules, and duties. It entails being aware of the taxes due, the appropriate tax rates, and the ramifications of non-compliance on a legal basis. SMEs in the unorganized sector frequently function without having a complete understanding of these legal obligations,

which may result in both deliberate and inadvertent non-compliance (Palil, 2010). A thorough grasp of the goals and advantages of the tax system is included in general tax knowledge. A greater willingness to cooperate willingly may arise from citizens realizing that public goods and services are funded by tax money. Improving general tax awareness may encourage paying taxes with a favourable attitude, which would increase compliance rates (Mukhlis, Utomo, & Soesetio, 2015).

Comprehensive and specialized initiatives are needed to improve tax compliance among SMEs in the informal sector. Programs for education and training that improve legal, procedural, and general tax knowledge are crucial. These initiatives must be accessible and adapted to the requirements of firms operating in the informal sector. Reducing the burden of compliance and fostering confidence in the tax authorities may also be achieved by streamlining and transparentizing the tax system (Bird & Wallace, 2003). Furthermore, offering rewards for compliance—like tax breaks or streamlined tax laws for small enterprises—might promote voluntary compliance.

This study aims to evaluate the impact of tax knowledge (procedural, legal, and general) on tax payment compliance among informal SMEs in Ghana in order to close a gap in the literature. The study's conclusion is essential for raising compliance rates. Consequently, this will boost economic growth and raise government income. Ghana can improve the fairness of the distribution of tax burdens and fortify its tax system by tackling these issues. In the Ghanaian context, this study specifically aims to meet these three research objectives:

- To establish the influence of Procedural Tax Knowledge on payment tax compliance among SMEs in the informal sector in Ghana.
- To examine the influence of legal Tax Knowledge on payment tax compliance among SMEs in the informal sector in Ghana.
- To determine the influence of general Tax Knowledge on payment tax compliance among SMEs in the informal sector in Ghana.

In so doing, the following three null research hypotheses were developed:

- There will be no statistically significant effect between Procedural Tax Knowledge and payment tax compliance among SMEs in the informal sector in Ghana.
- There will be no statistically significant effect between legal Tax Knowledge and payment tax compliance among SMEs in the informal sector in Ghana.
- There will be no statistically significant effect between general Tax Knowledge and payment tax compliance among SMEs in the informal sector in Ghana.

## 2. Theoretical Underpinnings and Literature Review

### 2.1. Economic Deterrence Theory (EDT)

The rational choice theory, which is the foundation of economic deterrence theory, holds that people make decisions by weighing the predicted value of several options (Becker, 1968). Becker's groundbreaking work established the framework for viewing crime and punishment from an economic perspective by suggesting that prospective criminals weigh the likelihood of being caught and the seriousness of the penalty before determining whether to commit a crime. This point of view holds that crime should decrease if the expected cost of illegal action is raised by greater penalties or more enforcement.

The findings of empirical research on economic deterrence have been conflicting. The idea is supported by certain studies, which show that tougher laws and more enforcement may lower crime. Chalfin and McCrary (2017) discovered, for example, that some crime rates fall in proportion to the perceived danger of being caught and punished. In a similar vein, Drago, Galbiati, and Vertova (2009) noted that recidivism significantly decreased in Italian jails once harsher punishments were implemented.

Though tougher punishments could discourage some offenders, Levitt (1997) contends that generally, the effect on crime rates is frequently negligible. He observes that a large number of criminals fail to do a logical cost-benefit analysis because of things like addiction, mental health problems, or ignorance of the consequences. Furthermore, Nagin (2013) emphasized that the certainty of penalty serves as a more powerful deterrent than severity, implying that enhancing detection and enforcement systems may be a more efficient course of action than merely toughening up the penalties.

Enhancing procedural tax knowledge, in accordance with EDT, raises the perceived chance of discovery and discourages non-compliance. Because knowledgeable taxpayers are less likely to commit errors that might lead to audits or investigations, this is the case (Allingham & Sandmo, 1972). Understanding legal taxes increases the perceived seriousness of fines, discouraging tax avoidance. Taxpayers are more inclined to abide by the law when they are aware of the severe penalties for non-compliance (Becker, 1968). The perceived advantages of compliance are impacted by general tax understanding. According to EDT, taxpayers are more likely to cooperate willingly when they perceive paying taxes as advantageous rather than onerous and are aware of the benefits of their contributions (Alm & Torgler, 2011).

### 2.2. Procedural Tax Knowledge and Tax Compliance

Understanding the steps and procedures involved in paying taxes, such as how to submit returns, register for taxes, and meet deadlines, is referred to as procedural tax knowledge. This information is essential to make sure taxpayers fulfil their duties without needless complications or delays (Saad, 2014). Many SMEs in the unofficial sector lack sufficient awareness of tax procedural laws, which may result in inadvertent non-compliance.

For example, Atawodi and Ojeka (2012) found that high rates of non-compliance arise from SMEs in developing nations not understanding the procedures needed for tax compliance. Their research made clear that one of the main obstacles to compliance is a lack of procedural tax understanding. The intricacy of tax registration procedures and the proper filing of tax returns frequently present challenges for SMEs. This ignorance not only causes delays but also raises the possibility of mistakes, which can lead to fines and discourage compliance even more.

Saad's (2014) research lends credence to the idea that procedural tax knowledge plays a major role in tax compliance. According to Saad (2014), people are more likely to abide by tax laws if they are aware of the processes. This is because they are more adept at navigating the tax system, which lowers the possibility of errors and guarantees timely filings. The report underlines once more how important it is for tax authorities to streamline processes and give clear, understandable information to taxpayers—especially those in the unorganized sector.

Similar findings were obtained in a 2010 research carried out in Kenya by Marti, Wanjohi, and Magutu. They observed that SMEs were more compliant when they had more awareness of procedural taxes. The study found that one of the main causes of non-compliance was the absence of assistance and training from tax officials. Tax authorities may contribute to higher compliance rates by giving SMEs the tools and information they need.

### *2.3. Legal Tax Knowledge and Tax Compliance*

The awareness and comprehension of tax rules, regulations, and duties are included in legal tax knowledge. It entails being aware of the taxes due, the appropriate tax rates, and the ramifications of non-compliance on a legal basis. SMEs frequently function in the unorganized sector without having a thorough understanding of these legal obligations, which can result in both deliberate and inadvertent non-compliance (Palil, 2010).

Palil (2010) discovered that SMEs face major obstacles due to the intricacy of tax rules and regular modifications in legislation. It is challenging for these companies to keep up with the most recent legal standards because they usually do not have specialized accounting or legal departments. This gap in knowledge raises the possibility of non-compliance due to legal ignorance or misunderstanding.

The scenario is comparable in Ghana. Sakyi (2020) found that legal tax knowledge was a significant factor in SMEs' tax compliance. According to the survey, SMEs were more likely to comply with tax regulations if they had a greater grasp of them. Nevertheless, efforts to comply are hampered by Ghana's complicated tax regulations and their regular modifications. According to the survey, to ensure that SMEs are aware of their legal responsibilities, tax authorities should give them frequent updates and training.

Additionally, Kasipillai and Abdul-Jabbar (2006) emphasized that lowering the frequency of tax evasion is facilitated by having a good awareness of the legal tax obligations. Taxpayers are more inclined to comply when they are aware of the fines and legal proceedings that might result from non-compliance. The report also suggested that to improve compliance, tax authorities should concentrate on informing taxpayers of their legal obligations.

### *2.4. General Tax Knowledge and Tax Compliance*

A thorough awareness of the goals and advantages of the tax system is referred to as general tax knowledge. The opinions of taxpayers toward tax compliance may be influenced by this kind of information. Taxpayers may be more willing to cooperate willingly if they are aware that tax revenues support public goods and services (Mukhlis, Utomo, & Soesetio, 2015).

In Indonesian research, Mukhlis, Utomo, and Soesetio (2015) discovered that tax compliance is greatly impacted by general tax knowledge. According to the study, people who had a clear grasp of how taxes are used were more likely to abide by tax laws. This implies that raising general tax awareness might encourage paying taxes with a positive attitude and increase compliance rates.

Improving SMEs' general tax understanding might be very helpful in the Ghanaian setting. According to a survey by Addo (2022), many SMEs in the unorganized sector are not well-informed about the advantages of tax compliance. Low compliance rates and a bad opinion of the tax system are caused in part by this ignorance. According to the report, tax authorities should launch public awareness efforts to inform SMEs of the value of taxes and their role in the advancement of the country.

Studies conducted by Fjeldstad and Semboja (2001) corroborate similar results. They contend that having a broad understanding of taxes increases both compliance and public confidence in the tax system. Taxpayers are more inclined to cooperate when they think their money is being spent wisely for public services. The importance of responsibility and openness in fostering this trust is also emphasized in the research.

## **3. Methodology of the Study**

### *3.1. Research Design*

The association between tax awareness and tax payment compliance in small and medium-sized enterprises (SMEs) in the informal sector was determined by utilizing a quantitative survey design. According to Mohammed et al. (2021) and Huang et al. (2021), this strategy was chosen to employ statistical methods to determine the differences between the dependent and independent variables.

### *3.2. Sample and Sampling Technique*

Data were gathered for the study from 584 unregistered small and medium-sized enterprises (SMEs) active in the Greater Accra Region of Ghana. The concentration of economic activity in the region in terms of informal business

operations, as well as the researcher's proximity to these areas, familiarity with the local environment, and perception of the higher number of SMEs, led to the selection of this region for the study (Ampaabeng, 2019).

Selecting a different area would have posed challenges in identifying unregistered small and medium-sized enterprises (SMEs). Purposeful and simple random sampling was applied in this investigation using both in-person interactions and internet platforms (such as WhatsApp).

### 3.3. Data Collection and Analysis Method

The target respondents were contacted in person and online (via WhatsApp) using structured questionnaires to gather study data. The purpose of the survey questionnaire was to gather information on tax knowledge, which was broken down into three categories: procedural, legal, and general tax knowledge. Two sections made up the questionnaires: Section A asked for demographic information, while Section B asked about tax constructs on a five-point Likert scale that included Strongly agree (5), Agree (4), Not Sure (3), Disagree (2), and Strongly disagree (1).

IBM-SPSS statistical software version 25 was employed using multiple linear regression analysis to assess the association between the independent variables (general tax knowledge, legal tax knowledge, and procedural tax knowledge) and the dependent variable (tax payment compliance). Multiple linear regression is a crucial statistical method for figuring out the link between one dependent variable and two or more independent variables, according to Mertler, Vannatta, and Lavenia (2021). In order to determine and measure the impact of each predictor, multiple linear regression analysis offers a more thorough knowledge of how various factors influence the dependent variable (Ouma, Okuku & Njau, 2020).

## 4. Results

### 4.1. Reliability and Validity Test

Validity refers to the extent to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure (Sürücü & Maslakçi, 2020). According to Rose & Johnson (2020), validity assesses the extent to which the results of the model are trustworthy and not influenced by other factors. Validation of the questionnaire was conducted by a team of 15 experts in taxation studies. Upon endorsement of validity, there is the test-retest reliability coefficient of the instrument after two weeks of administration among 50 participants.

The study revealed that Procedural Tax Knowledge had a reliability of 0.71, general Tax Knowledge had a reliability of 0.82, tax payment compliance had a reliability of 0.78, and legal Tax Knowledge had a reliability of 0.77. Thus, all the variables of the study had a reliability score above the acceptable coefficient level of  $r \geq 0.7$  (Cheung et al., 2023).

Variable Name	Mean	Std. Deviation	1	2	3	4
Payment Tax Compliance	3.63	0.81	-			
Procedural Tax Knowledge	3.53	0.76	0.598**	-		
Legal Tax Knowledge	3.33	0.72	0.479**	0.542**	-	
General Tax Knowledge	3.87	0.81	0.558**	0.592**	0.496**	-

Table 1: Mean, Standard Deviation and Pearson Correlations of Variables (N = 1168)

Table 1 reveals that Payment Tax Compliance had a mean of 3.63 and a standard deviation of 0.81, Procedural Tax Knowledge had a mean of 3.53 and a standard deviation of 0.76, Legal Tax Knowledge had a mean of 3.33 and a standard deviation of 0.72 while General Tax Knowledge had a mean of 3.87 and a standard deviation of 0.81. This indicates that General Tax Knowledge had the highest mean (3.87) while Legal Tax Knowledge had the highest standard deviation (0.72). The table also shows that the pairwise correlations between the variables are less than 0.6, which shows that the variables are not linearly related.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.661a	.437	.435	.61
a. Predictors: (Constant), General Tax Knowledge, Legal Tax Knowledge, Procedural Tax Knowledge.				

Table 2: Model Summary

Table 2 indicates the R Square, which is the per cent of variance explained by the model. The  $R^2$  coefficient of determination is 0.437, indicating that 43.7% of the variance in the dependent variables (Payment Tax Compliance) is explained by the independent variables (General Tax Knowledge, Legal Tax Knowledge, Procedural Tax Knowledge). This implies that although General Tax Knowledge, Legal Tax Knowledge, and Procedural Tax Knowledge are essential, many more variables ensure Payment Tax Compliance in the informal SME sector of Ghana.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	335.88	3	111.96	300.71	.000
	Residual	433.38	1164	.37		
	Total	769.27	1167			
a. Dependent Variable: Payment Tax Compliance						
b. Predictors: (Constant), General Tax Knowledge, Legal Tax Knowledge, Procedural Tax Knowledge.						

Table 3: ANOVA on the Relationship between Independent Variables and Tax Compliance Behavioural Intention

The table shows a statistical significance between Payment Tax Compliance and the dependent variables (General Tax Knowledge, Legal Tax Knowledge, Procedural Tax Knowledge) based on the ANOVA values;  $F(3, 1164) = 300.71$ ,  $p = .000$ . Hence, at the 0.05 level of significance, there is a statistically significant effect between Payment Tax Compliance and the dependent variables Tax Knowledge (General Tax Knowledge, Legal Tax Knowledge, Procedural Tax Knowledge).

	Coefficient	Std. Error	t	Sig.
(Constant)	.677	.102	6.661	.000
Procedural Tax Knowledge	.377	.031	12.117	.000
Legal Tax Knowledge	.169	.030	5.581	.000
General Tax Knowledge	.273	.028	9.682	.000
a. Dependent Variable: Payment Tax Compliance				

Table 4: Significance of the Independent Variables

$$\text{Let } X_1 = \text{Procedural Tax Knowledge}$$

$$X_2 = \text{Legal Tax Knowledge}$$

$$X_3 = \text{General Tax Knowledge}$$

$$Y = \text{Payment Tax Compliance}$$

Therefore, the estimated regression model is:  $\hat{Y} = 0.677 + 0.377X_1 + 0.169X_2 + 0.273X_3$ .

$\hat{\alpha} = 0.677$ : Theoretically, in the absence of all three independent variables, the score on Payment Tax Compliance is expected to be 0.677.

$\hat{\beta}_1 = 0.377$ : When Procedural Tax Knowledge is increased by 1, the score on Payment Tax Compliance is expected to be 0.377.

$\hat{\beta}_2 = 0.169$ : When Legal Tax Knowledge is increased by 1, the score on Payment Tax Compliance is expected to increase by 0.169.

$\hat{\beta}_3 = 0.273$ : When General Tax Knowledge is increased by 1, the score on Payment Tax Compliance is expected to increase by 0.273.

The result indicates that all the independent variables (General Tax Knowledge, Legal Tax Knowledge, Procedural Tax Knowledge) have a statistically significant positive impact on Payment Tax Compliance.

#### 4.2. Decision on the Hypotheses

- Hypothesis one: The study found a statistically significant positive effect between Procedural Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana. Therefore, the null hypotheses, which state that there is no statistically significant positive effect between Formal Tax Education and Payment Tax Compliance among SMEs in the informal sector in Ghana, are rejected.
- Hypothesis two: The study found a statistically significant positive effect between legal Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana. Therefore, the null hypotheses, which state that there is no statistically significant positive effect between legal Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana, are rejected.
- Hypothesis three: The study found a statistically significant positive effect between general Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana. Therefore, the null hypotheses, which state that there is no statistically significant positive effect between general Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana, are rejected.

#### 5. Discussion

- *Objective 1 - Effect of Procedural Tax Knowledge on Payment Tax Compliance among SMEs in the informal sector in Ghana.*

The first research objective sought to establish the effect of Procedural Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana. The study also hypothesized that there would be no statistically significant positive effect between Procedural Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana. The study found a statistically significant positive effect between Procedural Tax Knowledge and Payment

Tax Compliance among SMEs in the informal sector in Ghana and rejected the null hypotheses ( $B=0.377$ ,  $P=0.000$ ) (see Table 4).

A sizable amount of research backs up the claim that more procedural tax knowledge improves compliance. For example, Kirchler, Hoelzl, and Wahl (2008) contend that taxpayer compliance is higher when they are aware of the complexity of the tax system. They contend that procedural knowledge increases compliance by lowering doubts and ambiguities regarding tax responsibilities (Kirchler et al., 2008). According to Torgler (2007), those who are more knowledgeable about tax laws are less likely to evade taxes. This viewpoint, which emphasizes that greater knowledge results in higher compliance, is consistent with the study's findings. Education and knowledge of tax regulations can greatly increase the rates of voluntary compliance, according to Torgler's research on tax morale (Torgler, 2007).

Olajide (2012) conducted research in Nigeria and found that more compliant small company owners were those who had a greater understanding of tax laws. According to Olajide (2012), this conclusion is in line with the Ghanaian environment and suggests that increasing SMEs' tax awareness might raise compliance rates.

Nonetheless, other academics contend that, particularly in complicated tax systems, procedural knowledge alone might not be enough to guarantee compliance. According to Sandmo (2005), the institutional framework as a whole—which includes the administrative strength of tax authorities and the clarity of regulations—determines how effective tax knowledge is. According to this perspective, although procedural knowledge is important, other factors, like the tax system's perceived fairness and the effectiveness of its administration, may have a moderating effect on compliance (Sandmo, 2005).

Considering the favourable correlation shown, there is a compelling argument for creating focused educational initiatives to improve SMEs in the unorganized sector's procedural tax literacy. Enhancing the effectiveness and openness of tax administration is also essential. As per the findings of Alm, Jackson, and McKee (1992), a fair and effective tax administration that operates smoothly may greatly increase compliance rates. According to Torgler and Schneider (2007), increasing justice and trust can have a significant effect on voluntary compliance.

The study's conclusions are bolstered by extant literature, underscoring the significance of information in augmenting compliance. The conversation also makes clear the necessity of taking into account more extensive institutional elements and psychological aspects that influence taxpayer behaviour.

- *Objective 2 - Effect of Legal Tax Knowledge on Payment Tax Compliance among SMEs in the informal sector in Ghana.*

The second research objective sought to examine the influence of legal Tax Knowledge on Payment Tax Compliance among SMEs in the informal sector in Ghana. The study also hypothesized that there would be no statistically significant positive effect between legal Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana. The study found a statistically significant positive effect between legal Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana and rejected the null hypotheses ( $B=0.169$ ,  $P=0.000$ ) (see Table 4).

The study's findings are consistent with a large body of academic literature that emphasizes the value of tax knowledge in improving compliance. For example, Loo et al. (2009) discovered that taxpayers' views and compliance behaviour are greatly influenced by their tax knowledge. In a similar vein, Saad (2014) contended that raising compliance rates requires a well-informed taxpayer base. According to this research, taxpayers are more likely to comply with tax rules and duties when they are aware of them. Moreover, the "slippery slope framework," put out by Kirchler, Hoelzl, and Wahl (2008), postulates that tax compliance is higher when people believe the tax system to be fair and understandable. This approach highlights the importance of information in promoting voluntary compliance, which validates the study's findings.

Small-scale, unregistered enterprises that make up the informal sector present particular difficulties for tax compliance. The results of the study are especially pertinent in this situation. Joshi, Prichard, and Heady (2014) claim that poorer compliance rates are frequently caused by the informal sector's lack of regulatory control. They contend that enhancing this industry's tax expertise can help close the gap that exists between unofficial enterprises and the official tax system.

Coolidge and Ilic (2009) provided evidence to support this point of view, pointing out that tax education and streamlined tax processes greatly increase compliance among SMEs in developing nations. According to their research, informal firms are more likely to comply with tax legislation when they are aware of it since it lessens the perceived complexity and expense of paying taxes.

The literature generally supports the study's conclusions; however, other research raises the possibility that compliance may not always be ensured by tax knowledge alone. Alm, Bloomquist, and McKee (2017), for instance, noted that although tax education is important, other elements, including enforcement strategies, perceived fairness of the tax system, and trust in the government, all have a big impact on compliance. Similarly, Fjeldstad and Heggstad (2012) contended that raising tax awareness alone might not be sufficient to improve compliance rates in the setting of weak institutions. They stress the significance of comprehensive tax changes that enhance taxpayer education programs in addition to strengthening tax administration and enforcement systems.

The study's findings that legal tax knowledge and tax compliance are positively correlated have important policy ramifications, including the need for taxpayer education initiatives. The results of Palil and Mustapha (2011), who showed that focused education programs successfully raise compliance rates among SMEs, provide credence to this strategy. Furthermore, the study's findings imply that streamlining tax regulations and practices can improve compliance even further. According to Bird and Zolt (2008), small enterprises are disproportionately burdened by complicated tax systems, which results in reduced compliance. For enterprises operating in the unorganized sector, simplification combined with education can demystify the tax system and promote voluntary compliance.

The results of the study are in line with much of the previously published research. Understanding taxes is essential to improving compliance, especially in the unorganized sector. Nonetheless, it is crucial to take into account additional contributing elements including perceived justice, enforcement strategies, and faith in the government.

- *Objective 3 - Effect of general Tax Knowledge on Payment Tax Compliance among SMEs in the informal sector in Ghana.*

The third research objective sought to determine the effect of general Tax Knowledge on Payment Tax Compliance among SMEs in the informal sector in Ghana. The study also hypothesized that there would be no statistically significant positive effect between general Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana. The study found a statistically significant positive effect between general Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana and rejected the null hypotheses ( $B=0.273$ ,  $P=0.000$ ) (see Table 4).

The hypothesis that greater tax knowledge results in higher compliance has been extensively studied in the link between tax knowledge and tax compliance. According to Palil and Mustapha (2011), taxpayers who possess a greater degree of tax knowledge are inclined to adhere to tax legislation as they recognize the significance of taxes and the repercussions of non-compliance. This comprehension involves being aware of tax laws, tax filing processes, and taxpayer rights and obligations.

Similarly, tax education has a major influence on tax compliance behaviour, according to research by Loo, McKerchar, and Hansford (2009). They proposed that tax knowledge-based educational initiatives can lower tax evasion and raise compliance rates. This is due to the fact that knowledgeable taxpayers are more likely to comply with their tax duties and are less likely to be discouraged by the intricacies of the tax system.

Tax knowledge may be very important in the context of SMEs in the informal sector, which frequently operate with minimal resources and experience. These companies may not have access to specialized accounting services, which emphasizes the need for their tax knowledge. The study's conclusion that compliance is positively impacted by tax knowledge is consistent with the larger body of literature suggesting that awareness and education are important factors in compliance behaviour.

These elements could be quite important in Ghana since there is a substantial informal economy. Regardless of their degree of tax understanding, SMEs may be less ready to cooperate if they believe that tax officials are dishonest or incompetent. Therefore, even if the study emphasizes the value of tax knowledge, it is crucial to take other institutional and sociocultural elements into account that may have an impact on compliance behaviour.

The study's conclusions show that higher compliance is typically the result of increasing tax knowledge, which helps taxpayers comprehend their responsibilities and lessens their perception of the tax system's complexity. It is essential to acknowledge that tax knowledge is only one of the aspects that impact compliance. Significant roles are also played by perceptions of the fairness of the tax system, trust in tax officials, and larger sociocultural issues.

## 6. Conclusion

The study employed a quantitative research approach through descriptive design to investigate the influence of tax knowledge on tax payment compliance in the informal SME sector of Ghana. In so doing, three objectives were developed:

- To establish the influence of procedural tax knowledge on tax payment compliance among SMEs in the informal sector in Ghana.
- To examine the effect of legal tax knowledge on tax payment compliance among SMEs in the informal sector in Ghana.
- To determine the effect of legal tax knowledge on tax payment compliance among SMEs in the informal sector in Ghana.

The study showed statistical significance between Tax payment Compliance and the dependent variables Tax knowledge (procedural, legal, and general) based on the ANOVA values:  $F(3, 1164) = 300.71$ ,  $p = .000$ . The study also revealed that Tax knowledge (procedural, legal, and general) contributes 43.7% to Tax payment Compliance.

The study found a statistically significant positive effect between Procedural Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana ( $B=0.377$ ,  $P=0.000$ ). The study also found a statistically significant positive effect between legal Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana ( $B=0.169$ ,  $P=0.000$ ). The study finally found a statistically significant positive effect between general Tax Knowledge and Payment Tax Compliance among SMEs in the informal sector in Ghana ( $B=0.273$ ,  $P=0.000$ ).

The study also emphasizes how important information is in determining compliance behaviour. Taxpayers are far more likely to fulfil their payment commitments if they have a greater awareness of tax laws, processes, and general tax information. Thus, raising taxpayers' level of tax literacy may be a very successful way to increase tax payment compliance. The relevance of the statistical data and the noteworthy proportion of explained variance highlight the need for informative and instructional programs targeted at raising taxpayers' consciousness and comprehension of tax-related issues.

## 7. Recommendation

The study's conclusions led to the formulation of the following recommendations, which aim to assist SMEs in Ghana's informal sector in having ongoing tax education to support their purpose of complying with Ghanaian tax laws.

Since procedural tax knowledge has a significant favourable impact on payment tax compliance ( $B=0.377$ ,  $P=0.000$ ), tax authorities should prioritize training SMEs about tax processes. To simplify and make clear tax filing procedures, deadlines, and necessary documents, workshops, seminars, and training sessions may need to be planned.

Creating easily navigable manuals and internet resources may also aid SMEs in better comprehending and adhering to tax laws.

The connection between payment tax compliance and legal tax knowledge ( $B=0.169$ ,  $P=0.000$ ) is positive, indicating that SMEs need to improve their comprehension of tax rules and regulations. It is recommended that tax authorities contemplate furnishing easily comprehensible details regarding legislative mandates, tax rates, sanctions for non-adherence, and advantages of conformity. Offering SMEs advising services in conjunction with legal professionals can help them comprehend and comply with tax regulations.

The significance of comprehensive tax education is shown by the substantial effect of general tax knowledge ( $B=0.273$ ,  $P=0.000$ ) on compliance. Comprehensive awareness efforts should be carried out by tax authorities to provide general tax information via radio, television, and social media. The value of tax compliance and its advantages to society may be further emphasized through educational initiatives in collaboration with local communities and business groups. The implementation of digital platforms and mobile technologies has the potential to augment the scope and efficacy of tax education campaigns. For SMEs operating in the unorganized sector, it may be simpler to give them access to tax information by creating online portals and mobile applications that offer real-time data, training, and reminders regarding tax requirements.

It is crucial to set up a feedback system to evaluate the success of educational initiatives and pinpoint areas in need of development. By conducting regular surveys and talks with SMEs, tax authorities can better grasp the difficulties experienced by firms and modify their instructional efforts.

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