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TAXATION AND GHANA'S POST- COVID ECONOMIC RECOVERY

BRIEFING PAPER

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Summary

Tax revenue generation remains one of the most central activities of any nation-state. The state collects taxes and efficiently redistribute the resources as part of its allocation function. However, since independence, Ghana has struggled to collect enough taxes relative to the size of its economy. In this briefing paper, we examine ways that Ghana can use tax policy to increase revenues while also supporting business growth and industry competitiveness, especially in a Ghana Beyond Aid and post-COVID context. Our analysis focuses on a historical examination of Ghana's economy and tax structures, assessment of the initial tax policy response to the COVID-19 pandemic, and the role of tax policy in supporting recovery from the pandemic.

The findings are as follows:

1. While Ghana's economy has recorded modest growth over the past two decades, there has not been commensurate improvement or aggressive measures to collect more taxes or close the loopholes.
2. The current structure of Ghana's economy reflects a large degree of informality, which poses significant challenges in terms of tax collection. The informal economy is about 38% of GDP, while over 80% to 90% of the workforce are in the informal sector.
3. Ghana's tax effort measured by the tax-to-GDP ratio currently stands at less than 14%. In comparison, peer African countries are between 17% to 20%. The Ghana Revenue Authority (GRA's) Strategic Plan targets a tax-to-GDP ratio of 17.5% within 3 years ending 2022.
4. The highest share of tax revenues in Ghana comes from taxes on goods & services other than value-added taxes (VAT). This is followed by VAT. Non-tax revenues are the least and are twice lower than that collected for other peer African countries.
5. Ghana initially introduced some tax policy responses to mitigate the impact of the pandemic on businesses in 2020. However, these were subsequently followed by new tax measures — such as the COVID-19 Levy, Financial Sector Clean-up Levy, Energy Sector Recovery Levy, Sanitation and Pollution Levy — to close the fiscal gaps created by the pandemic. These new taxes are highly likely to increase the cost of production for businesses.
6. The increasing burden of taxation continues to be a major issue of concern for captains of industries, as reflected by the results of multiple studies.
7. The prospects for Ghana's post-COVID recovery remains high; however, they are strongly dependent on the effectiveness of policies to improve the business climate.

Recommendations

1. Parliament must urgently pass the Tax Exemptions Bill, which has been pending before the House since 2019. This will help streamline Ghana's tax exemptions regime and minimise abuse.
2. The inequality worsening effect of the pandemic strongly calls for a just, equitable and functioning tax system. This beckons for a more progressive tax structure underpinned by an efficient administrative system
3. Government must aggressively pursue its digitalisation drive but back this up by educating businesses and citizens. Pursuing diversification and digitalisation to improve tax collection could add another 6% of GDP (USD4 billion or GHS24 billion) per annum opportunity, enough to build several schools, roads, hospitals and other critical national infrastructure.
4. Scale up revenue mobilisation from VIPs, High Net Worth and Ultra High Net Worth Individuals in the country
5. Ghana must aggressively work on increasing non-tax revenues by monetising indiscipline in the society by increasing fines, penalties and forfeitures, property taxes, among others.

1 Introduction

Tax revenue generation remains one of the most central activities of any nation-state. The state collects taxes and is expected to efficiently redistribute the resources as part of its allocation function. These revenues allow the state to fund public goods, social programmes to infrastructure investment, including national security and defence spending. However, while some countries can collect adequate tax revenues to fund national development, others struggle to do so, even among peer groups.

Ghana, since independence, has struggled to collect taxes relative to the size of its economy. Reasons given include the sizeable informal economy, corruption, and lack of institutional reform, among others. As a result, Ghana's tax effort, which is the total tax revenue as a percentage of gross domestic product (GDP), remains among the lower group in Sub-Saharan Africa at less than 14% of GDP while some of its peers are doing between 17%-20% of GDP. The Ghana Revenue Authority has set a target of 17.5% tax-to-GDP by 2022.¹ That said, the country's theoretical tax frontier - tax capacity/potential - is estimated at between 24-25%, implying Ghana could scale up tax revenue without burdening the faithful few.

Recent discussions on Ghana's tax system have focused on introducing different taxes and levies in the 2021 national budget. However, there are still fears that the country is yet to increase its tax net, fill the loopholes in tax administration and generate enough tax revenue. Tax revenue, comprising taxes on income and property, taxes on domestic goods and services and international trade taxes, remains the major source of revenue in Ghana.

One of the policy proposals of the current government² in the runup to the 2016 presidential and parliamentary elections was the removal of bottlenecks that acted as headwinds to the private sector's smooth operation and value generation for the economy. To this, the government indicated, among other things, the need to shift the structure of the economy from tax-driven to productivity enhancement. This meant several things: foremost being the need to improve the business environment for private sector players, as the ultimate beneficiary was the government and citizens in terms of employment generation, increase in foreign and domestic investment, revenue for socio-economic development.

In this policy brief, we examine ways that tax policy can be used to increase revenues while also supporting business growth and industry competitiveness in Ghana, more so in a Ghana Beyond Aid and post-COVID context. Our analysis focuses on a historical examination of Ghana's economy and tax structures, assessment of the initial tax policy response to the COVID-19 pandemic, and the role of tax policy in supporting recovery from the pandemic.

2 Ghana's economy and tax structure

Ghana's economy has improved since the structural adjustment days of the mid-1980s and with the return to multi-party democracy in 1993. Ghana was one of the 'Africa rising' narrative stars in the early 2000s, indicated by improving economic growth and democratic development. For example, growth between 2001 and 2010, Ghana's economy recorded an impressive compounded annual growth rate (CAGR) of 7.04% (Fig. 1), buoyed in part from the significant debt relief it received under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) initiatives as well as the commencement of various business reforms to open up the economy to foreign direct and domestic investments.³ However, the economy started to decline following the first few boom years of commercial oil and gas production from 2011 to 2013. Ghana's real GDP recorded a negative 21.81% CAGR between 2011 and 2020. Contributing factors include persistent electricity shortages (known locally as 'dumsor', on-off) and large fiscal and external imbalances.⁴ Although economic growth began to pick up momentum again from 2018, this was curtailed by the coronavirus (COVID-19) pandemic of 2020. **Also, despite the country's relatively modest or sometimes even "fastest growth"⁵ as shown in several macro indicators, the evidence shows a**

¹ See <https://gra.gov.gh/wp-content/uploads/2020/09/GRA-13-FINAL.pdf>

² See also the Ghana Beyond Aid Charter. Available at:

http://osm.gov.gh/assets/downloads/ghana_beyond_aid_charter.pdf

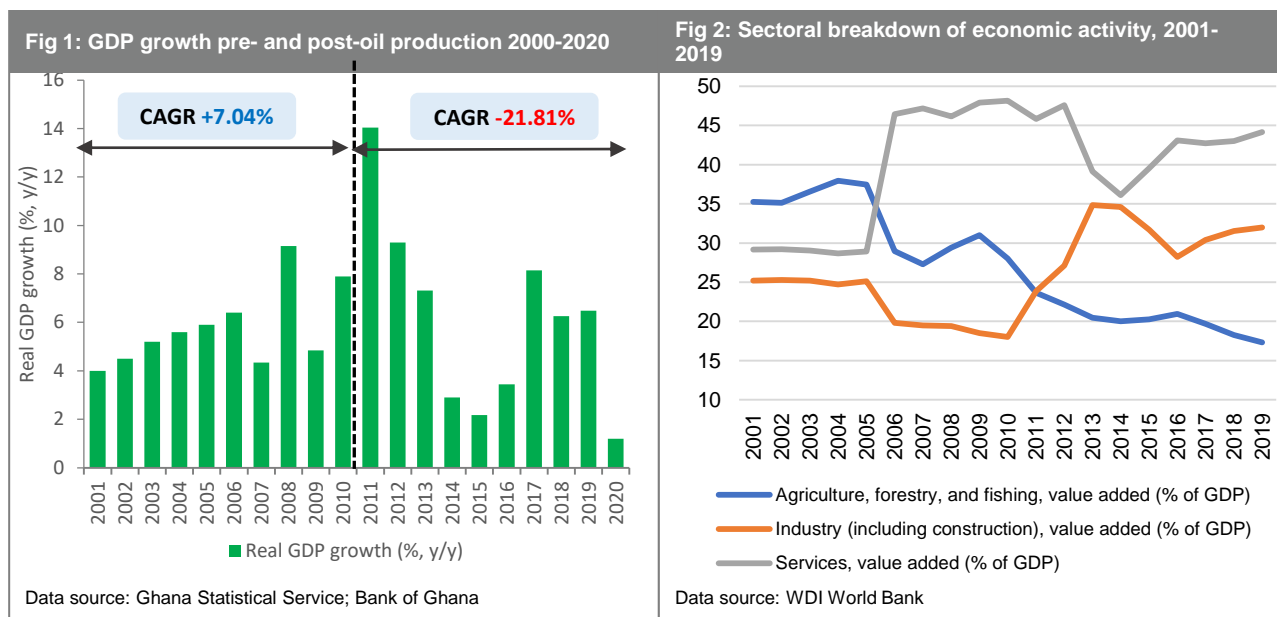
³ Acheampong, T. & Amoah-Darkwah, E. (2020). 'Performance of Ghana's Economy and Capacity for Financing Key Medium-Term (2021-2024) Flagship Policies and Programmes'. Ghana Centre for Democratic Development (CDD Ghana). doi: 10.13140/RG.2.2.28240.12809

⁴ *ibid*

⁵ See <https://www.weforum.org/agenda/2019/05/ghana-is-set-to-be-the-worlds-fastest-growing-economy-this-year-according-to-the-imf/>

lack of trickle-down at the micro-level – that is, there is growth without development⁶ or structural transformation⁷. For example, about 23.4% (6.7 million) of the population continue to live in poverty, and another 8.2% (2.4million) are in extreme poverty as of 2017.⁸ Also, youth unemployment stood at 17.7% in 2017 while inequality is on a steady rise, climbing from 41.9% (2006) to 42.3% (2013) to 43.0% (2017) of the population.⁹

In terms of the economic structure, Ghana's economy has primarily been dominated by the services sector since 2005 (Fig. 2). As of 2019, the services sector accounted for 49% of GDP, followed by industry (34% of GDP) and agriculture (19% of GDP) sectors.¹⁰ Ghana's major service sub-sectors include trade, repair of vehicles, household goods, hotels and restaurants, transport and storage, information and communication, financial and insurance activities.¹¹ Others include real estate, professional, administrative and other services activities, public administration and defence, social security, education, health, and other personal service activities. The industrial sector includes mining and quarrying, oil and gas, manufacturing, electricity, water and sewerage and construction.¹² On the other hand, the agriculture sub-sectors include crops and cocoa, livestock, forestry and logging, and fishing.¹³



The current structure of Ghana's economy also reflects a large degree of informality, which poses significant challenges in terms of tax collection. While the informal sector in developed economies constitutes about 10%-15% of GDP, it can be between 40%-60% GDP in developing countries.¹⁴ Estimates from the IMF show the informal economy accounting for 38% in Sub Saharan Africa between 2010 and

⁶ Ayelazuno, J. A. (2014). Neoliberalism and growth without development in Ghana: A case for state-led industrialization. *Journal of Asian and African Studies*, 49(1), 80-99.

⁷ Whitfield, L. (2011). *Growth without Economic Transformation: Economic impacts of Ghana's political settlement* (No. 2011: 28). DIIS Working Paper.

⁸ World Bank. (2020). Ghana Poverty Assessment. World Bank, Washington, DC. © World Bank.

⁹ <https://openknowledge.worldbank.org/handle/10986/34804>; Baah-Boateng, W. (2020). 2020 General Election Manifesto: The Economy and Inclusiveness. Ghana Centre for Democratic Development (CDD Ghana) Discussion Paper.

¹⁰ Dadzie, C. E., Fumey, M., Namara, S. (2020) Youth Employment Programs in Ghana: Options for Effective Policy Making and Implementation. International Development in Focus. Washington, DC: World Bank. © World Bank.

¹¹ <https://openknowledge.worldbank.org/handle/10986/34349>; Baah-Boateng, W. (2020). 2020 General Election Manifesto: The Economy and Inclusiveness. Ghana Centre for Democratic Development (CDD Ghana) Discussion Paper.

¹² See

<https://www.statsghana.gov.gh/gdpgraph.php?graphindicators=MTE4NzYxMzIxNi45NDI1/gdpgraph/49pp7266p8>

¹³ See

https://www.statsghana.gov.gh/gssmain/fileUpload/National%20Accounts/Rebased%20GDP%20quarterly%20bulletin_16_September_2020%20edition.xlsx

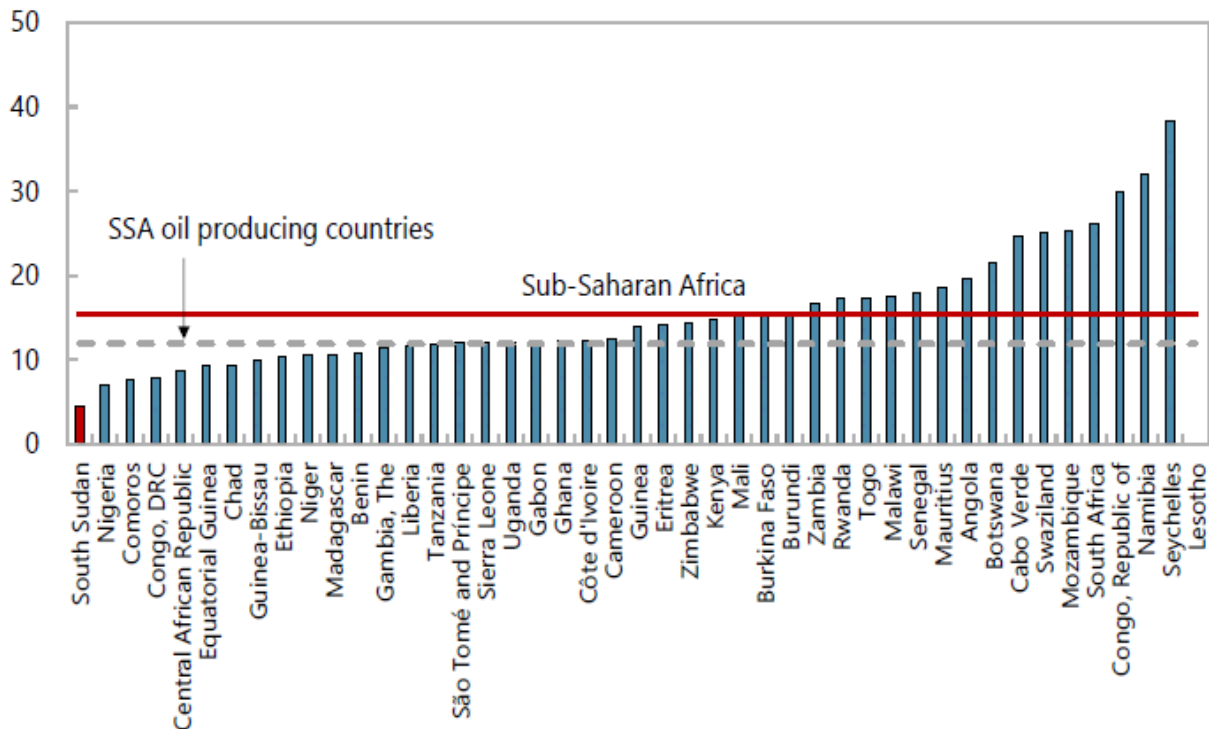
¹⁴ ibid

¹⁵ ibid

¹⁶ Williams, C.C. and Schneider, F. (2013) *The Shadow Economy*. Institute of Economics Affairs, London. ISBN 978 0 255 36674 8

2014, compared with 17% in the OECD countries.¹⁵ More recent estimates show that informal output in Sub Saharan Africa averaged 36% of GDP between 2010 and 2018.¹⁶ There is also significant heterogeneity in the size of informality in Sub Saharan Africa from 20-25% of GDP in countries such as Namibia, Mauritius, and South Africa. It is as high as 50%-65% of GDP in Tanzania, Benin, and Nigeria.¹⁷ In Ghana, the average share of the informal economy is estimated at about 38% of GDP between 2010-2014.¹⁸ Also, over 80-90% of the workforce¹⁹ are in the informal sector, which is very similar to the continental average of 80%.²⁰

Fig. 3: Non-oil tax revenue in Sub-Saharan Africa (2019, % of GDP)



Source: IMF, World Economic Outlook (October 2020) & IMF Country Report No. 21/70 (p.8)²¹

Ghana's tax effort, measured by the tax-to-GDP ratio currently stands at 12% to 14%, based on IMF and OECD data (Fig. 3). The highest total revenue-to-GDP recorded was 23.2% in 2012, and the lowest being 15.3% in 2019. In comparison, the average for 30 African countries was 16.5% in 2018.²² Ghana's tax effort was 2.4 percentage points lower than the African average and nine percentage points lower than the Latin America and the Caribbean average of 23.1%. The highest share of tax revenues in Ghana comes from taxes on goods & services other than VAT, which is 30% (Fig. 4). The second-highest share of tax revenues comes from value-added taxes (VAT) at 29%. In essence, ad-valorem taxes on goods and services such as petrol and VAT are Ghana's greatest source of tax revenues. Also, in 2018, Ghana's non-

¹⁵ Medina, L., Jonelis, M. A. W., & Cangul, M. (2017). *The informal economy in Sub-Saharan Africa: Size and determinants*. International Monetary Fund.

¹⁶ Ohnsorge, F., & Yu, S. (2021). The Long Shadow of Informality. Available at: <https://thedocs.worldbank.org/en/doc/37511318c092e6fd4ca3c60f0af0bea3-0350012021/related/Informal-economy-full-report.pdf> p.232-233

¹⁷ Supra (n 15)

¹⁸ ibid

¹⁹ Williams, C. C., Adom, K., & Horodnic, I. A. (2020). Determinants of the level of informalization of enterprises: Some evidence from Accra, Ghana. *Journal of Developmental Entrepreneurship*, 25(01), 2050004; Mahadea, D., & Zogli, L. K. J. (2018). Constraints to growth in informal sector activities and formalisation: A case study of Ghanaian slums. *The Southern African Journal of Entrepreneurship and Small Business Management*, 10(1), 1-9; Adom, K. (2014). Beyond the marginalization thesis: an examination of the motivations of informal entrepreneurs in sub-Saharan Africa: insights from Ghana. *The International Journal of Entrepreneurship and Innovation*, 15(2), 113-125; Osei-Boateng, C., & Ampratwum, E. (2011). *The informal sector in Ghana*. Accra: Friedrich-Ebert-Stiftung, Ghana Office.;

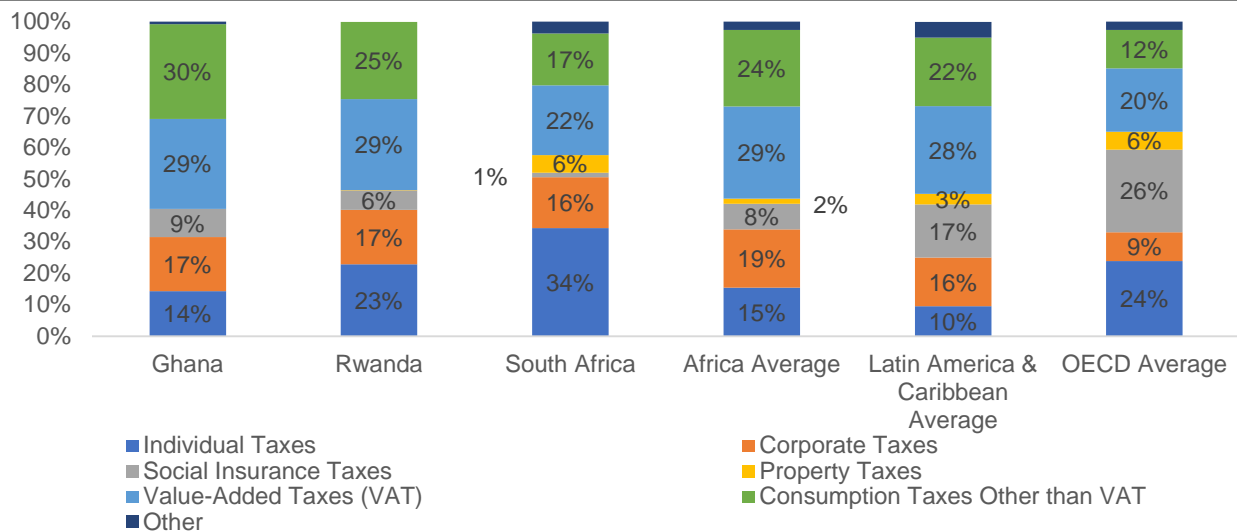
²⁰ Supra (n 15) p.232

²¹ See <https://www.imf.org/en/Publications/CR/Issues/2021/04/01/Republic-of-South-Sudan-Staff-Monitored-Program-and-Request-for-Disbursement-under-the-Rapid-50331>

²² See <https://taxfoundation.org/africa-tax-revenue-oecd-report-2020/>

tax revenues amounted to 3.2% of GDP. Again, this was lower than the average non-tax revenues for 30 African countries (6.5% of GDP). **Considering similar income levels across the world, Ghana's tax revenue collection is relatively low:** out of 36 lower-middle-income countries with available data, Ghana ranked 26th in 2018.²³ What is evident from a careful analysis of the statistics is that **while Ghana's economy has been growing over the past two decades, there has not been commensurate improvement or aggressive measures to collect more taxes or close the loopholes.**

Fig 4: Tax structures (% of total tax revenue)



Data Source: Taxfoundation.org; OECD Global Revenue Statistics Database

3 Tax policy response to the COVID-19 pandemic

We explore some of the fiscal responses that the government of Ghana introduced to combat the adverse conditions that businesses in Ghana faced during the pandemic. This covers multinationals, large indigenous businesses and the many Micro, Small & Medium Enterprises (MSMEs) that are of critical focus for this work. The discussion of the effectiveness of the tax policies for businesses and the recovery process has also been conducted. The final aspect covers the burden of taxation in Ghana.

3.1 Support for businesses

The COVID pandemic has significantly affected the expenditure patterns and revenue inflows of the government of Ghana. The pandemic affected several countries' overall fiscal policy framework, leading to calls from institutions like the Organisation for Economic Development and Cooperation (OECD) to governments to take bold fiscal decisions in response to the pandemic.²⁴ Governments had two main fiscal policy tools at their disposal: expenditure side actions and revenue side actions (Fig 5.). This was also complemented by other monetary and macro-financial measures (Fig 5.) For example, the government through the Bank of Ghana sold a 10-year government bond with a face value of GHS10 billion (2.6% of GDP).²⁵ Also, the Bank of Ghana policy rate has been reduced from 16% in January 2020 to 14.5% in March 2020 when COVID-19 was recorded in Ghana.²⁶ The rate has been reduced further to 13.5% in May 2021 which has been maintained in July 2021.²⁷

As with other economies, Ghana's government introduced some tax policy responses to mitigate the impact of the pandemic on businesses (See Table 1). These initiatives are classed into 2020 and 2021

²³ <https://ifs.org.uk/uploads/R189-A-survey-of-the-Ghanaian-tax-system.pdf>

²⁴ See <https://www.oecd.org/coronavirus/policy-responses/tax-and-fiscal-policy-in-response-to-the-coronavirus-crisis-strengthening-confidence-and-resilience-60f640a8/>

²⁵ See <https://www.mofep.gov.gh/news-and-events/2020-05-30/bank-of-ghana-asset-purchase-programme-as-part-of-covid-19-relief-bond-programme>

²⁶ See <https://www.bog.gov.gh/monetary-policy/policy-rate-trends/>

²⁷ *ibid*

measures. The 2020 measures were mainly expansionary and characterised by increased government expenditure, increased tax exemptions, and reduced government revenue.²⁸

Fig. 5. Economic policy responses to the COVID-19 pandemic

Fiscal	Monetary and macro-financial
<ul style="list-style-type: none"> • Credit/financial policies and support packages for people and businesses • Tax policies – reduction in VAT, CIT, among others • Control of non-priority expenditure, redirect savings to COVID-19 related spending • Food stamps, electricity and water subsidies • Direct support to SMEs, tax holidays. • Access to commercial banks financing for private (formal and informal) companies • Social policies - assistance to low-income families 	<ul style="list-style-type: none"> • Reduction in the policy rate • Lowering the primary reserve requirement and capital conservation buffers of banks • Revising provisioning and classification rules for specific loan categories • Exchange rate & balance of payments - REPO arrangements, FX swap lines

Source: Authors' construct

The 2021 measures are, on the other hand, contractionary as they target tax handles with an introduction of additional taxes and levies. These have implications for the business climate. For example, the 2020 measures such as the enhancement of filing and payment systems significantly impact the smooth administration of taxes. This could impact issues of compliance as the removal of technical glitches and bureaucracies will enhance compliance. The cancellations of the penalties on principal debts and related reliefs are a tool that is useful in supporting businesses that are in financial difficulties during the pandemic. Likewise, the extension of the filing period for businesses and related tax amnesty are laudable means of enhancing positive tax compliance. The possible financial reporting lag and the inability to file taxes on time could have negatively affected businesses, so the easing has been beneficial to the business community. Furthermore, the allowance for the taxable VAT during the pandemic (a critical period of humanitarian need) is laudable as businesses do not have to charge VAT on donations related to the pandemic. Besides, the notable tax rebates, developments on tax stamps and vehicle income taxes will go a long way to support those within some industries like the transport industry.

Despite these earlier positive tax policy initiatives, the 2021 budget introduced some new tax measures to close the fiscal gaps created by the pandemic.²⁹ Notable among these are **the COVID-19 Levy, Financial Sector Clean-up Levy, Energy Sector Recovery Levy, Sanitation and Pollution Levy, and taxation of the gaming industry**. These new taxes are likely to increase the cost of production for businesses, and essentially, for the financial sector, the levy will increase the cost of credit. Recent reduction in the central bank's policy rate is yet to impact the cost of credit for businesses. Moreover, Ghana has sticky cost of credit with persistent high rates and this continues to impact businesses adversely. This continues to be an issue of policy concern. Generally, there are lingering concerns about the efficient and equitable application of tax revenue for intended purposes, given recurrent issues of corruption and waste in Ghana's public sector. While a 2021 Afrobarometer report finds that Ghanaians are willing to pay taxes, they were equally worried about how the taxes paid to the government are used especially in delivering basic services.³⁰

²⁸ Duho, K.C.T. and Kauppinen, A.R. (2021), "Fiscal Relations, Class Politics, and the Election Year in Ghana's Covid-19 Context", *Society for the Advancement of Socio-Economics (SASE) 33rd Annual Meeting*. Available at SSRN: <https://dx.doi.org/10.2139/ssrn.3885997>

²⁹ See <https://assets.kpmg/content/dam/kpmg/gh/pdf/gh-2021-Budget-Highlights-FINAL.pdf>

³⁰ See <https://afrobarometer.org/sites/default/files/publications/Dispatches/ad440-ghanaians support taxation but find tax information hard to get-afrobarometer dispatch-7april21.pdf>

Table 1: Timeline of notable events and policy responses

2020 Tax measures in response to COVID-19	2021 Tax measures in response to COVID-19
<ul style="list-style-type: none"> • Improvement in the GRA systems to enable persons or businesses to file and pay taxes online. • Extension of dates for filing and payment of tax returns for businesses • GRA disseminate information to aid in the payment of taxes by bank transfer and the filing of returns by email • Penalties on principal debts cancelled upon payment of outstanding debts due to the GRA up to 30 June 2020 • Registrar-General's Department has extended the deadline for filing of annual company returns (companies and trusts had 6 (instead of 4) months after the end of their financial year) • Exemption of certain withdrawals from the statutory voluntary pension schemes (Third Tier) from income tax. • Exemption of goods designated as COVID-19 donation items from the payment of VAT, NHIL and GETFL. • Waiver of income tax on personal emoluments of all health workers for the months of April to September 2020; and waiver of income tax on 50% additional allowance for front-line health workers for March to September 2020. • Treatment of all COVID-19 donations as deductible expenses for income tax purposes. 	<ul style="list-style-type: none"> • New taxes and levies introduced, which affected different tax handles. <ul style="list-style-type: none"> • COVID-19 Health Levy of a 1 percentage point increase in the National Health Insurance Levy and a 1 percentage point increase in the VAT Flat Rate • Sanitation and Pollution Levy (SPL) of 10 pesewas on the price per litre of petrol/diesel under the Energy Sector Levies Act (ESLA) • Energy Sector Recovery Levy of 20 pesewas per litre on petrol/diesel under the ESLA • Financial sector clean-up levy of 5 percent on profit-before-tax of banks to help defray outstanding commitments in the sector • Co-supervise the gaming industry and consult with stakeholders to formulate a comprehensive policy to improve revenue mobilisation from this source • Review existing road tolls and align them with current market rates • Tax Rebate: Provision of a rebate of 30 percent on the income tax due for companies in hotels and restaurants, education, arts and entertainment, and travel and tours for the second, third and fourth quarters of 2021 • Tax Stamps: Suspension of quarterly income tax instalment payments for the second, third and fourth quarters of 2021 for small businesses using the income tax stamp system • Vehicle Income Tax: Suspension of quarterly instalment payments of the vehicle income tax for the second, third and fourth quarters of 2021 for trotros and taxis as part of measures to reduce the cost of transportation • A waiver of penalty and interest on accumulated tax arrears up to December 2020 to reduce cash-flow challenges for companies and individuals who arrange terms with the GRA to pay up the principal by September 2021.

Source: Authors' construct based on various budget announcements

3.2 Effectiveness of tax interventions for businesses and recovery prospects

There are some direct implications of the fiscal policy measures implemented by the government. Besides, few analyses have been done to explore the impacts of these measures. One of such was conducted by the

Institute of Statistical, Social and Economic Research (ISSER) on the implications of the 2021 Budget on the Ghanaian economy.³¹ It is noted that tax increases introduced in the 2021 Budget will raise revenue for the government. However, it will increase business costs, reduce private sector investment, and decrease economic activity. This will also increase incentives for tax avoidance, and businesses may pass the increased costs on to consumers making households worse off. Also, the financial sector clean-up levies will affect stated capital, limit private sector access to credit, impact economic activity and employment. These are adverse implications that will not augur well with the business community.

On the contrary, the tax rebates, penalty suspensions and tax waivers will reduce the cost of doing business, encourage employment and investment and therefore the level of economic activity. The question of the net effect of these policy changes on the businesses is what is not quantified. Nevertheless, given that often positive policy changes have a relatively lower positive impact than negative policy changes, the net effect of these policy changes is envisaged to be negative for the business community.³²

Generally, the prospects for Ghana's post-COVID recovery remains high; however, they are strongly dependent on the effectiveness of policies to improve the business climate. For instance, government programmes like the GHS100-billion Ghana CARES (Obaatan Pa) programme, the Planting for Foods and Jobs (PFJ) programme and other government programmes should be fine-tuned to enhance the macroeconomic fundamentals of the country – employment, inflation, and cost of living. This is very key as inefficiencies in the Ghanaian context will undermine the activities of businesses. More so, with a fierce intra-regional competition envisaged under the African Continental Free Trade Area (AfCFTA), Ghanaian businesses must be positioned to compete with businesses from other countries.

The COVID-19 pandemic affected the operations of businesses in the MSME sector significantly, as evident by two nationwide surveys conducted by the Ghana Statistical Service (GSS) on the impact on the businesses. However, by the time the second survey results were reported, there were some levels of improvement as business activities began picking up. The two surveys (Wave³³ I and Wave³⁴ II)³⁵, which were conducted on a considerable number of MSMEs in Ghana, found that the shock from the pandemic on businesses had multiple conduits (demand shocks, supply shocks, financial shocks and continued uncertainty) and is expected to have continuing effects in the future (Fig. 6). Furthermore, in Wave 1, out of 36% of businesses that closed down during the partial lockdown, 16% remained close after the easing of lockdown.³⁶ The firms in the accommodation and food sectors experienced even worse situations as about 24% had to close down.³⁷ The rates declined in Wave 2 as 8% remained closed, but firms in the transportation (12%), accommodation and food sectors (12%) and educational establishments (30%) were most affected.

Regarding employment in the Wave 1 survey, about 46% of the businesses reported wage decline for 26% of the workforce (about 770,124 workers). In comparison, about 4% of firms reported laying off workers representing 1.4% (about 41,952 workers).³⁸ However, this improved in Wave 2: 28% of businesses reported reducing wages for 10% of the workforce (representing 297,088 workers).³⁹ Also, about 1% of businesses reported laying off workers equivalent to 0.4% of the workforce (representing 41,952 workers).⁴⁰

Fig. 6. Key Statistics of the 2 COVID-19 Business Surveys

³¹ See <https://isser.ug.edu.gh/latest-news/isser-engages-media-discussions-2021-budget-statement>

³² Shipan, C., & Volden, C. (2021). *Why Bad Policies Spread (and Good Ones Don't)* (Elements in American Politics). Cambridge: Cambridge University Press.

³³ See https://ghana.un.org/sites/default/files/2020-08/UNDP_Ghana_COVID-19_Business%20Tracker%20Results_%20Brief%20Report.pdf

³⁴ See https://www.gh.undp.org/content/dam/ghana/docs/Reports/UNDP_GSS_WB_Ghana_COVID_19_Business%20Tracker%20Wave%202_%20Brief%20Report.pdf

³⁵ The Wave 1 was conducted between May/June 2020 while the Wave 2 was conducted between August/September 2020.

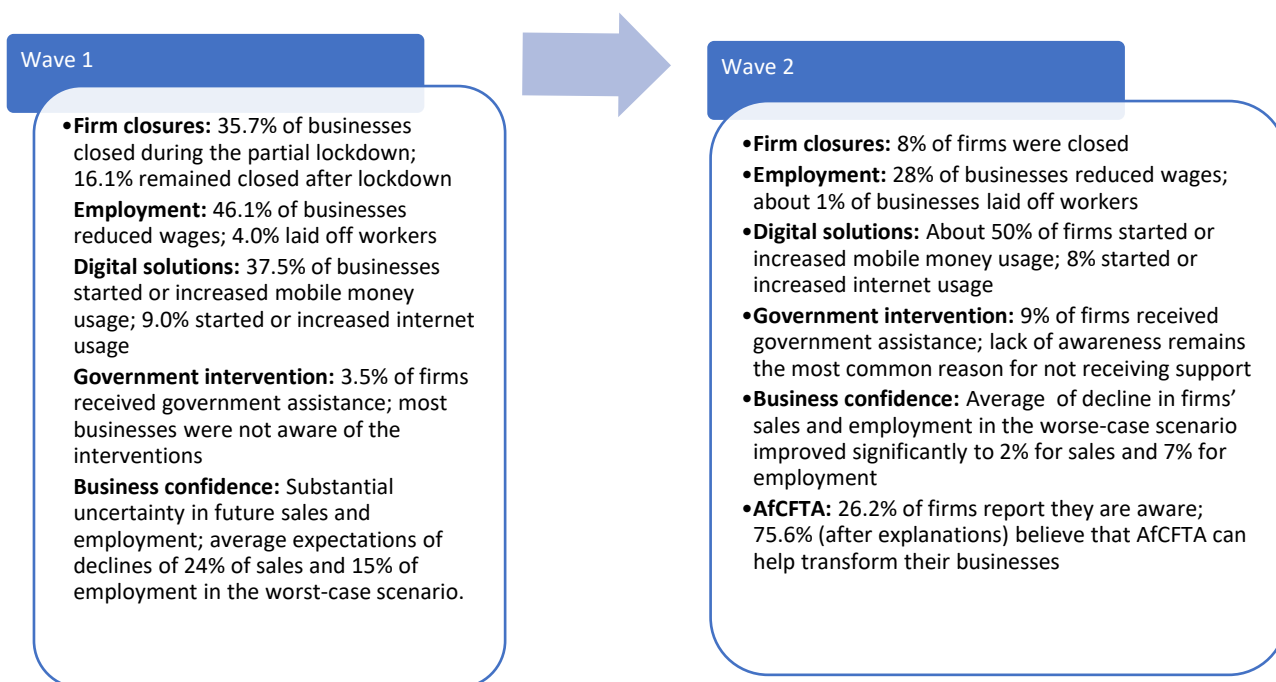
³⁶ supra (n 33)

³⁷ ibid

³⁸ ibid

³⁹ supra (n 34)

⁴⁰ ibid



The pandemic significantly improved digital technology use and inclusion as 38% of businesses started or increased their use of mobile money while 9% increased the use of the internet for business.⁴¹ The use of mobile money later increased to 50%, while the use of the internet for business later decreased to 8%. These new changes have significant tax implications for businesses and the government. Also, the pandemic has disrupted business processes and technology use has been fast-tracked significantly. Despite the government programmes rolled out at the time of the survey (which excluded the Coronavirus Alleviation Programme – CAP), Wave 1 revealed that only 3.5% of businesses reported they received government assistance and lacked knowledge of the programmes as the most frequent reason.⁴² **This shows that education on government fiscal policies is an issue that policymakers need to focus on. Essentially, tax education needs to be pursued with the goal of enhancing the tax literacy which has a long-run benefit for the country.** In both surveys, tax deferrals were rated as the fourth most appropriate policy option that businesses expect from the government. The government support for businesses increased later by three times (9%), but 30% of businesses still were not aware of government support programmes.⁴³

The Wave 2 survey reflected some relevant discussions on the AfCFTA, showing that 26% of firms are aware of the trade area. After receiving an explanation, 76% believe that the AfCFTA can help transform their businesses.⁴⁴ Key issues raised by the businesses include removing policy and regulatory bottlenecks and reducing the cost of credit.⁴⁵ In addition, tax administration and regulatory weaknesses are issues that need to be considered.

3.3 The burden of taxation in Ghana

Previous studies on the Ghanaian tax system have argued that the tax burden is not fairly distributed.⁴⁶ The informal sector keeps growing, but the tax authorities have still not been able to widen the tax net to cover this category of income earners. Thus, the tax burden is still borne by the few formal sector workers. This virtually lends support to the perceived unfairness of the tax system, which makes taxes unaffordable to the few whose only option out of the burden is to evade. A recent tax gap analysis by the World Bank shows that the percentage of potential tax revenue is 39.35% for VAT, 32.5% for import duty and from 81.6% to 85.6% for corporate income tax.⁴⁷ These are the proportions of tax revenue from each tax

⁴¹ supra (n 33)

⁴² supra (n 33)

⁴³ supra (n 34)

⁴⁴ ibid

⁴⁵ ibid

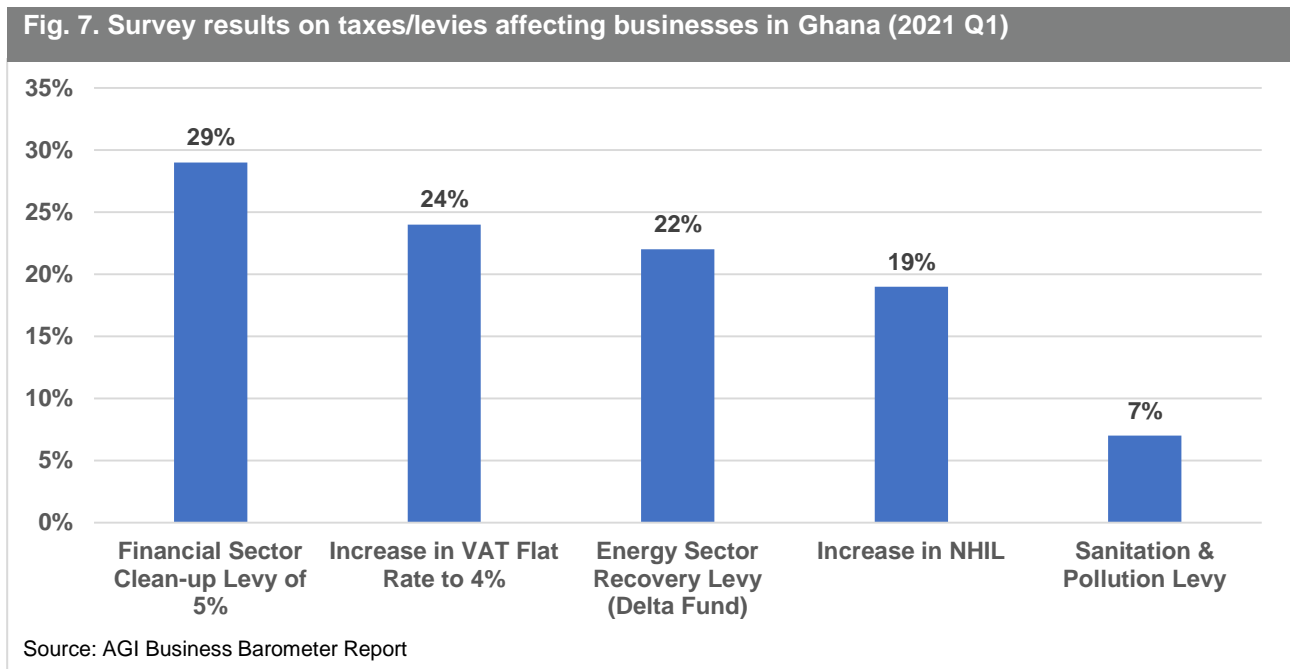
⁴⁶ <https://afrobarometer.org/sites/default/files/publications/Briefing%20paper/afrobriefno124.pdf>

⁴⁷ World Bank. 2020. Ghana Tax Gap Analysis. <https://openknowledge.worldbank.org/handle/10986/34806>

handle that Ghana has the potential to raise. These findings provide some clarity on the potential benefits of formalising the informal sector and broadening the tax net as a means to ensure a fairer tax system.

The fiscal policies were implemented in response to the pandemic in Ghana have had different impacts on the citizenry. The pre-2021 situation involved reliefs and cancellation of penalties, which as incentives, counts as expenditure on government financial accounts. While there are some improvements in the operations of businesses over time the government has rolled out relief programmes, the subsequent introduction of new taxes and levies in 2021 could have a dire effect on businesses and consumers. KPMG Ghana, in its budget analysis, indicates that *“banks are already paying the national fiscal stability levy, which is also set at five percent of pre-tax profits. This implies 10% of the pre-tax profits of banks will be payable in levies to the state when the financial sector clean up levy becomes operational.”*⁴⁸ This will reflect on the cost of credit to the MSMEs and other institutions that receive financial credit from the banks. On the other hand, some analysts believe the sector is strong enough to absorb the levy because of the recent reforms.⁴⁹ However, others have expressed concern about the cost implications that it will have on bank customers.⁵⁰ KPMG Ghana also indicates that *“the increase in the National Health Insurance Levy (NHIL) will be an additional cost to businesses as that is a component of the straight levies which are not taken as an input claim. The increase in the NHIL will therefore increase the base for calculation of VAT. Also, the proposed increase in the VAT Flat Rate from 3% to 4% will result in other cost increases either to businesses or individuals.”*⁵¹ The automatic adjustment of road tolls based on inflation will make stakeholders in the transportation sector plan for increases in their cost drivers. The government needs to minimise the leakages in the system when it comes to tax and levy mobilisation and consider digitising the toll collection infrastructure.

Taxes continue to be a major issue of concern for captains of industries as reflected by results of multiple studies by the Association of Ghana Industries (AGI). The fourth quarter 2020 AGI Business Barometer Report reveals that taxes are major constraints for businesses as the majority raise tax (including VAT, levies and import duties at the ports, utility tariffs, among others) as a key issue for the 2021 budget (Fig. 7).⁵² After the introduction of the new taxes in the 2021 budget, the first quarter 2021 AGI Business Barometer Report shows that 10% of business owners reported an unfair tax regime as a hindrance to their business.⁵³ The concerns are that the cycle of taxing the same formal sector is becoming a burden to tax compliant businesses already, and the government needs to expedite action on adopting more innovative ways to mobilise domestic tax revenue.



⁴⁸ <https://assets.kpmg/content/dam/kpmg/gh/pdf/gh-2021-Budget-Highlights-FINAL.pdf>

⁴⁹ <https://thebftonline.com/24/03/2021/banks-are-strong-enough-to-absorb-new-5-levy-ADB-MD/>

⁵⁰ <https://thevaultznews.com/economics/finance/banking/govts-financial-sector-clean-up-levy-to-stifle-investment-and-erode-gains-chalked/>

⁵¹ <https://assets.kpmg/content/dam/kpmg/gh/pdf/gh-2021-Budget-Highlights-FINAL.pdf>

⁵² https://agighana.org/uploaded_files/document/5f56247abf67a0c1a60cb09565ce3039.pdf

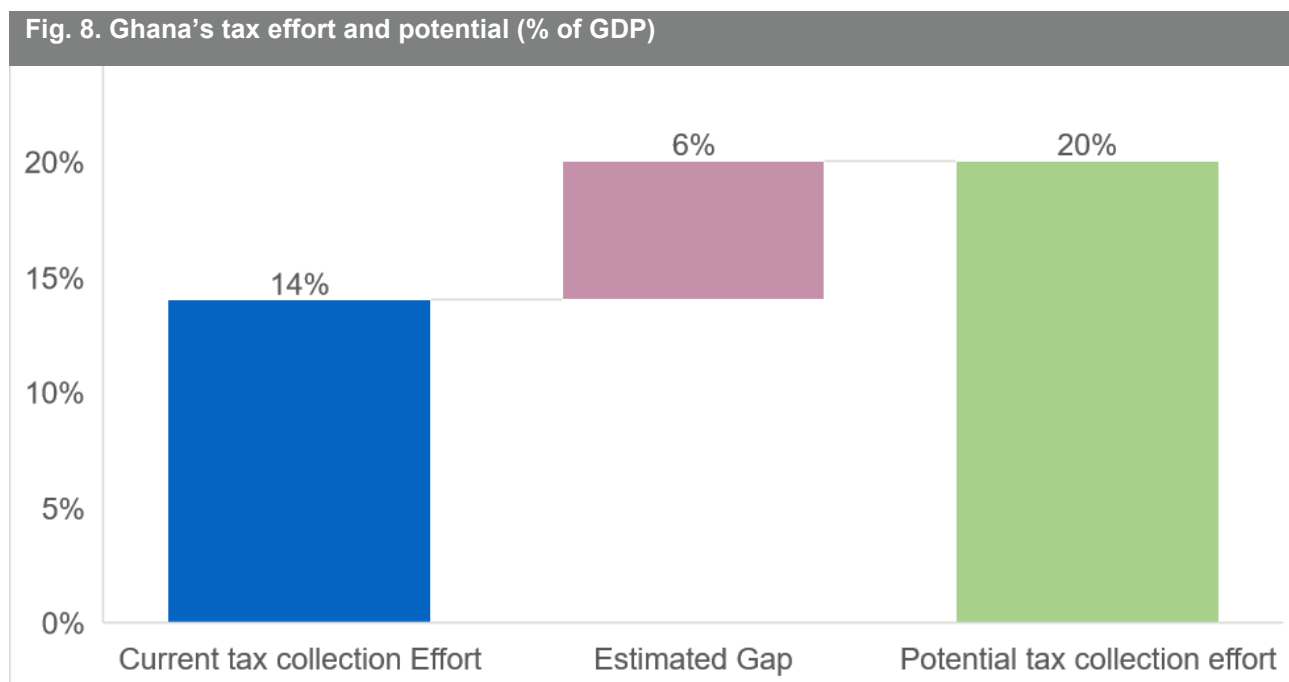
⁵³ *ibid*

4 Conclusions: what role can tax policy play in supporting recovery from the COVID-19 crisis?

Given the ravaging effect of the pandemic on the government's fiscal stance, the trap that presents is for government to assume it could tax its way out of the difficulties created by the pandemic. Ghana has had a persistent average 5% gap between revenue and expenditure, meaning the country is not collecting enough tax resources to finance its development.⁵⁴ Basically, the country has been borrowing its way to finance its development as evidenced by recurrent budget deficits and large public debt – that is, highly pro-cyclical fiscal policies with an intra-year rate of expenditure outstripping revenue growth with the political business cycle. The fiscal losses emanating from the pandemic is not restricted to the central government only as it has impacted households and private sector business with job losses, furloughs, worsening inequality and business closures and downsizing. A comprehensive understanding of the pandemic's immediate, medium and long-term impact should inform the country's tax policy formulation and administration.

The inequality worsening effect of the pandemic strongly calls for a just, equitable and functioning tax system. This beckons for a more progressive tax structure underpinned by an efficient administrative system. This can be possible through greater compliance and efficiency across all the tax handles, the reduction of tax evasion/avoidance and enhancement of the capacity of Ghana Revenue Authority to effectively mobilise tax revenue. Once that is achieved, it will be easier to use more progressive tax handles in place of the current focus on the regressive tax handles which affect the poor more. There is no doubt greater domestic revenue mobilisation holds the key for resilient and inclusive economic recovery, but this must be carried out in a manner that does not burden the faithful few who contribute to the tax pot. At the same time, government must demonstrate its commitment to reducing inequality through tax policy given the inequality implications of the on-going pandemic.

Tax policy must be enabling, predictable and not regressive in order to support the recovery. Ghana's current tax effort (14% of GDP) and her peers (18-20% of GDP) provides considerable room for scaling up domestic revenue mobilisation without burdening the faithful few at both the policy level and administration (Fig. 8). **With a deepening of government initiatives such as the digitalisation drive, it is possible to increase Ghana's current 14% tax-to-GDP ratio to 20% over the medium term.** Some analysts indicate that the country's theoretical tax frontier could even be 25% of GDP.⁵⁵ Pursuing diversification efforts and digitalisation to improve tax collection could add another 6% of GDP (USD4 billion or GHS24 billion) per annum opportunity, enough to build several schools, roads, hospitals and other critical national infrastructure.



Source: Authors' estimates

⁵⁴ Supra (n 3)

⁵⁵ See <https://www.norvanreports.com/ghana-has-the-potential-to-raise-tax-revenues-of-25-of-gdp-prof-bokpin/>

The revenue gap is driven less from the policy level but more from the administration of tax policy which occasioned huge inefficiencies at the various tax handles. Tax policy must embrace and drive greater digitisation also to undo challenges the informal economy presents and block the leakages in the existing tax handles conservatively estimated to be in the region of 10-12% of GDP fuelled by tax evasion, corruption, fraud involving tax officials and taxpayers, among others. This implies that currently, the country loses as much as it collects. If nothing is done about it, it will be hard to undo the burden imposed by the pandemic and the poor, marginalised, and social excluded will suffer the more. The resulting inequality and unjust society will explode in just a matter of time. Furthermore, tax policy must address illicit financial flows and aggressively rationalise exemptions regime to ramp up the much-needed revenue to fund the government economic recovery plan needing financing of GHS 100 billion. Finally, Ghana must aggressively work on increasing non-tax revenues by monetising indiscipline in the society by increasing fines, penalties and forfeitures, property taxes, among others.