Revenue generation for sustainable growth in Ghana: Is targeting nil-filing a worthwhile exercise?

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- This project analyses the tax filing behaviour of registered taxpayers in Ghana, aiming to quantify the extent of *nil-filing* and *non-filing* practices.
- Taxpayer data from administrative datasets from 27 of the 59 tax offices nationwide was analysed. This project is the first to analyse Ghana's tax data disaggregated into CIT and PIT, as well as regional (Accra and Northern Ghana) subsamples.
- Preliminary analysis of the data, spanning 2010-2023, showed that *nil-filing* in Ghana is not as high (averaging just under 5%) as has been reported in some other African countries such as Rwanda (53% for CIT and 17% for PIT for 2013-2017) and Eswatini (20.4% for 2013-2017). However, *nil-filing* has been on an upward trend, particularly since 2019.
- In Ghana, the extent of *non-filing* is particularly worrying, averaging 59.2% (60.4% for CIT and 58.02% for PIT).
- Econometric data analyses provide evidence that taxpayer characteristics can predict the likelihood of tax compliance behaviours.
- Despite GRA's success in increasing registered taxpayer numbers, it must do better to minimise *non-filing drastically* and to halt the growing *nil-filing* trend.

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Introduction

Sustainable revenue generation for development is a top priority objective, especially in low- and middle-income countries. However, Sub-Saharan African countries have consistently lagged in government revenue collection, with a median tax ratio of approximately 13% of GDP in 2022. In comparison, other low- and middle-income countries maintain an average tax-to-GDP ratio of 18%, while advanced economies achieve 27%. Ghana's tax-to-GDP ratio, though habitually low, has improved, increasing to the current 15.84%, up from a mere 1.97% in 1981.

Ghana still lags several peers in the sub-region and falls below the global average for emerging and developed economies and tax revenues are still below levels deemed acceptable. Given that research reported in some African countries, such as Rwanda, find *nil-filing* to be a major problem, the question arises whether the same applies to Ghana. A better understanding of this phenomenon should be helpful for tax compliance policy and revenue generation.

Given Ghana's current GDP per capita of around $2,230 (as of 2024) and the decline in foreign direct investment (net inflows) from an all-time high of 9.5% of GDP in 2008 to 2% in 2022, sustainable development efforts must rely on internal revenue generation. Ghana's recent economic trajectory has been significantly challenging, notably elevated inflation, subdued growth, and substantial pressure on public finances and debt sustainability. Internal and external shocks appear to have exacerbated the country's fiscal and debt vulnerabilities, resulting in constrained access to international markets, limited domestic financing options, and an increased reliance on monetary measures to support government expenditures. Ghana's general government gross debt-to-GDP ratio was reported to be 83.6% (April 2024)[1], and is deemed unsustainable.

Ensuring macroeconomic stability is crucial for Ghana to achieve its potential growth rate of 5%. In early 2024, inflation deceleration was hindered by the pass-through effect of currency depreciation on imported goods, affecting non-food inflation, while food inflation saw a marginal decline. The country now needs critical reforms, including strengthening the insolvency regime, improving access to finance, enhancing revenue collection, addressing energy sector challenges, and refining the legal and regulatory environment for foreign direct investors. Ghana still lags several peers in the sub-region in tax revenue

[1] See IMF Data Mapper, https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/GHA?zoom=GHA&highlight=GHA

generation and, moreover, the practice of *nil-filing* has hitherto not been explored. This underscores the importance of this study.

Overview

The country's tax authority, the Ghana Revenue Authority (GRA), tasked with the responsibility of government revenue collection, in collaboration with partner organisations and researchers, is seeking to improve revenue generation for sustainable growth, and this work aims to contribute to this quest. The primary aim of this study is to quantify the tax filing behaviours of taxpayers in Ghana, with particular interest in the incidence of nil-filing. To achieve this, this study analyses tax declaration records from administrative datasets for both Corporate Income Tax (CIT) and Personal Income Tax (PIT), which are the largest contributors to Ghana's direct taxes and most likely to exhibit inappropriate tax behaviour such as *nil-filing*.

The data used in this study, compiled in conjunction with staff from the GRA, has been retrieved from administrative datasets of tax declarations and records held in the various tax offices across the country. For this study, due to budget constraints, we analyse administrative tax data held in about 50% i.e., 27 of the country's 59 taxpayer service centres. To make the analyses representative, we focus on the major tax offices in the Southern and Northern parts of the country i.e., specifically 19 from Accra tax offices and 8 from Northern Ghana.[2] This distinction is relevant because the southern regions in Ghana are relatively urban, with relatively lower poverty levels, whereas the northern regions are more rural with higher poverty levels.

We note that for all the tax offices, the administrative datasets contain all the CIT and PIT declarations from 2010 to 2023 at the taxpayer level. Our final dataset includes taxpayer characteristics including tax filing status and other taxpayer characteristics such as year of registration for the CITs, sector of business, gender of CEO, location of firm, age of CEO at last birthday, among others.[3] Critical consideration of these characteristics can provide relevant information on firm and owner characteristics associated with specific tax-filing behaviours.

To explore the relationship between taxpayer behaviour and relevant taxpayer characteristics, we took a cursory review of the descriptive data information from the final dataset. This was aimed at giving a preliminary view of the 'size'

[2] Accra Tax Offices group comprises Achimota, Adenta, Agbogbloshie, Ashaiman, Circle, Kaneshie, Kasoa, Legon, Madina, Makola, Mataheko, Nima, Osu, Ring Road, Spintex, Tema TSC 1, Tema TSC 9, Teshie, and Weija. Northern Group comprises Bawku TSC, Bolgatanga, Lawra, Tamale East, Tamale West, Wa, Walewale, and Yendi.
[3] See Appendix 2 in project report for a brief description of the key variables used in our analysis.

of the adverse filing behaviours i.e., nil-filing, non-filing, late-filing and stop-filing across the years considered.

Key findings

From Figure 1, we see some interesting results. Details are provided below.

1. Tax filing trends

- Despite a steady increase in registered tax filers, there has been a concerning decrease in the number of firms and individuals filing their taxes year-on-year.
- The major concern in Ghana is the staggering number of non-filers, which has risen from 42% in 2010 to 49% in 2022.

2. Regional insights

- For the combined Northern and Greater Accra regions, only 18.84% of eligible individuals filed their tax returns.
- In the Greater Accra region (a hub of major activities in Ghana), this percentage drops further to just 12% for both Corporate Taxpayers (CIT) and Income Taxpayers (PIT).

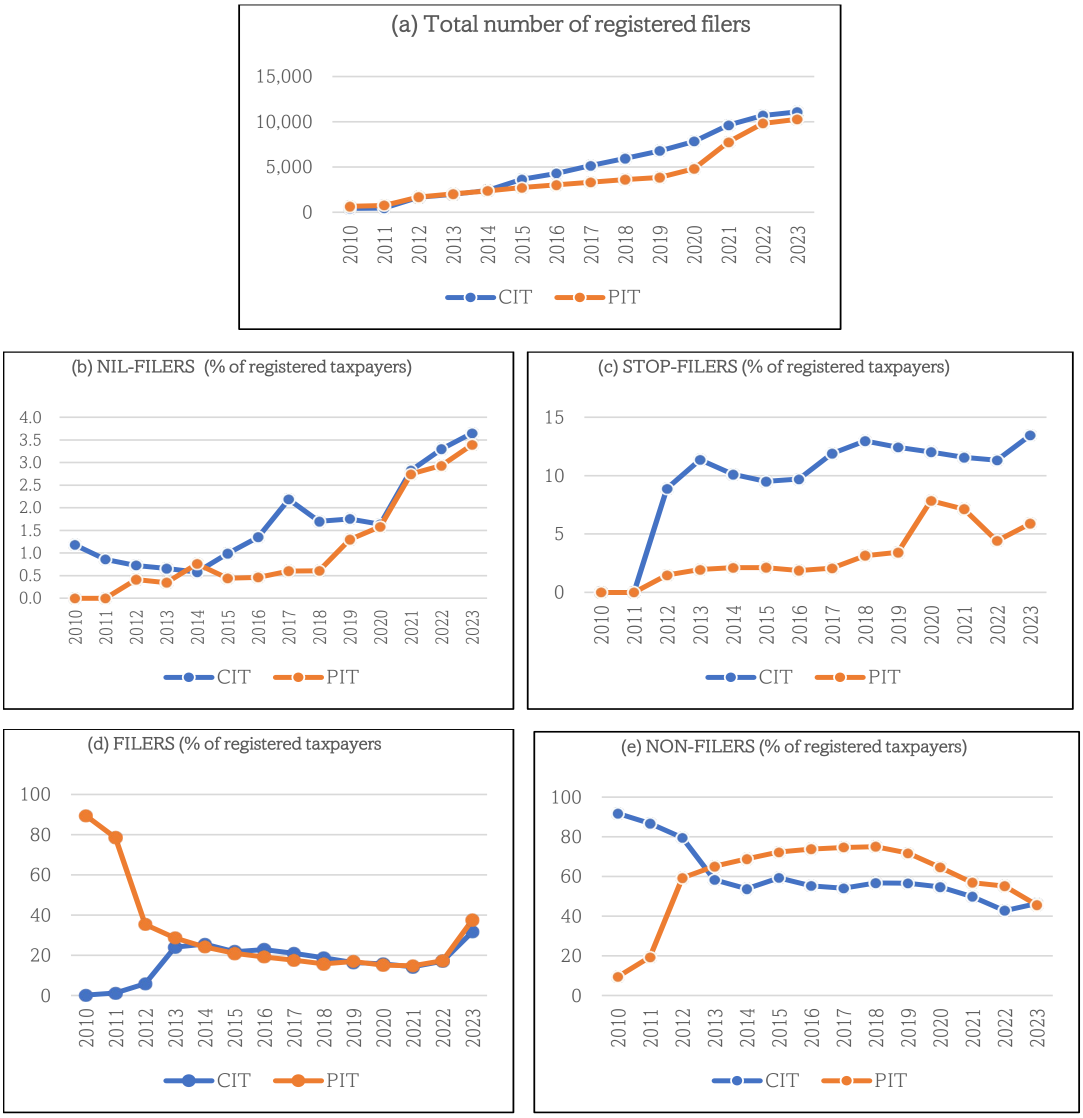
3. Decline in filers

- The decline in tax filers is alarming. In 2010, 54% of eligible individuals filed their taxes, but by 2022, this dropped significantly to 17.21%.

4. Nil-filers

- Interestingly, the extent of nil-filers (those who file but seem not to owe any tax) in Ghana is relatively low, averaging around 1.8%. This contrasts with trends observed in many other African countries.
- Another major observation is the significant increase in nil-filers in recent years (148% from 2010 to 2022).

FIGURE 1 (a)-(e): Summary view of tax-filing status, 2010-2023 [Full sample]



Conclusion

- The evidence of the importance of taxpayer characteristics in explaining taxpayer behaviour underscores that the GRA should prioritise drastically reducing, if not eliminating, the proportion of incomplete taxpayer information being provided and held in the official administrative datasets.
- The level of *non-filing* and the upward trends we find in *nil-filing* are incompatible with the country's aim to generate sustainable revenue. Ghana's government and the GRA should increase efforts to implement measures to target *non-filing* and *nil-filing* behaviour in Ghana. A special focus should be placed on CIT payers, who constitute 63% of the *nil-filers*.
- Appropriate incentives could create the right nudges to help address this. This lays a clear foundation for a necessary extension to this work, which

will extend the data analyses for the remaining tax offices in the country, and subsequently undertake both qualitative and quantitative analyses into the reasons underlying the specific taxpayer behaviours and ascertain the cost-effective approaches the GRA can undertake to maximise compliant taxpayer practices across the country.

- The gender disparity observed in the characteristics data suggests an important need for an intentional effort to encourage female business ownership to shore up their representation in the taxpayer pool. By extension, improvement in coverage of the informal sector into the tax base will help address this issue, since most women are likely to be engaged in business activities not captured by the formal tax system.

Overall, these policy measures are to be implemented in addition to existing efforts by the GRA to increase the number of people who should register to pay their taxes but have not done so yet. As in other low- and middle-income countries, especially in Africa, South Asia, and Latin America, the informal sector is huge, and efforts to bring these individuals and businesses into the formal economy should continue. However, in this study, we argue that such efforts alone will not sustainably improve revenue generation unless the GRA pays attention to registered taxpayers who are *non-filing* and/or *nil-filing*.

References

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