Detecting And Reducing Vat Fraud In Ghana

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ABSTRACT
This paper explores the various schemes used by taxable persons and VAT officers to perpetrate frauds that lead to loss of tax revenue and makes recommendations for reducing the opportunities for VAT fraud. Semi-structured interviews were conducted with VAT Administrators and taxable persons to ascertain their views on the common avenues that are used to perpetrate VAT fraud. The paper ascertained that the common means used by taxable persons and tax officers to perpetrate VAT fraud include falsification of records in order to file understated VAT returns, under-invoicing, misclassification of goods, fraudulent collaboration between VAT officers and taxable persons and smuggling. The paper also found out that Ghana Revenue Authority does not have efficient system to detect most of the VAT frauds and that the few defaulters who are caught offer bribes to the Tax inspectorsto stop them from reporting them for appropriate penalties to be charged on them. The paper makes recommendations that could be implemented to reduce the incidence of VAT Fraud in Ghana. These include the establishment of tax tribunal to facilitate enforcement of penalties against defaulters; establishment of an efficient verification and audit system, making policy changes to limit cash transactions and establishing efficient border controls to reduce the incidence of under-invoicing and smuggling.

Keywords: VAT Fraud, VAT Gap, VAT efficiency, VAT Evasion, Under-Invoicing

OVERVIEW
The most popular consumption tax in developing countries is the value added tax. However, developing countries face numerous Value Added Tax (VAT) administration challenges that have made it difficult for domestic revenue mobilization to keep pace with expenditure requirements. It has been estimated that 75% of the world’s population pay VAT and that VAT accounts for over a quarter of all government revenue (Appiah-Kubi, 2011). Value added tax is the backbone of the economy of over 140 countries around the world and all countries in the Organization for Economic Cooperation and Development (OECD) except the United States have adopted VAT (Grinberg, 2009). However the success of VAT depends on voluntary compliance, because VAT is based on self-assessments raised by VAT agents through regular VAT returns.

PROBLEM STATEMENT
In Ghana, the introduction of value added tax was expected to increase tax revenue for Ghana by widening the tax net and promoting voluntary compliance (Atuguba, 2006). However, like many African countries, fraud has been identified as one of the major challenges facing the Value Added Tax Service in its bid to collecting the VAT efficiently. According to Appiah-Kubi, (2011), more than 50% of potential VAT revenue remains uncollected and that efficient VAT administration can increase VAT revenue by as much as 40. The country is still among the most donor dependent countries in the world (World Bank Report, 2011). For 2013, Ghana was able to collect a tax revenue of GHS14.3 billion as against a target of GHS17 billion (Myjoyonline, 2013). The fiscal data for 2013 also shows that, apart from communication service tax and corporate tax on oil companies, all the other tax types fell below projected targets (Myjoyonline, 2013).

There is therefore an urgent need to strengthen VAT administration by identifying and addressing the challenges facing VAT administration in Ghana. Tax evasion is common and many taxable persons also indulge in various forms of tax fraud to rob the nation of much needed revenue.
SIGNIFICANCE OF THE PAPER

The paper explores the common schemes used by taxable persons and VAT officer to perpetrate VAT fraud and explores ways of reducing VAT evasion and VAT fraud. The results of this paper would have significance to the Government of Ghana, tax policy makers and other stakeholders of tax administration. Specifically this paper provides the following benefits:

1. The paper identifies schemes used to evade tax makes recommendations for reducing value added tax fraud in Ghana to help generate more tax revenue to Ghana. This would go a long way in reducing the dependence of the Ghana government on donor funding for her economic development;

2. By highlighting the schemes used to perpetrate VAT fraud and making recommendation for reducing VAT fraud, results of the paper contribute to Ghana’s tax policies restructuring regarding VAT Fraud.

The paper highlights areas where there is the need to formulate new policies to reduce VAT fraud and where current legislation needs to be changed or strengthened in order to reduce the VAT fraud menace in Ghana.

RELATED LITERATURE

This section covers a review of existing theory and concepts central to VAT fraud and forms the theoretical framework for the paper. The actual amount of tax revenues received into the government coffers depends largely on the effectiveness of the enforcement procedures of the administrative agencies that collect the tax for the government (Kolanet, 2013). “The tax gap is the difference between current tax revenues and what revenues would be if there were no artificial avoidance schemes” (Heard, 2005, p.8). According to Agyemang-Duah (2011) VAT gap results from fraudulent activities such as, evasion, failure to register, under-reporting of sales, false claims of input credits. The two main measures of efficient VAT administration are the extent to which total VAT collected is close to the total amount of VAT due and the ability to keep costs related to the administration of the VAT as low as possible (Asabere, 2014; Gill, 2013). It is estimated that the VAT gap of Ghana is 40% whilst European countries like Ireland and Spain have VAT gap of only 2% (Agyemang-Duah 2011)

Generally, VAT is levied using the ‘destination basis where imports are taxed in the country to which they are imported and consumed using the importing country’s tax rate, whilst exports are zero-rated (Cruce, 2011). According to a paper on the retrospective evaluation of elements of the EU VAT system; the destination bases for charging VAT “is consistent with VAT being conceived of as a tax on consumption, rather than on production” (p. 67). However the destination basis of charging VAT on cross-border trade poses a serious challenge to VAT administration due to the problem of under invoicing and the ease of overstatement of the cost of inputs (Cruce, 2011). In Ghana VAT on imports is calculated on the total of cost, insurance and freight (CIF) plus customs duties and all other charges on imported goods and collected at the port of entry, implying that all goods that are smuggled into the country through unapproved routes evade import VAT (Asabere, 2014).

Tax evasion is any illegal act or omission which is designed to reduce the tax that a taxpayer should legitimately pay to the government (Agyemang-Duah, 2011). Regarding value added tax, taxable persons try to avoid taxes by under-reporting sales, inflating purchases and expenses, and falsifying accounts (Asabere, 2014). In the words of Heard (2005), “Tax avoidance and the industry that drives it are increasingly an international phenomenon and it is vital that we have effective international co-operation to tackle it, as we do for tackling terrorism, organized crime, money laundering and fraud” (p.9). 

Bird (2005) contends that many developing counties have encountered VAT implementation problems mainly because of “lack of ‘self-assessment’ based tax return practices, the difficulties in establishing efficient VAT administration and control systems, a large share of shadow economy and tax fraud” (p.244). Appiah-Kubi (2011) has established a link between the perception that taxable persons have about how the government uses tax revenue and VAT fraud. According to Heard (2005)
taxable persons who have the impression that VAT payments misused by the government are more likely to find dubious means to reduce their VAT payments, so it is important to educate taxpayers on the relationship between the taxes that they pay and the benefits they receive from the government expenditure. According to Hidayat (2006) the more taxpayers see this relationship, the greater their willingness to pay their taxes voluntarily. According to Kranacher, 2010, most fraud perpetrators have no criminal history and, they must find a reason to justify their actions before they commit the fraud. One of such justification has always been the perception that the government misuses the tax revenue.

It has also been argued that ignorance on the part of vendors and buyers lead to non-compliance, as opposed to fraud or evasion (Aruwa, 2008). Many research studies have identified variables that influence voluntary compliance. The list includes the following variables: tax rate, income, and probability of detection, the level of sanctions, taxable persons’ attitudes toward the government and taxation, personal norms, perceived efficiency, and equity (Cruce, 2011; Allan & Ebel, 2010). Adade (2012) also observed that frequency of tax audit increases the taxpayers’ perception about the likelihood of being caught which is the major deterrent to fraud. One major function of VAT administration is identifying tax evaders and taking legal actions against people who do not comply with the VAT law (Allan & Ebel, 2010). Empirical research indicates that both penalties and audits can lead to greater compliance, although higher penalties have been shown to be less of a deterrent than higher audit probabilities (Adade, 2012).

Sections 56 to 72 of the Value Added Tax Act provide a comprehensive list of offenses and penalties for failing to comply with the various provisions of the Act. Offenses relating to taxable persons include: failure to register, failure to issue tax invoice, presentation of false or misleading statement, falsification and alteration of documents, evasion of tax payment, failure to maintain proper records and obstruction of officers of the VAT Service. The Act also provides for offenses relating to tax officers with penalties ranging from various fines to imprisonment.

However, the provision of a comprehensive list of penalties for noncompliance is not enough if practical steps are not taken to enforce their application when taxable persons break the tax laws (Asabere, 2014; Bird, 2005). Bird contents that voluntary tax compliance is not natural and must be enforced with continuous monitoring and consistent punishment. Academic research has studied the decision making processes that individuals undergo when deciding what amount of tax to pay. The starting point of these theories is the consideration that the taxpayer has solely self interest in mind and therefore considers the probability of being caught and the fine he will need to pay if he is caught, and then compares this with the amount that he will save if he does not pay his taxes and does not get caught (Heard, 2005). Cruce (2011) has also explained that penalties for VAT defaulters “should be enforced rigorously and instantly and should be enforced without exception in order not to undermine the credibility of the system” (p.231). Heard (2005) also found out that this requires efficient and well-functioning auditing procedures and tax officers with the requisite investigating skills.

Grandcolas (2005) has also added that the level of VAT compliance depends on the design of the VAT, the quality of the system of VAT administration and the consistent enforcement of penalties for default. Agyemang-Duah (2011) indicated that many taxable persons fail to comply with the various provisions of the Act because penalties or offences are not enforced consistently on defaulters. Aruwa (2008) also established a relationship between tax compliance and the effectiveness of tax enforcement including the probability of detection and the size of fines.

**METHODODOLOGY**

The paper utilized a qualitative phenomenological approach to explore the research questions. The paper focused on “the contexts and meaning of human lives and experiences for the purpose of inductive or theory-development driven research” (Creswell, Klassen, Clark & Smith, 2011, p.4). The aim was to understand the experiences and attitudes of participants and to “answer questions about the ‘what’, ‘how’ or ‘why’ of a phenomenon rather than ‘how many’ or ‘how much’” (Rocha, 2004, p.86). Since the aim of the paper was to understand the perceptions of VAT Administrators and taxable persons on VAT fraud, qualitative method was deemed appropriate (Bernard, 2010). Semi-structured interviews and observations were used to gather data from VAT officers and taxable persons.
Secondary data from relevant taxation books, national dairies, periodicals and electronic journals were also examined to get additional insight into VAT fraud. The data gathered were analyzed to identify themes that formed the basis for conclusions about the VAT fraud in Ghana. Thematic analysis was done across all the data collected to identify the common means used to perpetrate VAT fraud and how to reduce them. The paper explored the following two research questions:

1. What are the various schemes used by taxable persons and tax officers to perpetrate tax fraud that lead to loss of tax revenue for the government?

2. What measures could be implemented to reduce the incidence of VAT fraud in Ghana?

A sample size of 40, consisting of 20 taxable persons and 20 officers of the VAT Service, were selected for the phenomenological interview. The individual participants were purposefully selected, based on factors such as their willingness to participate in the study, their level of experience and participatory involvement in VAT administration. All participants were officers who are full-time employees of the VAT Service or taxable persons who are directly involved in VAT administration and were willing to express their perceptions and experiences on the phenomena under study.

DATA PRESENTATION AND ANALYSIS

Moustaka’s thematic analysis was used to analyze the data collected. Moustaka’s thematic analysis uses experience in order to obtain comprehensive descriptions which form the basis for a structural analysis to demonstrate the meanings behind the experiences of the research participants (Smith, Flowers & Larkin, 2009). According to Smith, Flowers and Larkin, the researcher derives general meanings by describing the structure of the original narrative descriptions obtained through open-ended questions and dialogue based on reflection and interpretation of the research participant’s story in order to determine the meaning of the experience to the participants. Presentation and analysis of responses from the interviews are done under the major themes that emerged from the data set. Major themes emerged with the repeated reading of each interview transcript and a numerical coding procedure was used for the identification of the major themes found in the data (Braun & Clarke, 2006).

The following major themes emerged after going through the thematic:

Understating VAT Returns

The paper found out that many taxable persons file understated VAT returns in violation of the provisions of Section 59 of the VAT Act and that the few offenders who are caught are not subjected to the full rigors of the law to act deterrent to others. The paper results also indicated that most taxable persons do not file their VAT returns on schedule. This is a serious challenge of VAT administration since it makes monitoring difficult. Since the VAT collected is based solely on the returns filed by taxable persons, the administration and enforcement of VAT return procedures are critical to the success of the VAT system (Bird 2005).

Twenty-two out of the 40 participants representing 55% of study participants were of the view that most taxable persons understate their VAT in their VAT returns. This view was expresses by 15 out of the 20 tax officers and seven out of the 20 taxable persons. One of the interview questions was aimed at exploring whether VAT returns submitted by taxable persons are based on all transactions made in the previous month as required by the tax laws. VO12 complained as follows: “Our tax audit reports indicate that many taxable persons do not include all sales of chargeable supplies in their VAT returns, so we are forced to cross-check most of the returns with evidence of sales and purchases which are usually non-existent”. VO8 added that “most VAT returns submitted by taxable persons are not accurate since most organizations do not keep records of all their sales and purchases”. TP19 admitted “the VAT is enforced on only a few of us so we cannot include all our sales in the returns and still compete with the many other businesses who do not charge VAT at all”. He added “the authorities should chase those who do not file any returns before those of us who are able to pay VAT on part of our business”. Thus, most of the VAT officers and some of the taxable person agree that VAT returns are usually understated.

TP20 admitted as follows “the VAT rate is high so it is not easy to pay the VAT on all our transactions and still remain in business”. Since VAT is assessed on purchases and sales, the success
of VAT depends largely on the submission of accurate records of business transactions by taxable persons. Falsification of VAT records is a violation of Section 59 of the VAT Act which provides that any person who falsifies or wilfully uses a forged or falsified document commits an offence which is punishable by a fine or imprisonment.

The paper also found out that some taxable persons, in their attempt to evade VAT, conceal information from the VAT officers. VO9 stated “some taxable persons maintain their records using online accounting packages so it is impossible to retrieve their sales and purchases records even when we seize their computers for inspection”. The presentation of incomplete information also amounts to falsification under the VAT law. Thus some taxable persons do not report VAT on all their sales.

Bribery

Thirty-five out of the 40 study participants representing 88% disclosed that some taxable persons offer bribes to VAT officers to induce them to accept understated VAT returns. VO7 stated that “some taxable persons offer bribes to VAT officers who visit their premises as a means of influencing them to compromise their standards”. A minority of the VAT officers also expressed the view that some VAT officers collude with taxable persons to help them understate their VAT payable. VO4 admitted as follows: “most registered taxable persons do not maintain even the basic bookkeeping records that can facilitate proper VAT assessment so VAT inspectors are offered the chance to help them estimate their VAT”. On this issue TP11 reported as follows: “the laws are enforced only on those agents who refuse to pay bribes so we always have to find something for them to avoid any trouble”. This implies that most VAT assessments are largely based on estimates made by VAT officers due to inadequate records and this has created a situation where some corrupt taxable persons offer payment to VAT officers in order to induce them to under-state their VAT.

The study participants also revealed that some VAT officers demand payment from taxable persons in the course of performing their duties in violation of the provisions of the VAT Act. TP13 indicated that “most tax officers extort payment from taxable persons by overestimating the VAT in order to force you to negotiate with them”. On this issue, the responses received from VAT officers were different from that obtained from taxable persons. Out of the 20 VAT officers who participated, only four representing 20% agreed that some VAT officers demand payment from taxable persons. The remaining 80% of the VAT officers (18 out of 20) disagreed with the assertion. However, taxable persons overwhelmingly agreed that some VAT officers demand payment from them when they visit their business premises to perform duties. 18 out of the 20 taxable persons representing 90% admitted that some VAT officers usually demand payment from them. This is a clear violation of the provision in section 63, sub-section 1 of the Value Added Tax Act.

Smuggling and Understatement of Imports

Another theme that emerged was smuggling and the related understatement of imports. Thirty-one out 40 representing 78% of the study participants admitted that goods are smuggled into the country through unapproved routes in order to evade import VAT. VO6 stated “many imports are not assessed for VAT because they do not pass through the ports and importers who send their goods through the recognized ports also understate the value of their imports to reduce import VAT”. In Ghana VAT on imports is calculated on the total of cost, insurance and freight (CIF) plus customs duties and all other charges on imported goods. The VAT is collected at the port of entry, thus all goods that are smuggled into the country through unapproved routes evade import VAT. TO2 pointed out that “serious understatements are done at the various points of entry in collaboration with the customs officers”. Asked how understatements are done TP1 stated as follows: “very easy, you tell your supplies to issue two invoices, one at the true prices and one for tax purposes and you present the understated invoice to the port officers”.

Another perception that was expressed by majority of participants was that the current system for tracking the activities of smugglers is inefficient. Participants explained that the Ghana Revenue Authority does not have any efficient system for ensuring that imports are not smuggled into the country through unapproved routes. TP20 lamented: “the custom officers at the ports are only
interested in their ‘tips’ and not in preventing smuggling”. VO17 stated: “there is too much revenue loss at the port of entry through the collaborations of the custom officers and the smugglers so the Ghana Revenue Authority needs to put in place efficient system to overcome the problem of smuggling in order to curb the VAT evasion on imports”. Many participants also indicated that the various ports of entry do not have efficient systems for verifying the true value of imports for VAT purposes. VO4 stated that “since all import VAT is collected at the port of entry a system for verifying the true invoice value of imports for VAT purposes is important”. Participants explained further that the problem of assessing VAT on imports remains a serious challenge to the Ghana Revenue Authority because currently VAT on imports is calculated mainly based on invoices submitted by importers and this creates room for under invoicing by fraudulent importers.

Misclassification of Goods to Evade VAT

Another theme revealed by the interviewees is that many taxable persons misclassify goods to take advantage of unqualified exemptions and input credit. Three forms of misclassification were mentioned namely: treating taxable supplies as exempt supplies; recording personal supplies as business supplies; and diverting zero-rated exports to the domestic market. Study participants were of the view that exemptions pose a challenge to VAT administrators since fraudulent taxable persons hide behind exemption to evade the tax by misclassifying the supplies. On this issue one VO1 said “some taxable persons deliberately change the names of some taxable items in order to place them under the exempt list”. V06 stated as follows: “VAT fraud will be reduced if a reduced rate is applied on all goods because the exception clause is abused by many taxable persons.”

Another area of misclassification mentioned by participants was that personal supplies not used for business activities are at times recorded as business purchases in order to claim input credit on them. Section 13 sub-section 1 states as follows: “Except otherwise provided in this Act or regulations made under it, a taxable supply is a supply of goods or services made by a taxable person for consideration in the course of or as a part of his business activities”.VO10 submitted that “one serious challenge faced by the VAT Service is distinguishing between business supplies and taxable supplies for input credit purposes”. VO3 added “the VAT Service has no efficient means of verifying whether purchases have been used for business purposes so personal supplies are at times used to claim VAT credit in violation of section 13 of the VAT Act”.

Participants also revealed that some taxable persons divert zero-rated goods meant for exports to the domestic market. On this issue VO12 said “the free zone companies are the main culprits of export diversion; most of their output that are supposed to be meant solely for exports are sold on the local market”. VO12 explained “since exports are zero-rated, such diversion lead to serious loss of tax revenue because the exporters do not charge VAT on their sales but qualify for VAT credit on their inputs”. Thus participants have the view that some taxable persons abuse the exemption provisions as a means of evading VAT.

Fraud detection and Penalty Enforcement

The sixth theme that was identified from the data was limited capacity to detect and punish fraud. Participants submitted that the Ghana Revenue Authority does not even have an efficient system for detecting and punishing VAT offenses. TP10 explained “the officers of the VAT Service who visit our premises have to means of detecting most of the schemes taxpayers use to evade tax”. VO8 added “there is also a lack of system which can track the people who evade taxes.” VO17 stated “the government will continue to lose VAT revenue until appropriate measures are put in place to detect offenses such as failure to register, failure to issue tax invoice, presentation of false or misleading statements, falsification and alteration of documents,”. Participants agree to the assertion by Appiah-Kubi (2011) that the Value Added Tax Act provides a comprehensive list of offenses and penalties for failing to comply with the various provisions of the Act, but there is no efficient means for monitoring and detecting violations of these provisions.

The paper revealed that, although the VAT Act provides a comprehensive list of penalties for offenders, there is no efficient tracking system to identify organizations that violate the value added tax
laws and the penalties are not enforced fairly and consistently by the VAT Service. Participants explained that there is no motivation to comply with the VAT laws because those who do not comply are not brought to book and punished by the VAT Service. Penalties for defaulters range from various fines to imprisonment, but participants were of the view that the VAT Service fail to punish those who commit the various VAT offenses. VO1 stated that “proper actions are not taken in the form of penalties, fines or in some cases imprisonment for the individuals who illegally evade away from paying taxes so people are not afraid to evade the tax.” TP8 also stated “when they catch offenders, the VAT inspectors negotiate with them, take some money from them and allow them to go instead of sending them to court to be prosecuted as required by law”. TP1 suggested that “the government should conduct public auction of tax payer’s assets if they are found to be evading tax continually”. VO20 revealed that “there are a number of occasions when we have apprehended defaulters but we see no action taken against them by the top men”. VO14 admitted “if you refuse to take the bribe money, your boss will take it and you become a fool”. Thus both VAT officers and taxable persons were unanimous that the only way to reduce the incidence of VAT fraud is for the government to take severe actions against taxpayers who refuse to comply with the VAT laws. 43% of participants indicated that the revenue authority does not enforce the VAT taxes on all the businesses. 70% of interview participants agreed that the Ghana Revenue Authority does not have an efficient system for detecting VAT Offenses. This implies that the probability that offences would be detected by the VAT Service is remote, so many taxable persons take advantage of this lapse and refuse to charge the tax causing those who oblige to face competitive disadvantage. This confirms the findings of Allan and Ebel (2010) who established a positive correlation between the probability of fraud detection and VAT compliance.

CONCLUSION

The paper explores the mechanisms used by taxable persons and to evade value added tax and the common schemes used by taxable persons and VAT officer to perpetrate VAT fraud and explores ways of reducing VAT evasion and VAT fraud. The study results suggest that much of the VAT that should have been collected for the government is lost due to the fraudulent activities of taxable persons and VAT officers. This result confirms the study of Agyemang-Duah (2011) which established that Ghana has a very big VAT gap due to fraudulent activities such as, evasion, failure to register, under-reporting of sales, false claims of input credits. The study results also confirm the view of Naibe and Siringi (2011) that a wide VAT gap emanates mainly from weaknesses in VAT administration. Efficient VAT administration must ensure that total VAT collections are as close as possible to the total amount of VAT due. The study results shows that this is not the case in Ghana because the VAT gap in Ghana is currently estimated at 40% compared with European countries like Ireland and Spain that have VAT gap of only 2% (Agyemang-Duah 2011). The most common types of VAT fraud identified were bribery, falsification of records to understate VAT returns, undervaluation of imports to evade VAT and abuses of exemptions. The paper revealed that bribery and corruption is a serious challenge to VAT administrators in Ghana. This confirms the claim of Appiah-Kubi (2011) that more than 50% of potential VAT revenue either remains uncollected or ends up in private pockets through bribery and corruption on the part of both VAT officers and taxable persons. The study results indicated that most taxable persons pay money to VAT officers to prevent them from exposing their violations of the VAT laws.

RECOMMENDATIONS

Establishment of VAT Tribunal

The paper further revealed that Value Added Tax Service fails to consistently impose penalties on taxable persons who fail to comply with the value added tax laws and regulations. Provision of a list of penalties for noncompliance in the VAT laws is pointless if practical steps were taken to ensure that offenders are brought to book and punished to act as a deterrent to others. The judicial processes and the administration of justice in Ghana are slow. This does not encourage Tax officers to send offender to court and offenders also find it more convenient to give monies to the Tax officers to save
time. It is therefore recommended that a special tax tribunal should be established in Ghana to deal with tax-related offences and penalties. This would put fear into the taxpayers and the tax agents and thus reduce the incidence of VAT fraud. Countries like the UK, India and Australia that have VAT tribunal have high tax compliance (Yesegat, 2008). Bird (2005) has also established that voluntary tax compliance is not natural and must be enforced with continuous monitoring and consistent punishment of offenders. The government recently established a special task force to make sure that all importers pay the right import duty on their imports. This initiative should be extended to VAT since it has the potential to improve VAT compliance and therefore generate more tax revenue for the government.

The VAT Act provides a comprehensive list of penalties for offenders, but the paper results suggest that these are largely not enforced consistently. Offenses relating to taxable persons include: “failure to register, failure to issue tax invoice, presentation of false or misleading statement, falsification and alteration of documents, evasion of tax payment, failure to maintain proper records and obstruction of officers of the VAT Service”. These penalties should be enforced rigorously to serve as deterrent to others.

**Efficient and Regular Auditing**

Auditing at regular intervals by tax inspectors can positively reduce the incidence of VAT fraud (Mikesell, 2007). It has been found that auditing encourages the tax payers to be more prudent in completing their tax returns, report their exact income, and claim correct deductions in comparison to those who have never been audited (Yesegat, 2008). The paper results indicate that the Ghana Revenue Authority lacks efficient and well-functioning auditing procedures. There should be better supervision of registered taxable persons and potential taxable persons in order to prevent cheating and fraud. The tax officers should regularly visit the organization to audit their accounts in order to keep a check if they are cheating and penalize them harshly.

The government should immediately institute an efficient business monitoring system to ensure that all businesses that qualify to register are made to register so that more people are caught in the tax net and the burden does not fall on only few tax payers. It has been proven that taxpayers’ perception of the probability of being audited has a great impact on their degree of compliance. For e.g. countries like United Kingdom, Denmark and New Zealand that have an efficient and comprehensive tax audit systems have the highest compliance rates in the world (Bickley, 2006).

**Tracking VAT on Imports**

The paper also identified that Ghana’s VAT Service faces problems in efficiently charging VAT on imports. This is due to corruption among the ports officers and inefficient tracking facilities within the ports (both air ports and sea ports). Therefore, it is suggested that the organization make their officers accountable for their activities by fishing out and punishing the bad ones. Installation of CCTV cameras at the various ports will help to monitor the activities of the fraudulent officers. In addition a system to efficiently track containers that enter or leave ports should be adopted to ensure that no container passes the port without being verified for eligibility of VAT. The tracking system should start from recruiting experienced and knowledgeable procurement officers before the installation of cameras to watch every vessel entering and leaving the country’s ports (Asabere, 2014). This will ensure that close observation of both VAT officers and port officers is carried out in order to ensure that corrupt deals or cases of fraud are identified and punished accordingly.

Also the Ghana Revenue Authority needs to put in place efficient system to overcome the problem of smuggling in order to curb the VAT evasion on imports. This should include tightening their security procedures at the various ports of entry. Ghana is a country with deficit trade balance with about 82% of goods and services consumed in the country being imported (Appiah-Kubi, 2011). Smuggling therefore constitutes a serious leakage of tax revenue to the government. There must be a system for identifying goods that are not covered by import documents when the goods enter the country (Aruwa, 2008). Import tracking should not be limited to the ports of entry but must be
extended to the domestic market to ensure that those goods that evade the port tracking systems could also be identified.

**Universal Tax Identification Number**

One of the means through which the Tax Authority could reduce VAT fraud is to issue an all-purpose tax identification number to all taxpayers. In Ghana there is no unique national identification number for citizens. In this regard Grandcolas (2005) found out that preparation of a single master database of businesses, based on unique Tax Identification Number (TIN) is crucial in ensuring all businesses comply with the VAT laws. The National Identification Authority was formed five years ago to design a national identification card for all citizens in Ghana, but the Authority has not been able to do so as yet. It is therefore very difficult to track the activities of taxable person for tax purposes. A unique number for each taxable person, like the United States Social Security Number, will enable the Ghana Revenue Authority to correlate the activities of businesses that take place in different places.

**Clarification of Exemptions and Zero-rated Provisions**

Results of the paper indicate that the administration of the various exemptions poses a serious challenge to VAT Administrators and provides avenues for the perpetration of fraud by way of deliberate misclassification. There are many grey areas as far as exemptions provisions in the Act are concerned. The VAT Service should therefore clarify exemption policies in the Act by issuing a schedule and operational guidelines on exemptions and also establish a monitoring system to ensure that taxable persons do not hide behind exemptions to perpetrate VAT fraud (Asabere, 2014). The Revenue Authority should also undertake regular audit on entities operating in the free zone areas to deter them from diverting zero-rated supplies to the domestic market.

**Reduction in Cash Transactions**

The paper found out that one of the main reasons why VAT fraud is high in Ghana is that most transactions are done in cash due to the predominance of the informal sector and the black economy. The government should initiate fiscal policy changes that reduce the predominance of cash transactions. This will forced people to use the banking systems, and credit cards. The use of the banking systems and credit cards for transactions will ensure that there are records of income and expenditure for tax tracking and audit purposes. This would also go a long way to reducing the predominance of the black economy. Tax compliance is very high in the USA because most transactions are done with credit cards (Phillips, 2004; Pricewaterhouse Coopers, 2010). It is suggested that the government should pass a law to force all transaction beyond a specified limit to pass through the banking system

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