

# The Effectiveness of Formal Tax Education on Legal Tax Knowledge in Ghana's Informal Sector

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## ABSTRACT

**Introduction:** The small and medium-scale enterprises (SMEs) have continuously played a significant role in Ghana over the years. They are credited with bringing about socio-economic growth in the country by creating jobs and alleviating poverty. However, despite the sector's vast size and diverse nature, it poses significant challenges to tax compliance and administration in Ghana. Moreover, despite efforts by the Ghana Revenue Authority (GRA) to engage with informal sector workers through outreach programs, gaps in understanding tax regulations remains, resulting in limited compliance results from the sector. In view of this, the study looked at assessing the effectiveness of formal tax education on legal tax knowledge in Ghana informal sector.

**Materials and Methods:** This research work was carried out using quantitative research approach. This research approach allowed the study to examine the association between formal tax education and legal tax knowledge. In addition to this, the descriptive survey design was employed by the study. Data for the study was sourced from 1,152 small and medium-sized enterprises (SMEs) in the informal sector located in the Greater Accra Region of Ghana. In order to appropriately select these respondents, a multistage sampling method was used, which included simple random sampling and snowball sampling. Additionally, a 12- item based questionnaire was developed based on existing literature to gather information from the respondents. The data obtained was then analyzed using Structural Equation Modeling (SEM), specifically through Partial Least Squares (PLS).

**Findings:** The study discovered weak opinion of informal sector SMEs in relation to formal tax education. However, strong level of opinion was expressed in relation to their insights on legal tax knowledge in Ghana. It was found that formal tax education exerts significant positive impact on legal tax knowledge among informal sector SMEs in SMEs.

**Conclusion:** The findings of the study clearly show the importance of formal tax education and legal tax knowledge within the context of tax system of Ghana. The findings help address the existing knowledge gap, as it revealed the need to develop and implement required tax programs that are relevant and accessible to the needs of informal sector SMEs in Ghana. In addition, it is vital to establish that when government agencies such as Ghana Revenue Authority (GRA) invest in formal tax education, Ghana can develop and promote a culture of compliance and propel SMEs to contribute effectively to the national economy.

**Keywords:** Tax Education, Tax Knowledge, Formal Tax Education, Legal Tax Knowledge, Informal

Sector, Small and Medium Scale Enterprises

## 1.0 Introduction

According to Ghana Statistical Service (2022), the informal sector of Ghana encompasses a wide range of economic activities, from street vending to small-scale manufacturing, and accounts for over 80% of employment in the country. Significant number of these businesses that operates in the informal sector are regarded as Small and Medium Scale Enterprises (Amoah & Amoah, 2018). These enterprises have played an increasingly significant role in Ghana in recent years. They are credited with bringing about socio-economic growth in the country by creating jobs and alleviating poverty (Amoah & Amoah, 2018). SMEs employ 80% of the active workforce within the informal sector of Ghana, contributes 70% of the country's Gross Domestic Product (GDP), and account for 92% of the country's businesses (Abor & Quartey, 2010; Asunka 2016; Yeboah, 2022). Hence, both developed and developing countries are heavily invested in SMEs and continue to look for practical solutions to improve their operations (Amoah & Amoah, 2018). This implies that SME's contribute not only to the expansion of the national economy, but to decreasing unemployment. In the study by Kwadwo et al. (2016), the authors noted that SMEs in Ghana are mostly sole-proprietorships, which are either owned by families or individuals and contribute to 80% of total employment and 70% of GDP. The services industry, particularly hotels, restaurants, transportation and storage, and real estate account for the majority of SMEs in Ghana as the services sector provided almost 50 percent of Ghana's Gross Domestic Product (GDP), in 2021 contribution by the service sector went up by 8.8 percent from 2011 (Yeboah, 2022).

In spite of the sector's vast size and diverse nature, it poses significant challenges to tax compliance and administration (Yeboah, 2022). A primary concern is the low level of tax knowledge most especially in relation to legal tax knowledge concerning their operations, which often leads to tax avoidance or evasion (Atuguba, 2020). In addition, despite efforts by the Ghana Revenue Authority (GRA) to engage with informal sector workers through outreach programs, gaps in understanding tax regulations remains. Research indicates that many informal sector operators lack basic knowledge about tax registration, tax filing, and the penalties associated with non-compliance (Ali-Nakyea, 2019). This clearly shows that the tax education efforts by Ghana Revenue Authority have not yielded the required results needed to enhance the tax knowledge of informal sector SMEs in Ghana. Further, studies have shown that formal tax education is the potential tool to improve understanding and compliance (Bird & Zolt, 2018; Yeboah, 2022). However, formal tax education has failed to receive the required attention in literature with regards to the informal sector as well as policy intervention frameworks of tax authorities in Ghana. In addition, Fagariba and Kwawu (2021), has proposed that tax education programs that is formal, well-structured and planned, if effectively implemented can aid in addressing these issues by providing comprehensive insights into tax obligations.

Further, within the context of literature in Ghana, Africa and the World, previous scholarly investigation have shown positive effect of tax education on tax knowledge (Saad, 2014; Alm, 2019). In addition, Alm and Leguizamon (2018), established that a tax education program that is comprehensive in form significantly enhances the rates of knowledge and hence, compliance. In a similar vein, some studies have reported that tax knowledge gained through formal education has the capacity of influencing compliance (Loo et al., 2010; Kirchler et al., 2018; Kassim & Manosur, 2018; Mohammed & Tangl, 2024).

Evidently, many studies have looked into tax education, tax compliance, and tax knowledge, but overlooked the connection between specific forms of tax education and tax knowledge dimensions leading to widening of the knowledge gap in literature with regards to this area. Some important aspects of tax education and tax knowledge are formal tax education and legal tax knowledge. This knowledge gap contributes to the problem of non-compliance among many small and medium-sized enterprise (SME) owners in Ghana, which leads to a lack of voluntary tax compliance (Mohammed & Tangl, 2024). It is also important to highlight that the disconnect between formal tax education, and legal tax knowledge possibly explains why the educational programs from the Ghana Revenue Authority (GRA) may not have been successful in obtaining the desired high voluntary compliance results in the informal sector.

Moreover, by understanding the link between education and knowledge and examine the relationship between formal tax education and legal tax knowledge, policymakers would have the practical insight to design more effective interventions to enhance tax revenue and promote trust in tax administration. It would also help tax authorities to understand the required formal educational programs needed to enhance the legal tax knowledge of informal sector SMEs.

The first aspect of this paper covers the introduction and study objectives. The second aspect covers the literature review. The third section explains the research methods used. The fourth section covers the data analysis, results presentation and discussion. The last aspect covers the conclusion.

### **1.1 Study Objectives**

The overall study objective of the study is to assess the effectiveness of formal tax education on legal tax knowledge in Ghana informal sector. The specific objectives of the study include:

1. To determine the level of formal tax education among informal sector SMEs in Ghana
2. To assess the level of legal tax knowledge among informal sector SMEs in Ghana
3. To examine the impact of formal tax education on legal tax knowledge among the informal sector SMEs in Ghana

## **2.0 Literature Review**

### **2.1 Formal Tax Education**

Formal tax education is defined as scheduled institutionally sponsored, classroom-based, and highly structured (Marsick & Watkins, 2001). It is also viewed as tax education received in primary, secondary, and/or higher education. This type of education forms part of the school curriculum from primary to tertiary level of education. Several characteristics are shared by tax education programs in schools around the world. They mainly target secondary school students or, in the case of Rwanda, university students. Staff from the revenue authority, who visit schools and have direct contact with pupils, frequently organize events. These topics often includes essential concerns such as Value Added Tax, liquor and tobacco taxes, fuel tax, income tax, and corporation and/or property taxes, among other taxes that citizens must pay. In other countries, such as Mauritius, the program also offers information on how tax revenue is spent and the consequences of tax avoidance (Saad, 2022). In this study, formal tax education is defined as any form of tax education sourced from organized, structured institutions which results in certification (Saad, 2022). This includes tax courses in primary, secondary and tertiary institutions.

### **2.2 Legal Tax Knowledge**

Tax knowledge is simply the awareness or understanding of the tax systems in a particular country. Sta-

ntcheva (2021) mentioned that the level of knowledge is important in determining the way people understand, reason, and learn about tax policies. Tax knowledge, according to Devos (2016), is the general level of fiscal knowledge, including knowledge of evasion options, general educational achievement, and knowledge of tax law. Also, as defined, a person's view of their capacity to comply with tax regulations, which encompasses both technical and general tax knowledge about the tax system (Wong & Lo, 2015). Legal tax knowledge includes a conceptual understanding of tax legislation, which includes a high level of awareness of legislation terminology and the ability to distinguish between different concepts in taxation, as well as a technical understanding of tax legislation, which includes the ability to apply legal tax knowledge to specific situations and accurately comply with tax obligations (Bornman & Ramutumbu, 2019). Bornman and Ramutumbu's (2019) argument was based on studies by Oladipupo and Obazee (2016) and Fjeldstad and Heggstad (2012), which found that most citizens have little understanding of the tax terminologies and why the tax system is structured and administered. Most people attribute their emotions of tax incompetence and disinterest in the system to the complexity of the tax laws, legislation and provisions which leads to taxpayers not even bothering to comprehend tax terminologies and distancing themselves from the tax system (McKerchar, 2001). Because tax rules change frequently in many countries and are more complex and confusing than other laws, the situation becomes extremely difficult and complicated for laypeople including SMEs to comprehend (Kirchler et al., 2012; Oladipupo & Obazee, 2016). In addition, Bornman and Ramutumbu's (2019) notion was based on the study of Lai, Zalilawati, Amran and Choong, (2013) and Saad, (2014) which stated that legal tax knowledge involves a dimension of extensive grasp of legal terminology used in complex tax legislation as it defines the ability to apply certain laws and legislation to accurately calculate tax liability. Specifically, Lai (2013) distinguish between declarative knowledge, which consists of particular tax rules and facts, and "procedural knowledge," which consists of the ability to apply these rules. In support of this, Kamleitner et al. (2012) noted that the scope of non-compliance resulting from a lack of awareness induced by complex reporting and filing procedures is potentially very significant. This study defines legal tax knowledge as understanding of tax laws, legislation, and tax terminologies. This comprises the capacity to discern between various tax concepts, a technical understanding of tax legislation, the ability to apply legal tax knowledge.

### **2.3 Relationship between Formal Tax Education and Legal Tax Knowledge**

Formal tax education plays critical role in equipping individuals with the essential legal tax knowledge, which has been reported to exert important influence on tax compliance (Sapiei et al., 2018). Scholarly investigations suggests that taxpayers who are highly exposed to formal tax education, has greater level of comprehension on tax laws, policies, rights and obligations. This helps to promote voluntary tax compliance (Sapiei et al., 2018). In view of this, the study by Atawodi and Ojeka (2018), reported that the relationship between tax education and tax compliance is crucial for informal sector workers who most often lack the formalized or structured education on tax responsibilities. Further, a study carried out by Ali et al. (2020), found that provision of targeted educational initiatives on tax responsibilities increase the accuracy of taxpayers resulting in lower levels of misreporting. In similar vein, Mukhlis et al. (2018), claimed that taxpayers who most often obtain tax training become highly aware of legal tax benefits and have the likelihood of adhering to tax obligations and guidelines. In addition, Saad (2022) reported that informed taxpayers are better able to appreciate the importance of tax contributions to national development, which strengthens their moral and legal commitment to compliance. Furthermore, the social aspect of tax education has the capacity of fostering a shared understanding within communit-

ies, reinforcing a culture of compliance.

### **3.0 Materials and Methods**

#### **3.1 Research Design**

Despite significant number of methods existing in literature in relation to tax research works, this study was carried out using quantitative research method. The method of quantification allowed the researcher to examine the linkage between formal tax education and legal tax knowledge. It also provided the basis for obtaining numerical data from informal sector SMEs in Ghana. Additionally, in order to ensure effective data collection, the researcher utilized the descriptive cross sectional survey design. The design provided the basis for obtaining data from informal sector SMEs in Ghana specifically Greater Accra Region within a given period of time. It also helped the researcher to effectively provide insightful description regarding formal tax education and legal tax knowledge.

#### **3.2 Population and Sample Administration**

The target population for the study was informal sector SMEs registered and have their information within the Ghana Enterprise Agency of Ghana. The registered SMEs are those within the Greater Accra Region of Ghana. In addition, the Ghana Enterprise Agency a previously called National Board for Small Scale Industries (NBSSI) is a government agency responsible for the promotion and supporting of small, medium, and micro enterprises across diverse sectors of Ghana. Although, the study targeted 2,180 registered SMEs, 1,152 of them were utilized in this research work. In addition to this, respondents from these SMEs were sampled using the multistage sampling technique consisting of random and snowballing techniques. Out of the 14 sector categorization of SMEs within the Ghana Enterprise Agency four were utilized by the study namely Agriculture, Commerce, Manufacturing and Service.

#### **3.3 Data Collection Method and Analysis**

Data was collected from informal sector SMEs in the Greater Accra Region of Ghana using questionnaire. The questionnaire was 12-item based instrument adapted from literature through previous scholarly works such as Othman et al., (2020); Twum, et al. (2020), Mohammed and Tangl (2024). The instrument was Likert scale measured using 5 point likert scale namely strongly agree to strongly disagree. In addition, data was analyzed using the structural equation model of partial least squares (PLS). The SMART-PLUS software was utilized by the study for the purpose of coding and analysis (Hair et al., 2022).

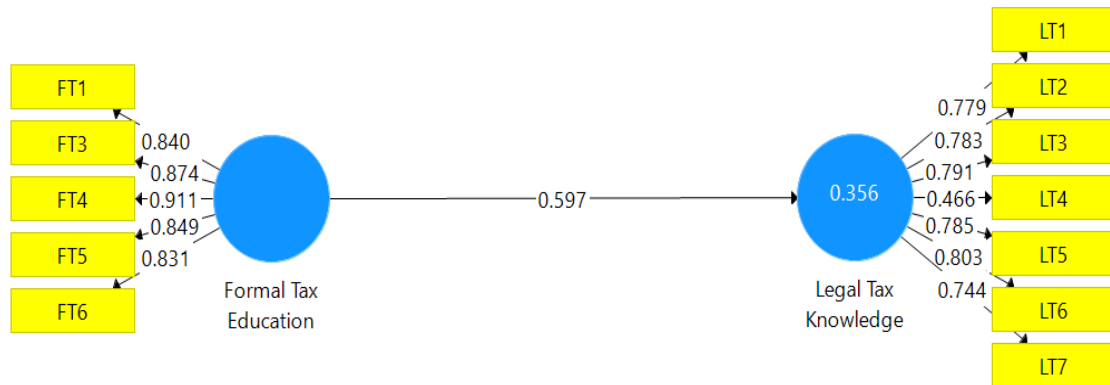
### **4.0 Results and Discussion**

Analysis was carried out on the basis of information obtained from informal sector SMEs. The major constructs were formal tax education and legal tax knowledge. The analysis revealed two important models namely measurement and structural models.

#### **4.1 Measurement Model**

An assessment was carried out on the study construct and the model development is shown in figure 1.1.

Figure 1.1 Measurement Model



### 4.2 Factor Loadings

In the study by Creswell (2019), the author posited that factor loadings show how individual items in a correlation matrix connect to the key factor. In addition, Pett et al. (2003), explained that factor loading values can range from -1.0 to +1.0, with higher absolute values indicating stronger relationships between the item and the main factor. In view of this, Table 1.2 displays the factor loading and VIF results from the data analysis.

Table 1.2 Factor Loading and Multicollinearity Statistics (i.e. VIF)

Items	Formal tax education	Legal Tax knowledge	VIF
FT1	0.84		2.447
FT3	0.874		3.106
FT4	0.911		3.723
FT5	0.849		2.632
FT6	0.831		2.597
LT1		0.779	2.639
LT2		0.783	2.457
LT3		0.791	2.289
LT4		0.466	1.315
LT5		0.785	2.189
LT6		0.803	2.325
LT7		0.744	1.841

Table 1.2 shows that items related to formal tax education and legal tax knowledge. The items of formal tax education has factor loading scores between 0.831 and 0.911, indicating a strong relationship to formal tax education construct. In addition, legal tax knowledge items have scores ranging from 0.466 to 0.803, which also shows a strong relationship with link legal tax knowledge construct. By implication, the results suggest that all items have high factor loading values, showing strong correlations among the two key variables. However, according to Hair et al. (2017), multicollinearity is not usually a concern if the VIF value is below 10. The VIF scores in table 1.2 range from 1.315 to 3.723, which are within the acceptable limit and indicate that there are no issues with multicollinearity.

### 4.3 Reliability Results

The data obtained was test for reliability and the result are displayed in Table 1.3.

**Table 1.3 Reliability Results**

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Formal Tax Education	0.913	0.915	0.935	0.742
Legal Tax Knowledge	0.862	0.881	0.895	0.554

Cronbach's Alpha helps researchers establish how consistent a group of items is in a study (Hair et al., 2017; Creswell, 2019). Values of 0.7 and above show a strong agreement between these items (Creswell, 2019). In Table 1.3, results show that formal tax education has a value of 0.915, and legal tax knowledge is 0.862. All these values exceed the suggested minimum of 0.70, confirming that the constructs are reliable (Hair et al., 2011). Additionally, the composite reliability values are 0.935 for formal tax education, and 0.895 for legal tax knowledge, indicating strong internal consistency. Regarding convergent validity, it means that measures of the same concept should be closely related (Hair et al., 2022). The Average Variance Extracted (AVE) shows how strongly items within a construct relate to each other. An AVE score of 0.50 or more suggests that items measure the same underlying idea (Creswell, 2019). The AVE scores for this study are 0.742 for formal tax education, and 0.554 for legal tax knowledge, all above the 0.50 threshold. This indicates that the study constructs exhibit convergent validity.

**Table 1.4 Discriminant Validity - Fornell and Larcker Criterion**

	Formal Tax Education	Legal Tax Knowledge
Formal Tax Education	0.861	
Legal Tax Knowledge	0.597	0.744

**Table 1.5 Discriminant Validity - HTMT**

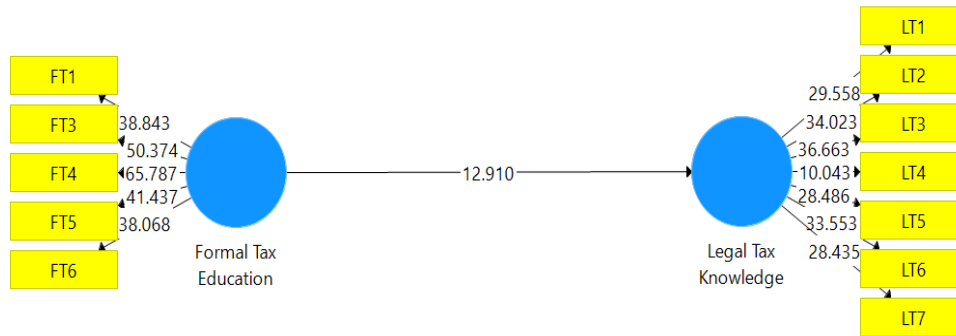
	Formal Tax Education	Legal Tax Knowledge
Formal Tax Education		
Legal Tax Knowledge	0.654	-

The results of the Fornell and Larcker criterion and the Heterotrait-Monotrait Ratio (HTMT) are presented in table 1.4 and table 1.5 respectively. This help to evaluate discriminant validity in the data set. According to the Fornell and Larcker criterion, discriminant validity is confirmed when the square root of the Average Variance Extracted (AVE) for a construct is greater than its correlation with other constructs. The results show that formal tax education has a score ratio of 0.861, and legal tax knowledge is 0.744. These values exceed their correlations with other constructs, indicating strong evidence for discriminant validity. Regarding HTMT, Hair et al. (2022), suggest a threshold value of 0.85 or lower, while Teo et al. (2008) recommend a slightly higher threshold of 0.90 or lower. The HTMT values in Table 1.5 show that legal tax knowledge ratio is 0.654, which is below the 0.90 threshold, confirming discriminant validity.

#### 4.4 Structural Model

The structural equation model analysis through the PLS revealed the structural model from the path coefficients result. The model is shown as follows:

**Figure 1.2 Structural Model –Direct Path Result**



#### 4.5 Determination of Formal Tax Education Among Informal Sector SMEs in Ghana

The study analyzed the data obtained from informal sector SMEs on the basis of their level of understanding regarding formal tax education in Ghana. It was to comprehend their insight on the formal procedures and processes underpinning the tax system of Ghana. In the scholarly work by Mohammed and Tangl (2024), the authors claimed that improving the formal tax education of informal sector business individuals is very critical since it has the capacity of enhancing voluntary compliance and overall tax knowledge of these people. The authors advanced that formal tax education is very crucial in ensuring reduction in tax evasion and formalization of business process of these informal sector business people. This will ultimately result in government revenue improvement and growth in the Ghanaian economy. In light of this, the descriptive statistics results and the significance of the loadings from the PLS analysis from the SEM is shown below:

**Table 1.6 Descriptive Statistics and Significance Loadings**

Items	Mean	SD	T	P Values
FT1 <- Formal Tax Education	0.840	0.022	38.843	0.000
FT3 <- Formal Tax Education	0.873	0.017	50.374	0.000
FT4 <- Formal Tax Education	0.912	0.014	65.787	0.000
FT5 <- Formal Tax Education	0.849	0.020	41.437	0.000
FT6 <- Formal Tax Education	0.830	0.022	38.068	0.000
<b>Overall Mean</b>	<b>0.860</b>			

[Significance of the loadings of each of the items]

From Table 4.6, the result on the determination of level of insights of informal sector SME businesses regarding formal tax procedures, practices and processes in Ghana was evaluated using 5 point likert scale from strongly disagree through to strongly agree. The result shows that all the indicators or items underscoring formal tax education obtained significant loadings represented as  $p = 0.0000$  indicating [ $p < 0.05$ ]. Additionally, the overall mean of all the items was [ $\chi = 0.860$ ]. Comparatively, in relation to the individual item means, the highest score was [FT4 = 0.912] and the lowest score was [FT6 = 0.830]. In light of this, comparing individual item means to the overall mean, the result shows that 3 items obtained



mean value less than the overall mean score indicating weak level of agreement or acceptance whilst 2 items obtained mean score greater than the overall mean illustrating greater level of acceptance. The result clearly shows limited level of opinion or weak opinion of informal sector SMEs in relation to formal tax education.

The findings show a significant gap in formal tax education among informal sector SMEs in Ghana. It is clear that many SMEs in Ghana lack the basic understanding of formal tax principles and procedures. This shortfalls point to limited access to formalized educational resources that is tailored towards the unique circumstances and needs of the informal sector SMEs in Ghana. This underscores why the informal sector SMEs in Ghana struggle to comprehend regulatory requirements, policy frameworks and appropriate rules and regulations underscoring the tax system of the country. This consistent with the study by Sapiei et al. (2018), who claimed that taxpayers who are highly exposed to formal tax education, has greater level of comprehension on tax laws, policies, rights and obligations. This helps to promote voluntary tax compliance (Sapiei et al., 2018). The study by Atawodi and Ojeka (2018), reported that the relationship between tax education and tax compliance is crucial for informal sector workers who most often lack the formalized or structured education on tax responsibilities. Further, a study carried out by Ali et al. (2020), found that provision of targeted educational initiatives on tax responsibilities increase the accuracy of taxpayers resulting in lower levels of misreporting.

#### 4.6 Determination of Legal Tax Knowledge among Informal Sector SMEs in Ghana

The study analyzed the data obtained from informal sector SMEs on the basis of their level of understanding regarding legal tax knowledge in Ghana. The overall aim was the ascertain the level of understanding of informal sector SMEs in Ghana regarding tax legislations, policies, rules and regulations. In the words of Bornman and Ramutumbu (2019), legal tax knowledge includes a conceptual understanding of tax legislation, which includes a high level of awareness of legislation terminology and the ability to distinguish between different concepts in taxation, as well as a technical understanding of tax legislation, which includes the ability to apply legal tax knowledge to specific situations and accurately comply with tax obligations. In light of this, the descriptive statistics results and the significance of the loadings from the PLS analysis from the SEM is shown below:

**Table 1.7 Descriptive Statistics and Significance Loadings**

Items	Mean	SD	T	P Values
LT1 <- Legal Tax Knowledge	0.778	0.026	29.558	0.000
LT2 <- Legal Tax Knowledge	0.783	0.023	34.023	0.000
LT3 <- Legal Tax Knowledge	0.789	0.022	36.663	0.000
LT4 <- Legal Tax Knowledge	0.462	0.046	10.043	0.000
LT5 <- Legal Tax Knowledge	0.783	0.028	28.486	0.000
LT6 <- Legal Tax Knowledge	0.802	0.024	33.553	0.000
LT7 <- Legal Tax Knowledge	0.741	0.026	28.435	0.000
<b>Overall Mean</b>	<b>0.734</b>			

[Significance of the loadings of each of the items]

The result regarding on the determination of level of insights of informal sector SME businesses regarding legal tax knowledge in Ghana was evaluated using 5 point likert scale from strongly disagree

through to strongly agree. The result shows that all the indicators or items underscoring legal tax knowledge obtained significant loadings represented as  $p = 0.0000$  indicating [ $p < 0.05$ ]. Further the overall mean of all the items was [ $\chi = 0.734$ ]. Comparatively, in relation to the individual item means, the highest score was [LT8 = 0.802] and the lowest score was [LT4 = 0.462]. In light of this, comparing individual item means to the overall mean, the result shows that 1 item obtained mean value less than the overall mean score indicating weak level of agreement or acceptance whilst 6 items obtained mean score greater than the overall mean illustrating greater level of acceptance. The result clearly shows strong level of opinion was expressed in relation to their insights on legal tax knowledge in Ghana.

In spite of the limited formal tax education among informal sector SMEs in Ghana, there is still relatively superior level of legal tax knowledge. This projects that informal sector SMEs in Ghana acquire practical tax-related understanding through experience, informal networks and peer assistance. This shows that diverse number of SME businesses have become aware of basic tax principles, obligations and framework, in response to pressures and continuous level of engagement and interaction with tax authorities. This knowledge might not be comprehensive but reflects an intuitive grasp of legal requirements necessary to avoid penalties. The ability of these SMEs to acquire such knowledge independently highlights their adaptability and determination to operate within the law, even with minimal formal guidance. This finding suggests that informal sector SMEs value compliance and are motivated to understand tax obligations, despite the absence of formal education. This aligns with the study by Bornman and Ramutumbu's (2019), who argue based on studies by Oladipupo and Obazee (2016) and Fjeldstad and Heggstad (2012), who reported that most citizens have little understanding of the tax terminologies and why the tax system is structured and administered.

#### 4.7 Direct Relationship Results

The study also examined direct relationship between formal tax education and legal tax knowledge among the informal sector SMEs. In view of this, the path coefficient result is presented in table 1.8.

**Table 1.8 Paths Results**

Paths Coefficients	Beta Coefficient	T Statistics	P Values
Formal Tax Education -> Legal Tax Knowledge	0.597	12.91	0.000

In relation to the impact effect, the result from the analysis shows that formal tax education predict legal tax knowledge significantly indicated as ( $\beta = 0.597$ ,  $T = 12.91$ ,  $p < 0.05$ ). This is a positive impact and 59.7% of variance explained. It shows that a unit change in formal tax education among informal sector SMEs has the capacity of resulting in 59.7% of impact on legal tax knowledge. The result clearly shows that formal tax education exerts significant positive impact on legal tax knowledge among informal sector SMEs in SMEs.

By implication, the finding suggests that formal tax education influences legal tax knowledge positively. It is clear that by providing a well formalized and accurate information, formal tax education helps SMEs to develop a comprehensive understanding of tax laws, policies, tax frameworks and compliance requirements. In addition, this foundation not only aids in meeting legal obligations but also boosts confidence in SMEs tax-related decisions, reducing errors and instances of unintentional non-compliance. Formal tax education has the capacity to demystify complex tax regulations, making them more accessible for small business owners who may lack financial expertise. These insights imply that

expanding access to formal tax education has the capacity of significantly improving tax compliance within the informal sector of Ghana. This support the study by Ali et al. (2020), found that provision of targeted educational initiatives on tax responsibilities increase the accuracy of taxpayers resulting in lower levels of misreporting. In similar vein, Mukhlis et al. (2018), claimed that taxpayers who most often obtain tax training become highly aware of legal tax benefits and have the likelihood of adhering to tax obligations and guidelines. In addition, Saad (2022), reported a linkage between tax education and tax knowledge.

## 5.0 Conclusion

The findings of the study clearly show the importance of formal tax education and legal tax knowledge within the context of tax system of Ghana. The findings help address the existing knowledge gap, as it revealed the need to develop and implement required tax programs that are relevant and accessible to the needs of informal sector SMEs in Ghana. In view of the link between formal tax education and legal tax knowledge, the findings of the study stresses on the critical role that formal tax education plays in propelling legal tax knowledge among informal sector SMEs in Ghana. Despite the limited level of opinion of SMEs towards formal tax education, SMEs demonstrate a promising level of legal tax knowledge, likely acquired through informal means. This situation reflects the determination and adaptability of informal sector businesses, yet also underscores the need for structured educational programs that aid in bridging the gap between informal learning and comprehensive legal tax understanding. In addition, it is vital to establish that when government agencies such as Ghana Revenue Authority (GRA) invest in formal tax education, Ghana can develop and promote a culture of compliance and propel SMEs to contribute effectively to the national economy. Efforts by Ghana Revenue Authority (GRA) to expand and adapt tax educational programs can help yield important benefits, propelling voluntarily compliance, reducing tax related disagreements and highly promoting sustainability and growth potential of the informal sector business in Ghana. Essentially, formal tax education presents a strategic avenue for improving overall compliance level of informal sector SMEs. Considering the direct positive impact that formalized education has on legal tax knowledge, it is important for policy makers, government and its agencies to pay attention to tax educational initiatives in order to enhance tax knowledge of informal sector SMEs in Ghana, Africa and beyond. In light of this, tax educational initiatives have the capacity of contributing to broader economic development goals of Ghana, Africa and the world.

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