

# The Impact of Informal Tax Education on Reporting Compliance: Mediation Role of General Tax Knowledge Within the Informal Sector of Ghana

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## ABSTRACT

**Introduction:** One of the vital sectors within the economy of Ghana is the informal sector. The sector contributes significantly to the economy but remains largely untaxed, partly due to limited awareness of tax obligations and tax responsibilities. Although, some research work has been conducted in Ghana in relation to broader concept of tax education, tax compliance and tax knowledge within the informal sector, however, empirical investigation into the linkage between general tax knowledge, informal tax education and reporting compliance is rare. In view of this, the purpose of the study is to examine the mediating role of general tax knowledge on the impact of informal tax education on reporting compliance.

**Methodology:** The study was carried out using the quantitative approach in order to examine the connections between three key variables: informal tax education, general tax knowledge, and reporting compliance. A descriptive research design was employed, and data were collected from 1,152 small and medium-sized enterprises (SMEs) in the Greater Accra Region of Ghana. The total number of participants in the study was 1,152. The study utilized a multistage sampling method that included both simple random sampling and snowball sampling to select respondents. In addition, data were gathered through a 13-point questionnaire based on existing literature. Finally, the responses were analyzed using Structural Equation Modeling (SEM), specifically a method known as Partial Least Squares (PLS).

**Findings:** The study found that general tax knowledge exerts significant positive impact on reporting compliance of SMEs within the informal sector of Ghana. In addition, it was discovered that informal tax education exerts significant positive impact on general tax knowledge within the informal sector of Ghana. Further, informal tax education was found to exerts significant positive impact on reporting within the informal sector of Ghana. Moreover, the study found that general tax knowledge mediates significantly the effects of informal tax education on reporting compliance within the informal sector of Ghana.

**Conclusion:** Greatly, the findings from this research underscore the pivotal role of tax education, particularly informal tax education, in enhancing reporting compliance among small and medium-sized enterprises (SMEs) operating within the informal sector in Ghana. The data reveal a complex yet crucial interplay between informal tax education, general tax knowledge, and reporting compliance, shedding light on how educational interventions can strategically bolster tax compliance efforts in Ghana, Africa

and beyond.

**Keywords:** Informal Sector, SMEs in Ghana, Informal Tax Education, General Tax knowledge and Reporting Compliance

## 1.0 Introduction

One of the vital sectors within the economy of Ghana is the informal sector. The sector contributes significantly to the economy but remains largely untaxed, partly due to limited awareness of tax obligations and tax responsibilities (Akoto & Addai, 2021). Many informal sector workers lack formal education, leaving them with insufficient knowledge about tax systems, processes, and benefits (Kusi et al., 2019). Further, tax education specifically informal tax education such as community training sessions, workshops, and informal learning methods, has been proposed as a viable solution for enhancing tax compliance among informal workers (Boateng & Osei, 2022). Similarly, tax knowledge, covering basic concepts of taxes, filing requirements, and penalties for non-compliance has been proposed as critical in tax compliance issues (Adomako et al., 2020). When individuals understand the relevance and implications of taxation, they are more likely to comply (Adomako et al., 2020). Notably, tax education and tax knowledge are driving contributors in the role of voluntary tax compliance (Abdallah et al., 2018). Studies have indicated that numerous number of SMEs lacks the sufficient knowledge of tax policies, laws, regulations, processes and obligations (Ameyaw et al., 2018; Adams & Webley, 2019; Asare, 2020). This knowledge gaps most often result in unintentional non-compliance as most of the SME owners often make mistakes in tax estimations and filling processes (Abdallah et al., 2018). Asare (2020), noted that without adequate comprehension of these issues, SMEs in Ghana have the propensity to miss out on crucial legal deductions and credits, thereby advancing the complication that exist in the tax situations of SMEs resulting to disputes with tax authorities in Ghana.

Further, in the context of literature in Africa, Ghana and Global, Ayuba et al. (2018), discovered that tax education has significant impact on taxpayers comprehension of tax laws and policies as well as compliance requirements within SMEs. The study report shows that enhanced tax knowledge result in reduction in tax evasion incidence and propels voluntary compliance. In addition, in South Africa, a study was undertaken by Musau et al. (2018), reported that tax education initiatives encourages higher level of tax compliance among SMEs. Similarly, in Kenya, Lumumba et al. (2019), discovered that tax education positively impact on individuals taxpayers compliance levels. Further, Augustine et al. (2020), concluded that Government has to broaden its tax base, with a particular focus on the informal sector, since any neglect of the sector will demoralize those taxpayers who have been paying tax cheerfully and on time. Furthermore, Yahaya, et al., (2023), looked at tax service quality influences voluntary tax compliance among self-taxpayers and also it was found that tax service quality positively moderates the relationship between tax knowledge and voluntary tax compliance. In addition, Ogaluzor, and Edori, (2023), show a significant relationship between electronic taxpayer education, stakeholder sensitization program, print media taxpayer education and registration of new taxpayers, timely returns filing, prompt payment of tax liabilities. Additionally, Abdul-Razak and Adafula (2018), reported that enhanced tax knowledge influences significantly compliance rates. Asare (2020), found that comprehensive nature of tax education has the capacity of improving tax compliance levels. In addition, Mbilla and Abiire (2020), demonstrated that Tax education is important and necessary for the efficient mobilization of tax revenue. Similarly, some scholarly investigation has shown positive effect of tax education on

compliance (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 compliance. In a similar vein, some studies have reported that tax knowledge gained through informal education has the capacity of influencing compliance and tax knowledge (Loo et al., 2010; Kirchler et al., 2018; Kassim & Manosur, 2018; Mohammed & Tangl, 2024).

Importantly, it is clear that existing literature has revealed diverse forms of tax education, tax compliance and tax knowledge exist, however, how informal tax education influences reporting compliance is lacking. This underpins why Mohammed and Tangl (2024), indicated that by identifying which forms of tax education, tax knowledge and tax compliance promotes each other will aid in developing right targeted interventions to address knowledge gaps and misconceptions that exist in literature. Further, it is clear that although some research work has been conducted in Ghana in relation to broader concept of tax education, tax compliance and tax knowledge within the informal sector, however, empirical investigation into the linkage between general tax knowledge, informal tax education and reporting compliance is rare within the informal sector. This limited level of studies provides in insights on why many informal sector SMEs in Ghana continue to conduct their businesses without pay taxes.

It is therefore important to note that, this study contributes to literature by exploring the intersection of informal tax education, and reporting compliance highlighting the mediating role of general tax knowledge within Ghana's informal sector. By focusing on a population that is often overlooked in tax policy design, this research provides evidence on how tailored educational interventions can bridge knowledge gaps and encourage compliance. The findings are expected to guide policymakers in formulating targeted education programs that enhance compliance, addressing the informal sector's unique characteristics and fostering sustainable revenue generation. In addition, this study has the capacity to contribute greatly to existing literature and improve on the various related theories on tax knowledge and tax education most especially economic deterrence theory which was utilized by this study. In addition, this research gap was filled because there were calls for future research on the tax knowledge gap in the informal sector of Ghana. Some scholars believe that adopting such a research strategy has the capacity to help improve voluntary compliance in the informal sector (Asare, 2020; Oladipo, et al. 2022).

This paper is organized into several sections. Section 1 is the introductory section. After the introduction, Section 2 provides a short overview of relevant theories and literature from previous research. Section 3 explains the research methods used. In Section 4, the data and results from the study are presented. The discussion is done in congruence with the findings. The last section covers the conclusion and suggestions for future research.

### **1.1 Study Objectives**

The overall objective of the study is to examine the mediating role of general tax knowledge on the impact of informal tax education on reporting compliance. The specific objectives of the study include:

1. To assess the impact of general tax knowledge on reporting compliance among informal sector SMEs in Ghana
2. To examine the impact of informal tax education on general tax knowledge among informal sector SMEs in Ghana
3. To examine the impact of informal tax education on reporting among informal sector SMEs in Ghana.

4. To assess how general tax knowledge mediates the impact of informal tax education on reporting compliance within the informal sector of Ghana

## 2.0 Literature Review

### 2.1 Economic Deterrence Theory (EDT)

According to Nagin (2020), The Economic Deterrence Theory (EDT) is a significant framework in criminology and economics, suggesting that individuals are less likely to engage in illegal activities when the perceived costs, such as punishment or fines, outweigh the benefits. This theory is grounded in the assumption that individuals act rationally, making decisions based on a cost-benefit analysis (Paternoster, 2019). The origins of EDT can be traced back to classical criminology, particularly the works of Cesare Beccaria and Jeremy Bentham, who emphasized rational choice and utilitarian principles. Gary S. Becker further developed this theory in his influential work "Crime and Punishment: An Economic Approach," integrating economic concepts with criminological insights (Becker, 2021; Freire-Serén & Panadés, 2022).

EDT posits that increasing the perceived costs of criminal behaviour can effectively deter individuals from committing crimes. This deterrence is achieved through the certainty, severity, and swiftness of punishments (Wingerden & van der Laan, 2020). When potential offenders believe that the risks of being caught and punished outweigh the rewards of illegal actions, their likelihood of committing crimes diminishes (Becker, 2021). The theory has broad applications, including in areas such as tax evasion, corporate misconduct, and street crime, highlighting the importance of economic incentives and disincentives in influencing behaviour (Becker, 2021).

In the context of tax compliance, EDT suggests that taxpayer behaviour is influenced by factors such as tax rates, detection likelihood, and penalties for fraud. High chances of detection and severe penalties tend to reduce tax evasion, while low probabilities of audits can lead to increased noncompliance. Although some critiques argue that EDT focuses too heavily on coercive compliance and overlooks consensual elements, evidence supports the effectiveness of deterrence strategies in promoting compliance (McKerchar & Evans, 2009; Simpson & Piquero, 2020). Tax authorities have adopted EDT principles in their enforcement strategies, emphasizing penalties and the risk of detection (Appiah et al., 2024). The expectation is that individuals who perceive tax evasion as challenging are more likely to comply with tax regulations.

### 2.2 Informal Sector (IS) and SMEs

According to OECD (2019), the informal sector (IS) and small to medium-sized enterprises (SMEs) are vital to many economies, especially in developing nations of which Ghana is no exception. Generally, the sector is made up of economic activities that operate without government regulation and typically function outside the formal tax framework. In view of this, SMEs within the informal sector are those officially registered businesses that make significant contributions to employment and GDP, often facing distinct challenges in adhering to tax laws (Williams & Shahid, 2016). The informal sector consists of various activities, including street vending and small-scale manufacturing. A primary issue in this sector is the lack of tax compliance and difficulties in enforcing tax laws. Informal businesses frequently avoid taxes due to their unregistered status and a preference to sidestep bureaucratic obstacles and compliance costs (Loayza, 2018). This situation leads to substantial revenue losses for governments and creates an uneven playing field for formal businesses. Further, SMEs within the informal sector are crucial for fostering economic growth and innovation; however, they encounter several challenges related to tax

compliance, such as intricate tax regulations, limited access to tax education, and administrative hurdles (Ayyagari et al., 2018). Implementing simplified tax systems and providing targeted support can assist SMEs in enhancing compliance and increasing their contributions to tax revenues (OECD, 2019). Furthermore, creating a supportive regulatory environment can facilitate the transition of informal businesses into the formal sector, thereby improving overall economic stability and tax collection. Integrating the informal sector into the formal economy and assisting SMEs in fulfilling their tax responsibilities is crucial for achieving sustainable economic development and equitable growth (OECD, 2019).

### **2.3 Informal Tax education, Reporting Compliance, and General Tax Knowledge**

A study was carried out by Trawule (2017), found that tax education positively influences reporting compliance among self-employed individuals. The relationship between tax education and compliance varies with the content of the education and the type of compliance. Further, Nartey (2023), found that tax education and institutional pressures positively impact reporting compliance among SMEs. Moreover, Addo (2020), found a strong positive relationship between tax awareness/knowledge and reporting compliance among SMEs. Further, Oppong (2018), revealed that tax education significantly improves compliance specifically reporting compliance. A study was carried out by Devos (2014), found that formal tax education significantly enhances general tax knowledge, increasing overall tax awareness and understanding of tax obligations.. Further, Pratama (2018), also revealed that Formal tax education improves general tax knowledge, leading to increased understanding and better compliance. A study was undertaken by Kasipillai et al. (2003), the findings shows that informal tax education, such as workshops and seminars, improves general tax knowledge, helping individuals better understand tax obligations and reducing tax evasion. Palil et al. (2013), revealed that informal tax education increases general tax knowledge and awareness, leading to better compliance. Furthermore, Devos (2014), revealed that informal tax education positively impacts tax knowledge by increasing taxpayers' understanding of legal tax obligations and rights, leading to better compliance. Harris (2019), reported that higher levels of general tax knowledge significantly improved taxpayers' perceptions of the tax system's fairness, leading to increased reporting compliance. Further, Kirchler, et al. (2020), also reported that general tax knowledge positively impacts taxpayers' willingness to comply voluntarily with reporting requirements, as it reduces uncertainty and perceived complexity. Despite this, Haji (2020), also reported that an enhanced general tax knowledge was linked to improved compliance among informal sector entrepreneurs, as they were better able to navigate tax requirements. Moreover, Loo et al. (2021), also indicated that tax knowledge improved reporting compliance by clarifying legal obligations and reducing fears of legal repercussions.

### **3.0 Methodology**

According to Creswell (2019), within field of social science three critical methods underscores research work namely qualitative, quantitative and mixed methods. In view of this, this scholarly work was conducted using a quantitative approach or method. This method allowed the researcher to explore how different constructs such as informal tax education, general tax knowledge and reporting compliance. It also allowed the researcher to examine the mediating role of general tax knowledge on the relationship between informal tax education and reporting compliance within the informal sector of Ghana. Further, the study used a descriptive research design, which helped gather numerical data and provided a clear description of the findings. Furthermore, data from the study was gathered from registered informal

sector small and medium enterprises (SMEs) in the Greater Accra Region of Ghana. Essentially, the total number of respondents used by the study is 1,152. It is important to establish respondents for the study were selected through a multistage sampling method, specifically simple random sampling and snowball sampling. First and foremost, simple random sampling was employed to select four sectors where most SMEs are found in Ghana including; Agriculture, Commerce, Manufacturing, and Services, while snowball sampling targeted SME business owners within the Greater Accra Region. Furthermore, data collection involved a 13 item based questionnaire adopted from research works by Twum et al. (2020), Mohammed and Tangl (2024), and Othman et al. (2020). The questionnaire used a 5-point Likert scale, measuring responses from "strongly disagree" to "strongly agree." The data from respondents were analyzed with Structural Equation Modeling (SEM), specifically using Partial Least Squares (PLS). Moreover, this analysis produced two main models: the measurement model and the structural model (Hair et al., 2022). Additionally, the findings included descriptive statistics and path coefficients from the PLS analysis.

#### 4.0 Results

##### 4.1 Demographic Results

The demographic results are presented in table 1.1. The demographic items include issues of gender, size of employee, marital status, educational level and religious affiliation.

**Table 1.1 Demographic Results**

Demographic Items	Details	FREQ.	Percent (%)
Gender	Male	667	58.0
	Female	485	42.0
	<b>Sub-Total</b>	<b>1152</b>	<b>100.0</b>
Employee Size	1-2 employees	464	40.0
	3-9 employees	516	45.0
	10-49 employees	139	12.0
	Above 49 employees	33	3.0
	<b>Sub-Total</b>	<b>1152</b>	<b>100.0</b>
Marital Status	Married	317	28.0
	Divorced	47	4.0
	Single	772	67.0
	Widowed	16	1.0
	<b>Sub-Total</b>	<b>1152</b>	<b>100.0</b>
Educational Level	Primary	45	4.0
	High School	224	19.0
	Diploma	355	31.0
	Graduate	528	46.0
	<b>Sub-Total</b>	<b>1152</b>	<b>100.0</b>
Religious Affiliation	Christian	883	77.0
	Muslim	252	22.0
	Traditional	17	1.0

	<b>Sub-Total</b>	<b>1152</b>	<b>100.0</b>
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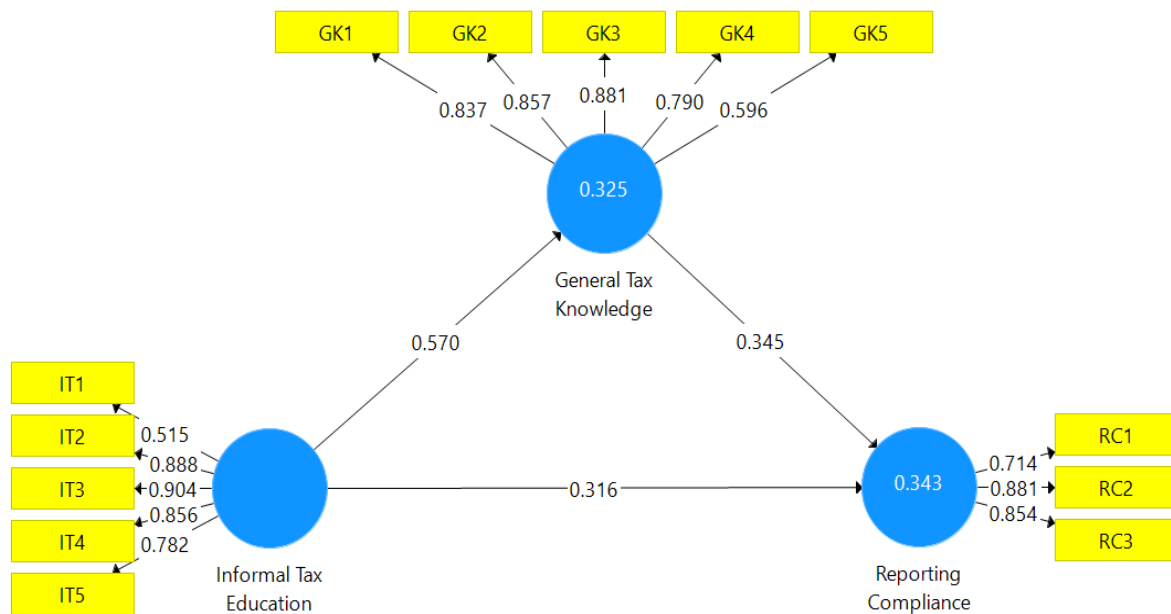
(Source: Field Data, 2024)

For the study, diverse demographic data from respondents of the study were gathered. The result from the analysis of data shown that, 1,152 respondents in total was used by the study. Out of these total, 58% of the respondents were males and 42% of the respondents were females. Further, significant majority of the businesses had up to 3 employees, making up 45%, while another 45% had between 3 and 9 employees. In addition, businesses with 10 to 49 employees accounted for 12%, and those with more than 49 employees were the least common at 3%. Among the respondents, 67% were single, 28% were married, 4% were divorced, and 1% were widowed. Moreover, regarding education, 46% had a degree, 31% had a diploma, and 4% completed primary school. In terms of religion, 77% identified as Christians, 22% as Muslims, and 1% as traditionalists.

### 4.2 Measurement Model

Data was analyzed using the PLS tool as presented in the measurement model 1.

**Figure 1.1 Measurement Model from PLS Analysis**



### 4.3 Factor Loadings Result

The factor loadings and multicollinearity statistics are presented in table 1.2 below:

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

Items	General Tax Knowledge	Informal Tax Education	Reporting Compliance	VIF
GK1	0.837			2.528
GK2	0.857			2.565
GK3	0.881			2.731
GK4	0.790			1.779
GK5	0.596			1.338
IT1		0.515		1.311

IT2		0.888		3.214
IT3		0.904		3.744
IT4		0.856		2.648
IT5		0.782		1.814
RC1			0.714	1.245
RC2			0.881	1.991
RC3			0.854	1.995

Table 1.2 shows the factor loadings from the analysis of data. Creswell (2019) and Goran (2013), claimed that factor loading measures how closely individual items relate to a main variable. Goran (2013), noted that factor loading values range from -1.0 to +1.0, with higher absolute values indicating stronger links between items and the key or principal variable. In light of this, the data in Table 1.2 reveals that the factor loading score for general tax knowledge is between 0.596 to 0.881, suggesting a strong association of the general tax knowledge items to general tax knowledge construct. In addition, regarding informal tax education, the factor loading score ranges from 0.515 to 0.904, which also reflects a strong relationship with the main construct thus informal tax education. Further, the factor loading score for reporting compliance ranges between 0.714 and 0.881, showing a strong link to the reporting compliance construct. These results indicate strong relationship between the items and the key variables of the study namely general tax knowledge, informal tax education and reporting compliance. It is also important to note that multicollinearity is not an issue when the Variance Inflation Factor (VIF) scores are below 10. The findings show VIF scores ranges from 1.991 and 3.744, confirming that multicollinearity is not a concern or an issue in relation to this study.

#### 4.4 Reliability Result

The result from the reliability analysis is presented in table 1.3:

**Table 1.3 Reliability Result**

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
General Tax Knowledge	0.853	0.873	0.897	0.638
Informal Tax Education	0.853	0.891	0.897	0.643
Reporting Compliance	0.752	0.771	0.859	0.672

Table 1.3 displays the results of the reliability analysis from the measurement model. It features Cronbach's alpha, a measure of how consistent the variables are. A score of 0.7 or higher indicates reliability, while a score under 0.7 suggests unreliability (Hair et al., 2017; Creswell, 2019). From the analysis table, it is clear that the scores for general tax knowledge (0.853), informal tax education (0.853), and reporting compliance (0.752). At these scores show a high level of internal consistency, meaning the study variables utilized are reliable. In addition, the result shows that the composite reliability (CR) scores for general tax knowledge is (0.853), informal tax education is (0.853), and reporting compliance is (0.752) also indicate strong internal consistency and reliability. Furthermore, the Average Variance Extracted (AVE) measures convergent validity, which assesses how well specific items relate to their key or principal construct or variable (Hair et al., 2022). According to Creswell

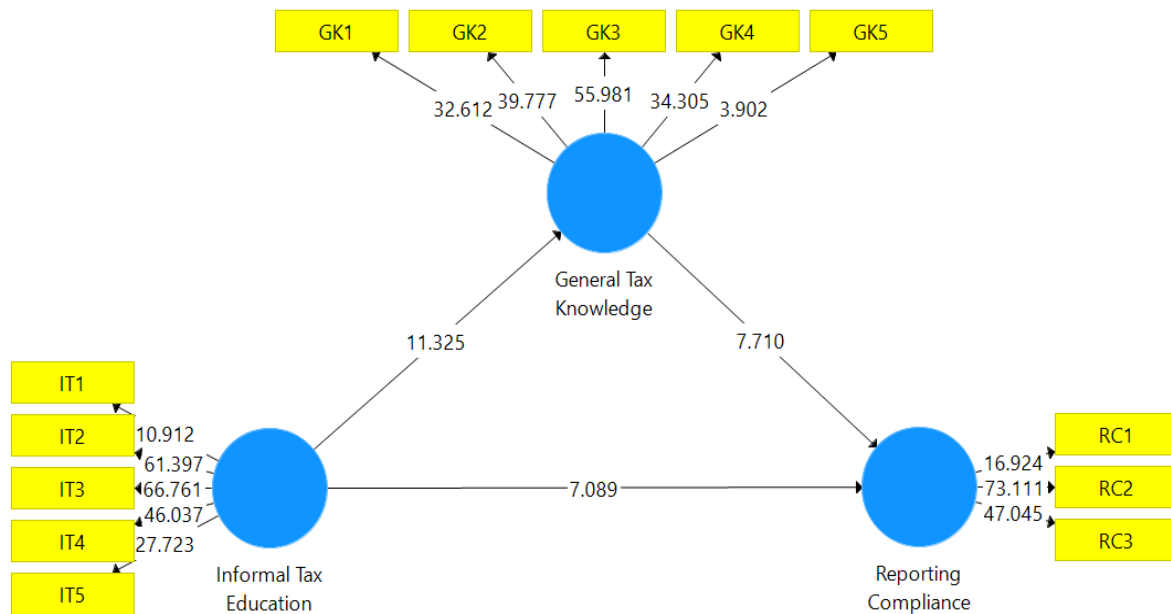


(2019), an AVE score above 0.50 is considered valid, while a lower score is not. The AVE scores for general tax knowledge is (0.853), informal tax education (0.853), and reporting compliance is (0.771) confirm the convergent validity of these study constructs.

#### 4.5 Structural Model

The Smart-PLS tool was employed to analyze how general tax knowledge (GTK) influences the connection between informal tax education (ITE) and reporting compliance (RC) among the small and medium-sized enterprises (SMEs) in Ghana's informal sector. The structural model from the analysis is presented in figure 1.2 below:

**Figure 1.2 Structural Model – Mediating Role of GTK**



#### 4.6 Direct Effect Results

The study examined how three main constructs underscoring the study are related: (1) Linkage between general tax knowledge and reporting compliance, (2) Linkage between informal tax education and general tax knowledge, (3) informal tax education and reporting compliance. The results from the analysis are shown in table 1.6.

**Table 1.6 Paths Coefficients Results**

Paths	Beta Coefficient	T Statistics	P Values
General Tax Knowledge -> Reporting Compliance	0.345	7.710	0.000
Informal Tax Education -> General Tax Knowledge	0.570	11.325	0.000
Informal Tax Education -> Reporting Compliance	0.316	7.089	0.000

##### 4.6.1 Linkage between General Tax Knowledge and Reporting Compliance

According to Gonidakis (2024), tax compliance is the adherence of taxpayers, both individuals and businesses, to tax laws and regulations, which include timely filing of returns and accurate payment of taxes owed. In Ghana, compliance is overseen by the Ghana Revenue Authority (GRA), which

administers tax laws enacted by Parliament. Noncompliance can lead to significant penalties, including fines. Furthermore, maintaining awareness of evolving tax legislation is crucial for ensuring compliance. Studies indicate that a strong understanding of tax regulations positively influences compliance rates (Gonidakis, 2024). In light of this, the study examined the linkage between general tax knowledge and reporting compliance among informal sector SMEs. It projects how general tax knowledge exerts significant impact on reporting compliance. The result from the PLS analysis shown that general tax knowledge significantly predict reporting compliance within informal sector SMEs of Ghana displayed as ( $\beta = 0.345$ ,  $T = 7.710$ ,  $p < 0.05$ ). This is a positive prediction and 34.5% of variance explains. It indicates that a unit change in general tax knowledge has the propensity of causing 34.5% change in reporting compliance of informal sector SMEs. Generally, the result shows that general tax knowledge exerts significant positive impact on reporting compliance of SMEs within the informal sector of Ghana. The finding implies that when SME operators are well-informed about tax laws, the benefits of compliance, and the consequences of non-compliance, they are more likely to act responsibly. It highlights the importance of knowledge dissemination as a critical strategy for enhancing tax compliance and suggests that efforts to simplify and communicate tax regulations can improve reporting behaviors within the informal sector. This aligns with the study Abdul-Razak and Adafula (2018), who reported that enhanced tax knowledge influences significantly compliance rates. In addition, it also affirms the study by Addo (2020), who found a strong positive relationship between tax awareness/knowledge and reporting compliance among SMEs.

#### **4.6.2 Linkage between Informal Tax Education and General Tax Knowledge**

Tax education plays a pivotal role in enhancing the overall tax knowledge, particularly among small and medium-sized enterprises (SMEs) (Saad, 2019). Research indicates that a strong grasp of tax principles significantly influences compliance rates, as individuals with better tax knowledge are more likely to fulfill their obligations (Saad, 2020). It is vital to establish that by improving understanding of tax responsibilities through informal channels, stakeholders can foster a culture of compliance and contribute to increased revenue generation for the government. In light of this, the study examined the linkage between informal tax education and general tax knowledge. The result from the PLS analysis shows that informal tax education predict general tax knowledge positively displayed as ( $\beta = 0.570$ ,  $T = 11.325$ ,  $p < 0.05$ ). This means that 57.0% of the differences in general tax knowledge can be explained by informal tax education. Essentially, when informal tax education changes by one unit, the general tax knowledge of informal SMEs changes by 57.0%. This demonstrates that informal tax education plays a crucial role in improving the tax knowledge of SMEs in Ghana's informal sector. In view of this, the result shows that informal tax education exerts significant positive impact on general tax knowledge within the informal sector of Ghana. The finding implies that tailored, practical, and easily understandable informal tax education has the propensity in addressing the barriers that prevent SME owners from acquiring necessary tax information in Ghana and beyond. It emphasizes the role of community-based workshops, simplified informational materials, and peer learning sessions as impactful tools in improving tax awareness and understanding, thereby equipping SME owners with the knowledge they need to navigate the tax system effectively. This affirms the study by Asare (2020), who found that comprehensive nature of tax education has the capacity of improving tax compliance levels and overall knowledge base of tax payers. It also consistent with previous study by Kasipillai et al. (2003), whose findings shows that informal tax education, such as workshops and seminars, improves general tax knowledge, helping individuals better understand tax obligations and reducing tax evasion

### 4.6.3 Informal Tax Education and Reporting Compliance

Mohammed and Tangl (2024), reported that tax education significantly influences tax compliance among taxpayers, particularly within the informal sector. Studies indicate that enhancing tax knowledge through informal educational initiatives leads to improved understanding of tax obligations, which in turn fosters compliance. In Ghana, where many small and medium-sized enterprises (SMEs) operate informally, targeted tax education can bridge gaps in knowledge and encourage timely reporting (Mpofu, 2021). In light of this, the result from the PLS analysis shows that informal tax education predict reporting compliance positively displayed as ( $\beta = 0.316$ ,  $T = 7.089$ ,  $p < 0.05$ ). This means that 31.6% of the differences in reporting compliance can be explained by informal tax education. Essentially, when informal tax education changes by one unit, the reporting compliance of informal SMEs changes by 31.6%. This demonstrates that informal tax education plays a crucial role in improving the compliance level of SMEs in Ghana's informal sector. In view of this, the result shows that informal tax education exerts significant positive impact on reporting within the informal sector of Ghana. The finding implies that educational programs designed for the informal sector can directly improve tax reporting behaviours of informal sector SMEs. It highlights the transformative potential of providing tax education that is relevant and easy to grasp, leading to increased willingness and ability to comply with tax regulations. This underscores the importance of continued investment in informal educational initiatives by tax authorities and community organizations, as these programs can foster trust and engagement while overcoming common misconceptions and fears about the tax system among SME operators. This confirms the study by Musau et al. (2018), who reported that tax education initiatives encourages higher level of tax compliance among SMEs. Similarly, in Kenya, Lumumba et al. (2019), discovered that tax education positively impact on individuals taxpayers compliance levels. Further, Augustine et al. (2020), concluded that Government has to broaden its tax base, with a particular focus on the informal sector, since any neglect of the sector will demoralize those taxpayers who have been paying tax cheerfully and on time. In addition, Trawule (2017), found that tax education positively influences reporting compliance among self-employed individuals.

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### 4.7 Mediating Result

How general tax knowledge mediates the linkage between informal tax education and reporting compliance was carried out. The result is presented in table 1.7 below:

**Table 1.7 Specific Indirect Effects- GTK**

Indicators	Beta Coefficient	T Statistics	P Values
Informal Tax Education -> General Tax Knowledge -> Reporting Compliance	0.197	5.320	0.000

According to Kirchler et al. (2018), general tax encompasses an understanding of tax laws and obligations, while informal tax education provides accessible learning opportunities that can fill knowledge gaps. Research indicates that improved tax knowledge directly correlates with higher compliance rates, as individuals who are better informed are more likely to accurately report their income and fulfill their tax responsibilities (Kirchler et al., 2018). In developing economies like Ghana, fostering informal educational initiatives can significantly enhance compliance among small and

medium-sized enterprises (SMEs). In view of this, the study looked at how general tax knowledge mediates the impact of informal tax education on reporting compliance. In light of this, the analysis revealed that general tax knowledge is a significant predictor of the impact of informal tax education on reporting compliance displayed as ( $\beta = 0.197$ ,  $T = 5.320$ ,  $p < 0.05$ ). This indicates that a unit change in general tax knowledge will cause 19.7% change in the effect of informal tax education on reporting compliance. This shows that general tax knowledge mediates significantly the effects of informal tax education on reporting compliance within the informal sector of Ghana. This indicates that general tax knowledge acts as a critical bridge between education and compliance behaviour. It emphasizes the necessity of ensuring that educational initiatives are not only delivered but also comprehensively understood. This insight suggests that for maximum effectiveness, tax education programs should focus on deepening participants' understanding of tax concepts, thereby reinforcing and sustaining compliant behaviors in the long run. This affirms the study by Ayuba et al. (2018), discovered that tax education has significant impact on taxpayers comprehension of tax laws and policies as well as compliance requirements within SMEs. The study report shows that enhanced tax knowledge result in reduction in tax evasion incidence and propels voluntary compliance. It also affirms the study by Ogaluzor, and Edori, (2023), who reported a significant relationship between electronic taxpayer education, stakeholder sensitization program, print media taxpayer education and registration of new taxpayers, timely returns filing, prompt payment of tax liabilities. In addition, it confirms the studies that tax knowledge gained through informal education has the capacity of influencing compliance and tax knowledge (Loo et al., 2010; Kirchler et al., 2018; Kassim & Manosur, 2018; Mohammed & Tangl, 2024).

## 5.0 Conclusion

Greatly, the findings from this research underscore the pivotal role of tax education, particularly informal tax education, in enhancing reporting compliance among small and medium-sized enterprises (SMEs) operating within the informal sector in Ghana. The data reveal a complex yet crucial interplay between informal tax education, general tax knowledge, and reporting compliance, shedding light on how educational interventions can strategically bolster tax compliance efforts in Ghana, Africa and beyond. In light of this, from a policy perspective, these insights point to several actionable insights. Policymakers and tax authorities in Ghana and Africa have comprehend these discoveries and develop and implement targeted tax education programs that are contextually relevant and accessible to SME operators. The content of these programs should be simple, practical, and easily digestible, ensuring that complex tax concepts are broken down into manageable and relatable components. Additionally, leveraging existing community structures and local networks has the capacity of enhancing the reach and effectiveness of informal education efforts, fostering trust and engagement among SME operators in Ghana and beyond. Furthermore, the study also emphasizes the need for a collaborative approach in delivering tax education. Engaging local community leaders, business associations, and non-governmental organizations could create a more inclusive and effective framework for informal tax education. By working collaboratively, these stakeholders would have the capacity to ensure that educational interventions are not only informative but also culturally and contextually appropriate, thereby maximizing their impact. More so, the findings suggest that a continuous cycle of education and knowledge reinforcement is crucial. Tax authorities should not view tax education as a one-off intervention but as an ongoing process that adapts to the changing needs of SMEs and the evolving tax landscape. Regular updates and refresher courses, coupled with the use of digital platforms for wider

dissemination, could ensure that SMEs remain informed and compliant. Principally, the study provides compelling evidence that investing in informal tax education has the capacity in yielding significant benefits for tax compliance within the informal sector. By fostering general tax knowledge, such educational initiatives would have the capacity to drive a more compliant and tax-aware business community. Tax authorities must recognize the value of these findings and consider integrating informal tax education into their broader tax compliance strategies. This approach could not only increase tax revenue but also promote a more equitable and participatory tax system that supports national development objectives. The mediating role of general tax knowledge highlights the importance of a well-rounded educational approach, suggesting that knowledge-building should remain central to any tax compliance intervention in the informal sector of Ghana, Africa and beyond.

### 6.0 Suggestions for Future Research

From the findings of the study, future research can explore the comparative effectiveness of various informal tax education methods, such as community workshops, peer-led sessions, and digital learning platforms on different dimensions of compliance within the informal sector. By identifying the most effective approaches, policymakers would better tailor educational initiatives to maximize impact and coverage. In similar vein, future studies could look at investigating the role of socio-cultural factors in shaping general tax knowledge and reporting compliance behaviour of informal sector SMEs. Understanding how cultural beliefs, social norms, and trust in tax authorities influence tax reporting compliance would provide deeper insights and inform culturally sensitive educational strategies that resonate more effectively with SMEs in diverse contexts.

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