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Taxation in Developing Countries

Case Study of Cameroon

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Abstract

In the beginning of the 1980s, Cameroon witnessed a sustained rate of growth, associated essentially with the boom in the oil sector. Increased budgetary and extra-budgetary resources generated by this sector helped to raise the investment rate in the economy, and to maintain a reasonable level of external indebtedness. But after this period of expansion, the country experienced unfavourable economic development caused by a successive decline in the terms of trade, leading to profound imbalances, notably in public finance and the external account. The government subsequently initiated a series of measures to reform its tax system and to adapt it to national economic realities. An efficient and equitable taxation encourages production and the accumulation of national wealth stimulates saving and investments and hence job creation. Such a tax system could, therefore, ensure sustainable growth and development in Cameroon.

The study aims to contribute to a better understanding of the evolution of the tax system in Cameroon. In particular, the paper reviews the chronology of the main tax reforms and the evidence on the distributional aspect of taxation. Investigating the issues involved with tax administration and decentralization in the country and local government finances, it also attempts to explore the problems and successes associated with the implementation of tax reforms.

Keywords: tax reform, Cameroon, incidence, impact analysis

JEL classification: 055, H20, H22, H24, H29

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Acronyms and abbreviations

CD	customs duties
CEMAC	Economic and Monetary Community of Central African States (*Communauté Economique et Monétaire de l'Afrique Centrale*)
CET	common external tariff
CFAF	CFA Franc
DTT	domestic turnover tax
GDP	gross domestic product
IC	Investment code
ID	import duties
IDT	import duties and taxes
IMF	International Monetary Fund
ITT	import turnover tax
SAPs	structural adjustment programmes
SMEs	small and medium enterprises
SMSs	special municipal surtaxes
TCA	*Taxe sur le chiffre d'affaire*
TIP	*Taxe intérieure à la production*
TT	turnover tax
TU	*Taxe unique*
UDEAC	Customs Union of Central African States
VAT	value-added tax

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1 Introduction

During the period 1980/1 to 1985/6, Cameroon's economy witnessed a sustained growth rate of 7.5 per cent in real terms, associated essentially with the boom in the oil sector. Increased budgetary and extra-budgetary resources generated from the oil sector helped to raise the investment rate in the economy, and to maintain a reasonable level of external indebtedness. After this period of sustained expansion, Cameroon experienced unfavourable economic development caused by a successive decline in the terms of trade that reached more than 65 per cent in the years 1985/6-1987/8 (World Bank 1994). This led to profound imbalances, notably in public finance and the external account.

Faced with the unprecedented economic and financial crisis that ensued, the government initiated a series of reforms organized in the context of the structural adjustment programmes (SAPs) supported, in particular, by the IMF and the World Bank. A major component of these programmes was budgetary adjustment. Indeed, one of the conditions necessary for achieving rapid, equitable and sustainable economic growth in Cameroon and elsewhere is a healthy public finance system. As characterized by Bird (1992), 'the tax system is one of the most important development policy instruments in any country'. From this perspective, the level of tax revenue must be adequate to avoid public finance imbalances so that the spending necessary for development can be covered. In addition, the characteristics of tax levies (rate structure, level of foreign taxes, etc.) must be such so as to minimize distortions unfavourable to economic growth.

Over the course of the most recent decades, Cameroon has witnessed fluctuating levels of taxation due to many difficult economic circumstances, the implementation of inappropriate fiscal policies, the weaknesses of the tax administrative capability, the burden of taxation, the inconsistency of the incentive system worsened by increasing fraud, etc.

In the context of the structural adjustment process and the Reform Programme of UDEAC (Customs Union of Central African States, now CEMAC), Cameroon has undertaken since 1990 a series of revisions of its tax system so as to adapt it to national economic realities. The fact is that efficient and equitable taxation encourages production and the accumulation of national wealth stimulates saving and investments and hence job creation. Setting up such a tax system in Cameroon could, therefore, ensure sustainable growth and development.

This paper aims to contribute to a better understanding of the evolution of the tax system in Cameroon. In particular, it aims to present the chronology of the main tax reforms and the evidence on the distributional aspect of taxation. The paper also investigates the issues involved with tax administration and decentralization in the country and local government finances. It also attempts to explore the problems and successes associated with the implementation of tax reforms.

This study is in six main sections. The next section presents a general outline of the different tax reforms carried out in Cameroon since 1990. The third section is devoted to analysing the evolution of tax revenue during the last ten years. In the fourth section, we review in particular the distributional impact of taxes on the poor. The fifth section presents taxation and decentralization in Cameroon and the sixth section deals with a summary of the problems and prospects associated with the implementation of tax reforms, and also highlights the recommendations likely to improve tax collection in Cameroon and the distributional impact analysis of taxes.

2 Tax and trade policy reforms in Cameroon

2.1 A general outline of the pre-reform tax system

Before the reforms, Cameroon basically used a system of direct and indirect taxation, with the latter being mainly concerned with levies on oil, which was discovered in 1978.

Indirect taxation, which generated more than 50 per cent of the non-oil revenue, had the following main components: (i) import taxes, (ii) export taxes, (iii) sales taxes on domestic goods and services, and (iv) specific taxes, notably, on the consumption of oil products. A significant share of indirect taxes was subject to regional protocols and to the provisions of the Treaty of Brazzaville, as is seen below. Three of the four main import taxes levied by the government were a part of the common external tariff (CET) of UDEAC and were not contingent on local authorities. Similarly, domestic turnover tax (DTT) was subject to the UDEAC regional agreements on tax harmonization and rested partially with the Cameroonian authorities. Cameroon, like other UDEAC countries, had the right to fix the DTT rate, which was based on a complex incentive system aimed at providing indirect tax relief to certain enterprises.

Until 1994, the Cameroon government relied heavily on selective tax and tariff exemptions to promote the country's economic and industrial development. This tax regime dated from 1960, the year when the country became independent, and an investment code was introduced to attract foreign capital to encourage the promotion of import-substituting industries. The tax code was revised and extended many times to become subsequently one of the most complex and inequitable tax regime in Sub-Saharan Africa.

The Treaty of Brazzaville, signed by UDEAC member countries in 1964, stipulated that Cameroon's tax system and trade regime be conformed to regional standards. However, like all the other member countries, Cameroon also resorted to other forms of domestic indirect taxation not covered by the tax harmonization agreements (e.g., excise duties on domestic goods other than oil products) in order to generate additional revenue and/or to promote other activities. Until 1994, firms that did not benefit from the UDEAC or from any of Cameroon's special programmes were subjected to the following direct and indirect taxes:

– As in all UDEAC countries, trading firms were subjected to a domestic turnover tax, which in Cameroon was generally levied at a rate of 10 per cent of sales value, but in certain cases rates were reduced to 4.5 per cent, and a special rate of 2.5 per cent was applied for bakeries;

- Business entrepreneurs were charged with one of the following company taxes according to whichever resulted in the highest taxable amount: (i) industrial and commercial profits tax; (ii) 1 per cent turnover tax (TT); or (iii) lumpsum minimum tax;

- Business entrepreneurs were also subjected to a yearly business license tax, which was collected to boost local government revenue;

- Firms were levied with a special corporation tax on capital at rates ranging between 0.5 and 1.5 per cent. Various other registration fees and taxes also existed (e.g., a proportional tax on income accruing from securities levied on companies paying dividends or fees to associates and shareholders), and lastly

- Corporations paid taxes on insurance contracts, on union income as well as several community taxes, etc.

In addition to this range of taxes, producers engaged in foreign trade also faced the following tax obligations:

- The importation of intermediary goods was subjected to four types of taxes, the first three dictated by UDEAC standards, while the fourth was instituted by Cameroon. Customs duties (CD) were levied at rates ranging from 5 to 30 per cent on all imports without distinction with regard to the country of origin. Import duties (ID) were levied on all products regardless of origin at rates varying between 5 and 90 per cent although some goods benefited from exemptions. An import turnover tax (ITT) was imposed at a rate of 10 per cent of the CFAF value plus CD+ID. Lastly, an import surcharge was levied *ad valorem* at rates ranging from 0 to 100 per cent;

- Imports were also charged with other taxes, including communal tax; tax imposed by the National Council of Carriers; veterinary tax; special fuel tax, etc., and

- The industrial free zone, designated as factory-specific free zone, was granted total exemption from international and indirect taxes, while profit taxes were levied at reduced rates.

2.2 Limitations of the pre-1994 tax system

Before tax reforms, several special tax plans and a system of negotiating tax rates on a case-by-case basis between individual enterprises and the tax authorities were in fashion. Resulting in drawbacks and lobbies, this tax system led to many problems. First, these highly politicized special regimes led to administrative discretion and corruption. Firms invested substantial resources, notably to create lobbies in order to receive and maintain special advantages. Second, generalized tax exemptions reduced the taxbase, forcing the government to tax non-exempt firms more heavily. As a consequence, these firms were put in an unfavourable position, leading to widespread tax evasion. Lastly, exemptions granted on a case-by-case basis made the tax system difficult to administer.

Moreover, the tax system was characterized by the predominance (apart from oil taxes) of harbour dues rather than direct and indirect taxes on domestic production (World Bank 1996). In 1992, tax revenue amounted to only 12.3 per cent of GDP as compared to a median of 18.5 per cent for Sub-Saharan countries as a whole (World Bank 1994). The fall in tax revenue—combined with the economic distortions generated by most of these taxes (e.g., cascading effect) and the highly discriminatory fashion of leverage at intolerable and differentiated effective rates—made the introduction of tax reforms imperative.

2.3 The tax environment after the 1994 tax reform

In response to the World Bank's structural adjustment programme (SAP) and the UDEAC objective to promote regional economic integration, Cameroon initiated trade and fiscal reforms in 1994. The overall objective was to improve the yield of tax revenue. More specifically, the reforms aimed to eliminate anti-trade biases by increasing the share of domestic tax revenue, and reducing tariffs. In addition, the reforms aimed to reduce inequality and distortions, and eliminate tax evasion through the harmonization of tax regimes and general tax reductions. In sum, tariff reductions have mitigated the negative effects of the 1994 CFA franc devaluation for firms producing goods that were not competitive with imported goods.

As each UDEAC country has maintained a share of its individual tax instruments (apart from those pertaining to UDEAC member countries as a whole), the tax regimes throughout the countries of the sub-region were far from being uniform. Moreover, in most member states, government revenue eroded owing to a fall in the export price of oil, the prevalence of exemptions, and tax evasion. As a consequence, in 1991 UDEAC decided to improve the harmonization of national regulations in order to stabilize the public finances of member states, and to reduce inequalities in the system. Later, in April 1994, a resolution was adopted to reform indirect taxation and the tariff system. A preferential tariff rate on trade between UDEAC countries was also introduced.

The CFA franc devaluation of 1994 made tax reforms a necessity. In effect, by doubling the domestic price of imports, this economic policy measure made the already high costs of imported inputs intolerable. At the same time, it provided additional protection to domestic products against foreign competition, and made it possible to change the structure of the tax system.

In January 1994, decrees were issued to implement tax and trade reforms in Cameroon. These comprised four components that affected foreign trade:

- The practice of four applicable tariff types was replaced by a simple unified system, 'the common external tariff' (CET) that was applied to imports from countries outside the UDEAC. Also, all privileges related to foreign trade under the Investment Code and special production regimes (*tax unique* or TU, *tax intérieure à la production* or TIP, and Convention of Establishment) were eliminated;

- Imports were classified into four categories with tariff rates ranging between 5-30 per cent, as compared to 0-500 per cent in the former system;

- A generalized preferential tariff was introduced on trade between UDEAC countries, with an initial rate fixed at 20 per cent of the CET; and

- In order to take into account the fragile nature of the industrial environment, each state was allowed to define additional protection in the form of a temporary surcharge freely fixed by the states at a rate not exceeding 30 per cent, and an excise duty on certain current consumption goods, particularly imported luxury goods, or those made locally under foreign license.

The tax reform officially adopted in 1994 sought to simplify indirect taxes and broaden the taxbase by reducing exemptions and streamlining rates, while eliminating the distortions of the incentive framework. More specifically, the indirect taxation reforms were concerned with:

- The elimination of all privileges on indirect taxes under special production regimes (TU, TIP, Convention of Establishment), and the Investment Code except in the industrial free zone;

- The introduction of a turnover tax (TT), a quasi value-added tax (VAT) applicable to domestic production, imported inputs, and intermediary products to replace sales and production taxes (ITT, TU TIP). Three product categories were specified: those subject to the normal rate (increased from 12.5 per cent to 15 per cent on 1 January 1995 and to 17 per cent in 1996); those subject to lesser rates (originally 5 per cent, increased to 8.0 per cent on 1 January 1995); and exempted goods subject to a zero rate; and

- The creation of a mechanism for levying excise taxes on certain products.

In February 1994, the reforms became effective for firms regulated by common law. Firms receiving tax privileges were granted a transition period, while those governed by the special regimes (IC, TU, and TIP) were not subjected to the new procedure until fiscal year 1994/5 (starting on July 1994). Firms subject to special arrangements had until 31 December 1995 to regularize their situation; this period was later extended to 31 March 1996.

In the industrial sector, the tax regime borrowed certain characteristics from VAT; taxes were to be paid on local and imported inputs, and were deductible from turnover tax. However, the effective application of turnover tax in Cameroon had a negative impact not only on actual tax revenue collected, but also on manufacturing enterprises and exporters.

Confronted with this situation, the government focussed its economic, financial, and structural policy within in the context of medium-term programmes supported by the international financial community. The taxation part of this programme centred on improvements in the efficiency of tax administration, and the introduction of the value-added tax.

2.4 Introduction of the value-added tax (VAT)

Introducing the value-added tax (VAT) was Cameroon's most important tax reform during the 1990s. Coming into effect on 1 January 1999, Cameroon's VAT is a reclaimable indirect tax which replaced the turnover tax. According to the positive theory of taxation, VAT is an indirect tax that is likely to minimize excess tax burdens substantially. Moreover, value-added is preferred to other taxes because of its greater allocative efficiency and higher yield. Furthermore, VAT conforms to a greater extent with the tax rules that had been accepted and reinforced since 1980 at the international level with SAP and trade liberalization. In Cameroon, activities subject to VAT are production, provision of services, distribution, construction work, and real estate agencies.

Exemption measures under VAT

Owing to the characteristics of most farms (small family farms), in order to maintain the competitiveness of their exports, it is not possible to subject these to VAT. The solution granted by the 1999 Finance Law has been the exemption of such agricultural inputs as insecticides, fertilizers and their packaging from VAT. These were complemented by tariff exemptions.

VAT exemptions have also been used to lower the cost of certain sensitive products, notably in the area of health, such as single use syringes and packaging of medications, etc. Moreover, basic necessities, medical drugs, health, etc. have also been exempted.

Like most African countries that introduced VAT in recent years, Cameroon applies a single rate of 18.7 per cent (including communal special surtaxes), and a zero rate. Generally speaking, the application of the single rate has been justified in technical terms as necessary for the successful introduction of VAT in countries with weak administrative capability. The goal of the single tax rate is to improve the tax yield by facilitating its administrative management, and by curtailing opportunities for tax evasion (Cornély 1995; Shome 1995; Tanzi and Zee 2000). Multiple tax rates generally imply significant management and supervision costs.

Cameroon's VAT is combined with an excise tax

Excise duties are levied on particular goods and services, the intent usually being discriminatory. Excise duties extend to the profits of financial monopolies. The IMF (1974: 166) defines these as 'taxes levied on particular products or a limited series of products … which may be imposed through each step of the production or distribution process, and may be determined on the basis of weight, content, quantity of a product, or on the basis of value'. The most important excise duties are taxes traditionally levied on tobacco, alcoholic beverages, cosmetics and oil products. In Cameroon, products subject to excise taxes (at a rate of 25 per cent) are tobacco products, alcoholic beverages, perfumes and colognes, cosmetic and make-up products, hair lotions, precious stones and metals, jewellery, etc.

Tax relief and simplification of the income tax system

Simplification of the income tax system also constituted a significant aspect of the tax reforms in Cameroon during the 1990s. In order to reduce the tax burden and improve the efficiency of tax administration, the reforms gave priority to the simplification of existing *cedulaires* taxes, and to the development of a system of tax deduction at source, notably with regard to wages and salaries, or income resulting from professional activities, which is particularly difficult to assess in the context of a system where tax returns are not filled out.

2.5 Major reforms in tax administration

Significant progress was made during the 1990s in improving the organization and functioning of Cameroon's tax administration, and increasing its capability to manage the tax system. Among the main measures implemented during the period, we can mention in particular the creation of a service responsible for managing the taxation matters of major taxpayers and large enterprises. Until the 1990s, large enterprises, from which the bulk of taxes is collected, were not closely monitored by tax authorities. As a result of the economic crisis that hit the country in the late 1980s, the need to increase tax revenue and improve supervision induced the government to establish a specialized service to manage these big taxpayers within the context of donor-supported reforms. The following measures were decisive in improving tax collection and initiating the reform of tax administration:

- The organization of external and central services within the government;
- The establishment of a taxpayer registration system; and
- Improvement in taxpayer education and information, and the development of data processing capabilities to facilitate tax management.

3 Comparative evolution of domestic and foreign trade taxes

Non-oil tax revenue, although showing a declining trend up to 1993/4, witnessed a net recovery starting from 1994/5 as a consequence of the implementation of reforms. The most significant rise occurred in such domestic revenue as corporate income taxes, taxes on goods and services including VAT, income taxes, etc. (see Tables 1 and 4). This rise was mainly driven by taxes on goods and services, the level of which increased on average by almost 33 per cent per annum, thanks to economic recovery (Table 4). Foreign trade taxes were also rising during this period as a result of an increase in VAT on imports of goods and services.

As indicated in Table 2, non-oil tax revenue was dominated by foreign trade taxes throughout the period under study, followed by taxes on goods and services. From 1994/5 until 2001 when both the turnover tax and the value-added tax were being applied, the share of turnover taxes (including VAT) in non-oil tax revenue was continually increasing, thus contributing to the rise in revenue on goods and services.

The analysis of direct and indirect taxes shows that indirect taxes (levies on goods and services) contributed a large share of tax revenue, with value-added taxes being prominent, particularly after VAT was introduced from 1998/9 onwards. During the period 1992/3-2000/1, the share of indirect taxation on non-oil tax revenue stood at 33 per cent. In Cameroon, direct taxes are levied on personal income and corporate profits. The share of income taxes in non-oil revenue, dominated by personal and corporate income taxes, was on average 25 per cent between 1992/3 and 2000/1 (Table 2).

Table 1
Evolution of tax revenue (in billions CFAF)

	1992/3	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
GDP	3155.3	3416.3	4130.0	4130.0	4571.0	4932.0	5240.0	5406.0	5827.0	6320.0
Oil revenue	111.5	64.3	107.4	142.8	204.2	204.4	133.4	325.0	311.0	455.7
Non-oil revenue	206.9	238.7	364.6	442.8	472.4	564.5	644.8	701.4	795.0	801.0
Income tax	75.2	65.5	73.6	85.6	101.2	131.2	162.8	182.3	215.5	215.6
Corporate income tax	13.2	13.7	22.4	29.5	35.0	44.6	81.7	88.9	86.0	86.0
Personal income tax	33.9	28.9	35.8	35.6	35.0	44.0	52.5	56.7	92.0	92.0
Other direct taxes	28.1	22.9	14.5	20.5	31.2	42.6	28.6	36.7	35.5	37.6
Goods and services taxes	53.4	56.4	129.4	157.9	158.3	188.7	227.1	251.7	261.0	265.0
Domestic turnover tax, including VAT	22.7	20.7	101.4	107.9	100.2	130.4	162.5	193.6	197.0	199.0
Taxes on the sale of oil products	30.7	35.7	28.0	50.0	58.1	58.3	64.6	58.1	64.0	66.0
Foreign trade taxes	116.6	103.4	147.5	184.3	201.7	234.8	237.9	243.2	296.0	296.0
Import duties and taxes	78.1	68.6	105.3	133.1	154.1	191.9	211.6	228.6	281.0	281.0
Export duties and taxes	38.5	34.8	42.2	51.2	47.6	42.9	26.3	14.6	15.0	15.0
Other tax revenue	15.8	13.5	15.0	15.0	11.2	9.8	17.0	24.2	24.5	24.5

Source: Ministère de l'Economie et du Budget (2002), IMF (1998, 2002).

Table 2
Evolution of tax revenue (as a % of non-oil revenue)

	1992/3	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Income taxes	36	27	20	19	21	23	25	26	27	27
Corporate income tax	6	6	6	7	7	8	13	13	11	11
Personal income taxes	16	12	10	8	7	8	8	8	12	11
Other direct taxes	14	10	4	5	7	8	4	5	4	5
Taxes on goods and services	26	24	35	36	34	33	35	36	33	33
Domestic turnover tax, including VAT	11	9	28	24	21	23	25	28	25	25
Taxes on the sale of oil products	15	15	8	11	12	10	10	8	8	8
Foreign trade taxes	56	43	40	42	43	42	37	35	37	37
Import duties and taxes	38	29	29	30	33	34	33	33	35	35
Export duties and taxes	19	15	12	12	10	8	4	2	2	2
Other tax revenue	8	6	4	3	2	2	3	3	3	3

Source: See Table 1.

Foreign trade taxes, also called import duties and taxes (IDT), basically comprise the customs, VAT and other tax levies. During the period under study, IDTs remained the primary source of tax revenue, especially VAT on imports starting from 1998/9.

3.2 Evolution of the national tax ratio

Table 3 shows that the total national tax ratio (i.e. non-oil tax receipts-to-GDP), which stood at about 9 per cent in 1992/3, fell to 8 per cent in 1993/4, the fiscal year when the implementation of UDEAC tax and customs reforms came into effect. On the other hand, several factors came into play during the subsequent years to induce a rise in the tax ratio: improved tax collection on domestic production and imports and a significant increase in TT/VAT rates resulting from the tax/customs reforms. Thus, the total tax ratio rose gradually from 1998/9 to about 13 per cent by 2001/2.

Table 3
Non-oil tax revenue (as % of non-oil GDP)

	1992/3	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Oil revenue (as a % of oil GDP)	44.6	20.9	29.5	44.6	48.9	56.0	51.3	62.9	67.4	75.1
Non-oil tax revenue	9.1	7.7	9.6	10.4	10.1	11.1	11.8	12.1	12.9	12.7
Income taxes	2.6	2.1	1.9	2.0	2.2	2.6	3.0	3.1	3.3	3.4
Taxes on goods & services	1.9	1.8	3.4	3.7	3.4	3.7	4.2	4.3	4.1	4.2
Taxes on goods & services	4.1	3.3	3.9	4.3	4.3	4.6	4.4	4.2	4.6	4.7
Other tax revenue	0.5	0.4	0.4	0.4	0.2	0.2	0.3	0.4	0.4	0.4

Source: See sources in Table 1.

Table 4
Annual per cent changes

	1992/3	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/2000	2000/1	2001/2
Oil revenue	-32.7	-42.4	67.0	33.0	43.0	0.1	-34.7	143.6	-4.3	18.3
Non-oil tax revenue	-4.1	-8.5	52.7	21.5	6.7	19.5	14.2	8.8	13.3	
Income taxes	2.0	-12.9	10.9	17.8	18.3	29.6	24.1	12.0	17.1	
Corporate income taxes	2.2	3.7	63.4	32	18.6	27.4	83.2	8.8	13.3	
Personal income tax	-10.9	-14.7	23.9	-0.7	-1.6	25.7	19.3	8.0	62.3	
Other direct taxes	23.3	-18.5	-36.9	41.8	52.2	36.5	-32.9	28.3	-3.3	2.5
Taxes on goods & services	8.3	5.5	129.6	22.0	0.2	19.2	20.3	10.8	3.7	5.3
Domestic turnover taxes including VAT	11.3	-8.9	390.3	6.4	-7.2	30.1	24.6	19.1	1.8	2.8
Taxes on the sales of oil products	6.9	16.1	-21.5	78.6	16.2	0.3	10.8	-10.1	10.2	13.6
Foreign trade taxes	-9.7	-11.3	42.7	24.9	9.4	16.4	13	2.2	21.7	21.7
Import duties and taxes	-11.4	-12.2	53.6	26.4	15.8	24.5	10.3	8.0	22.9	22.9
Export duties and taxes	-6.0	-9.6	21.2	21.3	-7.0	-9.9	-58.7	-44.5	2.7	2.7
Other tax revenue	-22	-14.4	11.4	-0.1	-25.3	-12.5	75.5	42.4	1.2	1.2

Source: See sources in Table 1.

4 Incidence of taxation in Cameroon: a review

Studies on the effects of taxation in Cameroon are rather rare. To our knowledge, the only empirical study on this topic is that of Emini (2000).

Using a computable general equilibrium mode, Emini evaluates the impact of an imperfect value-added tax with reference to that applied in Cameroon. This evaluation is based made on the allocation of labour between sectors of activity, on public finance, and household welfare. Simulation results show how an imperfect VAT can generate effects opposite to those of a perfect one, especially with regard to resource allocation.

This model also helps to verify certain theoretical assumptions such as the fact that substituting a perfect VAT for cascading taxes, for example, induces a relatively greater demand for productive factors in activities whose tax burden was heavier in the cascading system. The simulations also show that despite its imperfect nature, VAT implemented in Cameroon is economically more desirable than the *ex ante* tax status quo because it generates a substantial increase in tax revenue, improves the budget deficit, and stimulates investment. But these positive effects are diminished by the subsequent deterioration of household welfare. Nevertheless, this deterioration may only be transitory to the extent that the increase in investment may give rise with a time lag to an improvement in household welfare. In sum, the tax system will be more favourable to the economy as a whole as long as VAT becomes more neutral.

5 Taxation and decentralization

In Cameroon, local taxation remains embryonic, and tax resources are still basically the exclusive responsibility of central government, both in terms of collection and allocation of tax resources. One can note that the weakness of local taxation in Cameroon, as elsewhere in Africa, is a consequence of the deficiencies in the process of decentralization in general, and more particularly in the process of financial decentralization. It should be pointed out that the greater share of tax resources in the country, amounting to 10 per cent of certain state taxes, is redistributed to local governments. More specifically, the municipalities' own taxation involves the levying of a lumpsum tax *(Impôt liberatoire)* which replaces for certain taxpayers the business license, personal income tax, and turnover tax. Otherwise local government taxes comprise the business license fee, license tax, livestock tax, firearm tax and taxes on the certification of vehicles and other machines, direct municipal taxes, and royalties levied on forestry exploitation.

Taxes shared with the state involve only those disbursed to local governments. Such is the case with the special municipal surtaxes (SMSs), which are annexed to certain national taxes, and collected at the same time as the principal before being disbursed to the municipalities. But currently there are reforms in the making with the aim to pool all special municipal surtaxes together for redistribution to municipalities based on demographic criteria.

The SMSs are presently appended on taxes such as personal income tax (10 per cent), corporation tax (10 per cent), turnover tax (10 per cent), land or property tax (25 per cent), the tax on gaming (10 per cent), the tax paid by traders and professionals (10 per cent) and the business license (25 per cent). These SMSs constitute the most important source of revenue for the Cameroon municipalities (on average 20 per cent of budgetary receipts).

With regard to the particular case of land taxation, it should be noted that property taxes in the country constitute the main local taxes. Also, local taxation follows the French model.[1] Land taxes are levied on built-up and unbuilt property; 20 per cent of these taxes are allocated to local governments and 80 per cent to the central government. The taxbase constitutes land areas both with and without buildings. In general, local taxation is an essential source of revenue for the country's local governments. However, reforms are necessary for the optimization of tax yields.

6 Recommendations on tax revenue collection and distributional impact

6.1 Improving tax collection

Identifying the small enterprises

Identification of the small economic agents is a major problem facing tax authorities in low-income countries. Many factors can explain this situation. The first factor is the complexity and the costs involved in the registration procedures, which deter small enterprises from taking these steps. Despite the development of a single identification system in Cameroon, the procedure for obtaining a business license, for instance, requires complying with many obligations at specific administrative or official agencies (e.g., trade registry, financial agency, the court's clerk office). Moreover, illiteracy among small economic agents, their low level of tax education, and their reluctance in meeting their tax obligations are some of the reasons given for the resistance in registering their businesses. This implies that simplification of the identification procedures, reduction of related costs and taxpayer education are among the measures likely to improve tax collection on the part of small businesses.

Broadening the taxbase and monitor taxpayers

Given the fall in oil revenue subsequent to the collapse of oil prices, the tax effort must be increased both in terms of broadening the taxbase and improving the efficiency of tax collection services. Under these conditions an increase in tax revenue must be sought through: (i) development and implementation of an overall plan to reform the customs administration; (ii) simplification of tax procedures; (iii) rationalization of controls, and (iv) improvement of the efficiency of tax administration.

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1 In France, local taxation is based mostly on four elements, three of which are related to land: (i) land tax on built-up property; (ii) land tax on un-built property, and (iii) housing tax while the fourth is the professional tax which replaced traders and professional tax in 1975.

Promoting fiscal compliance

To the extent that these small enterprises are not involved in the significant fraudulent activities mentioned above, their tax potential is generally weak, and the main objective of turning them into taxpayers is to develop their sense of civic responsibility.

The promotion of fiscal compliance among small economic agents implies that they adhere to the tax system, a situation which can be realized only if the system is perceived as equitable. The failure to generalize the application of taxes and the existence of numerous exemptions and waiver regimes constitute serious obstacles to this adhesion, and contribute to the expanding informal sector. Another decisive factor in the unwillingness to pay taxes is the inadequate information taxpayers receive regarding the use to which their tax contributions are put.

Developing a favourable business climate

The tax system and its administration are not the only obstacles to the development of the formal sector and a corresponding reduction in informal economic activities. To promote private initiative in a formal context, there must exist an attractive business climate that is favourable to investment. Thus, in addition to indispensable measures taken to ease the tax commitments of small businesses, other actions for facilitating economic activity are necessary. These measures require a concerted approach by different authorities and the development of an integrated strategy to promote the expansion of the formal sector and hence improve the cost-effectiveness of tax revenue collection.

Informal and illegal economic activity must be curtailed to increase tax collection

In Cameroon, as elsewhere in Africa, the informal sector is vast and is mainly composed of small and medium enterprises (SMEs) or professionals, etc. who evade taxes. Equity considerations and the need to improve tax collection are among the many factors that favour a broadening of the taxbase in order to curb underground economic activities.

To guarantee a level of tax revenue consistent with the present orientations of the government budget, the priority of tax administration should remain on improving the collection of taxes from big corporations. In addition to their own contributions, these big taxpayers should promote the collection of taxes owed by their clients, employees and suppliers (through VAT, salary withholding, or instalments on profit tax payments, etc.). Enhancement of the services of major enterprises and modernization of their methods (including those concerned with research and supervision) are among the measures likely to improve the short-term performance of tax administration and increase tax revenue.

Further simplification of the tax system for small and medium enterprises

The regrouping of various taxes related to SMEs into a single tax (the synthetic business license) as payment in full for all tax commitments constitutes a significant achievement in terms of tax simplification for these businesses. However, the established regime still remains complex, because it retains taxbases requiring subjective tax assessment (turnover tax). In the absence of accounting statements and a dependable register, this assessment is often conducted through informal discussions between the taxpayer and agents, a method that encourages corruption. Under these conditions, a simple and transparent system must be set up. The development of tax systems adapted to SMEs also implies the simplification of other obligations, notably accounting requirements. The implementation of standards established through OHADA (Organization of Business Legislation, *Organisation de l'harmonisation du droit des affaires*) supports simplification for the smallest enterprises, thanks to the establishment of a very simplified accounting system. In this regard further improvement should be considered:

- *Provide adequate information and ensure taxpayer education*. Responsibility for this lies with the tax administration, which must help taxpayers to meet their obligations. The tax department needs to ascertain that taxpayers receive adequate information on their obligations, the types of taxes facing them, deadlines for submitting tax returns, and payments to be made. Taxpayers also need to be informed about changes in tax legislation, have tax forms readily available, and have easy access to information.

- *Improve the services and education provided to taxpayers*. This goal implies the development of information programmes (in particular for small taxpayers and new businesses), simplification of tax forms and procedures (by eliminating requests for unnecessary information), training tax agents to develop better taxpayer/tax administration relations, and making available to taxpayers more efficient means for legal recourse.

Curbing fraudulent activities

This action requires the implementation of a strategy to crosscheck tax information. The importance and great quantity of data available for processing requires that the management of big enterprises to become the primary source for information gathering. However, a more dynamic approach in terms of research must also be developed to diversify sources of information. In Cameroon, initiatives are already being implemented to crosscheck information between tax authorities and customs services, and the preliminary results obtained in detecting fraudulent activities are encouraging. These initiatives should be generalized and crosschecking extended to available information in other services, public enterprises, and private agents (e.g., public invitations to tender, industrial consumption of water and power, use of inputs).

In general, the government should undertake measures to achieve an increase in tax revenue. These need to extend to the improvement of administrative efficiency, law enforcement, resolution of tax disputes and exemption regimes, the fight against corruption, action to improve the sense of civic duty and correct tax fraud. In effect, tax rules must be applied without exception.

Improving the management of human resources

The tax reforms undertaken with the technical assistance of bilateral and multilateral donors during the 1980s and 1990s remain vulnerable for lack of capacity building. Indeed, it is nearly impossible to improve tax collection without a well-trained and educated administrative staff.

Tax administration to be legally protected against political interference

An efficient tax collection system can be put in place in Cameroon by legally protecting tax administration against political interference. In this context, the tax administration must be able to fulfil its mission in an equitable and impartial manner, without political interference.

6.2 Recommendation for tax distributional impact analysis

The study of tax incidence consists of identifying the citizens who ultimately carry the tax burden. The theory and practice of tax incidence embrace a series of methods from the simplest to very complex that focus on the key elements of economic agents' reaction to taxes. Determining the distributional impact of taxes remains a difficult exercise because of the need to take into account their general equilibrium effects throughout the whole economy.

Generally speaking, there is no ideal or single approach to analysing tax incidence. All the approaches currently in use have both advantages as well as disadvantages. Nevertheless, we recommend a tax incidence analysis for Cameroon that is based on the conventional approach, which is relatively simple and easy to apply. In addition, the assumptions on which it is based are transparent and the implications of alternative assumptions can easily be compared.

The basic methodology underlying conventional models of tax incidence requires tax burdens to be allocated to income groups classified from the richest to the poorest, and by population deciles or quintiles on the basis of the assumption of who will ultimately bear the tax burden. The share of revenue collected for each tax is attributed as tax burden to each income group so as to completely exhaust the total revenue collected. To get an estimate for the entire system, the incidence of each tax is calculated separately for each income group. The resulting incidences are added up across all taxes for each income group to obtain the total tax burden for each group.

More specifically, total tax burden is expressed as the average of the total tax rate, that is, the proportion of income paid in taxes by each income group. Information on total income, income sources, and spending trends is compiled from household survey data, consumer income and expenditures data, and tax revenue collected from the Ministry of Finance and the Budget.

The conventional approach may also use detailed data by incorporating micro-simulation models of large taxpayer samples. A micro-simulation model is a computer programme comprising a tax calculator which processes data from each household, computes incomes and taxes, and then adds up the taxes thus calculated to obtain the tax burden for each income group.

The conventional tax incidence analysis we are proposing for Cameroon can be supplemented with a regulatory tax incidence analysis, which involves determining who must pay which taxes, and by the analysis of the functioning of the tax collection process.

Appendix Table
Tax development during 1992/3 to 2000/1

Type of tax	Rates during 1992/3	Rates during 1993/4	Rates during 1994/5	Rates during period 1995 to present
Direct taxes				
Profit (corporation) *Impôt sur les sociétés*	38.5% (incl. *centimes additionnals*, i.e. 10% communal tax)	idem	idem	idem
Profit (non corporation) *Impôt sur les revenues des personnes physiques*)	24.2% (incl. *centimes additionnals*, i.e. 10% communal tax)	idem	idem	idem
Minimum tax	Profit tax *Impôt minimum forfaitaire* (600,000 CFAF) or 1.1% of turnover, whichever amount is greater	idem	idem	idem
Tax on capital *Impôt special sur les sociétés*	0.5%-1.5%	idem	idem	idem
Tax on dividends *Taxe proportionnelle sur les revenus des capitaux mobiliers*	16.5% for residents 25.0% for non-residents	idem	idem	idem
Business licence *Contribution des patentes*	Based on turnover, equipment and number of employees	idem	idem	idem
Other taxes (registration fee for corporate charters, duties on property leases)	Various rates	idem	idem	idem
Indirect taxes				
Sales tax *Impôt sur le chiffre d'affaire intérieur* (ICAI)	9.0% general rat 4.5% reduced rate 2.25% special reduced rate (plus *centimes additionnals*)	Abolished 1 Feb. 1994; replaced by a quasi value-added tax (12.5% *Taxe sur le chiffre d'affaire*, TCA) applicable only to firms under common law (*Droit commun*)	TCA rate increased to 15% on 1 July 1994; applicable to firms under the *Taxe unique* (TU), *Taxe intérieure à la production* (TIP) and Investment Code regimes. Exceptions still apply to firms under *Convention speciales* or *Zone Franches*	idem

Appendix Table 1 con't

Appendix Table (con't)
Tax development during 1992/3 to 2000/1

Type of tax	Rates during 1992/3	Rates during 1993/4	Rates during 1994/5	Rates during period 1995 to present
Import taxes-mutual UDEAC external tariffs				
Duty rights *Droit de douane* (DD)	50% Consumption goods 35% Intermediates 15% Machinery/raw materials 5% Primary goods	Abolished Feb. 1994; replaced by four categories of TEC (*Tariff exterieur commun)* applicable to products from non-UDEAC countries 30% Consumption goods 20% Intermediates 10% Machinery/raw materials 5% Primary goods	idem	idem
Entry duties *Droits d'entrée* (DE)	Ranging between 5-90% depending on product and origin	Abolished Feb. 1994; TCA applicable at 12.5%	TCA increased to 15%	TCA increased to18.5%
Import turnover tax *Taxe sur le chiffre d'affaire à l'importation*	10% of value plus DD and DE	Abolished Feb. 1994; *Droit d'accise* introduced on designated products at rates varying between 0-100%		
Taxes specific to Cameroon				
Complementary import tax *Taxe complementaire à l'importation*	Varying between 0-100% of value	Abolished Feb. 1994; *Surtaxe emporaire* introduced at a maximum 30% rate for designated items		
Special regimes				
1 TU/TIP				
Production tax and import tax for firms exporting to UDEAC countries *Taxe unique* (TU)	Rate negotiated on a product and firm specific basis	idem	Abolished 30 June 1994; replaced with TCA on output and TEC and TCA on imported inputs	
Cameroonian equivalent of the TU on goods for domestic market or exported to non-UDEAC countries *Taxe interieure à la production* (TIP)	Rates negotiated on a product and firm specific basis	idem	Abolished 30 June 1994; replaced with TCA on output and TEC and TCA on imported inputs	

Appendix Table con't

Appendix Table (con't)
Tax development during 1992/3 to 2000/1

Type of tax	Rates during 1992/3	Rates during 1993/4	Rates during 1994/5	Rates during period 1995 to present
Special regimes (con't)				
2 Investment Code (1990)				
Four regime (1) PME (2) Reinvestment (3)Strategic (4) Basic	Various benefits depending on the regime on direct and indirect taxes; rates on imports reduced to 15%	idem	Reduced rates on imports abolished 30 June 1994; only remaining fiscal benefits are on profit tax	
3 Convention speciale (CS)				
'A la carte' fiscal exemptions negotiated directly with the Ministry of Finance	Exemption and reductions may eliminate all tax obligations	idem	Renegotiation of the CS before 31 Dec. 1995	
Others				
Value-added tax (VAT)	18.5%			VAT introduced 1 Jan. 1999 to replace the sales tax
Property tax				Property tax introduced Jan. 2000 to be levied on value derived from property registry
Forestry tax				Reform of forestry taxation on 30 Sept. 1998 to promote efficiency in processing industries and increase their contribution to government revenue

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