

# Economic Implications of Cameroon's Tax Policy on SMEs

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## Introduction

For businesses to thrive, they need supportive regulation and acceptable tax rates. This is especially the case in Cameroon, where informal production units, entrepreneurs, and SMEs are responsible for over 90% of employment for individuals who are in the working age group. However, many businesses close before their third year due to a difficult operating environment, driven by burdensome taxation.

In Cameroon, the corporate tax rate affects how SMEs operate and their willingness to pay taxes. The process of paying taxes is equally burdensome and challenging for most companies and individuals who do not understand how to find the information. This article examines the current corporate tax rates, additional local charges, and their implications for business development, drawing on statistical data and insights from academic research.

According to updated data from the [Ministry of Small and Medium-sized Enterprises, Social Economy, and Handicrafts](#), the Cameroonian economy includes 393,166 SMEs, of which 19,651 were created in 2023. It should be noted that 99.8% of the economy is made up of SMEs, of which 79.32% are Very Small Enterprises (VSE), 19.43% are Small Enterprises (SE), and 1.25% are Medium Enterprises (ME).

## Overview of Corporate Taxation in Cameroon

Cameroon maintains a relatively [high corporate tax rate of 30%, with an additional 10% council surtax](#), resulting in an effective corporate income tax rate of 33% for most companies. However, recent reforms have introduced a reduced corporate tax rate of 25% (effectively 27.5%) for companies with annual revenues not exceeding XAF 3 billion (approximately \$5 million) as of January 2023<sup>14</sup>. This change was

designed to reduce the tax burden on companies and while it has, businesses are still suffering under a burdensome regime. Businesses and start-ups are indeed exempt from paying taxes for two years after they are created, but they have to pay mandatory council tax. This article looks at the impact of corporation tax and local taxes on businesses in Cameroon.

## **Corporation Tax Dynamics Over the Last Decade**

Between 2004 - 2024, the average corporate tax rate in Cameroon averaged 35.88%, peaking at 38.50% in 2005. The high taxation levels have often been criticized for stifling business growth and discouraging foreign investment. This is true, but only part of the story. Some firms who possess the political clout can negotiate cheaper taxes allowing them to be more competitive against smaller SMEs trying to establish themselves in a competitive market. However, businesses continue to ask for lower tax rates but the government remains reticent about reducing them.

## **Economic Implications of Corporations Tax on Businesses**

The impact of corporate tax on employment in SMEs is significant, with high taxes and complex regulations discouraging formalization. In recent years, the corporate tax rate has been around 33%, contributing to a challenging environment for SMEs and causing citizens to remain in the informal sector. The [IPU labor force is mainly comprised of self-employed workers \(78.3%\)](#) and the service sector is the sector with the most informal sector workers. According to a study conducted in 2021, [90% of the workforce is employed in the informal sector](#), largely because many SMEs opt to avoid formalization to escape high tax burdens and regulatory scrutiny.

A report between 2010 - 2016 indicated that approximately [60,000 businesses](#) were created but they contributed very little to overall GDP due to a restrictive tax environment. The same report found that real annual sales growth for SMEs rose [4% in 2016](#), which was higher than less than 1% in Sub-Saharan. However, SMEs' employment growth was 6%, suggesting that they are nervous about hiring under the current regulatory environment.

Moreover, academic research finds that many entrepreneurs prefer to keep their businesses small to avoid the complexities associated with higher taxes and compliance costs. This suggests that the current corporation tax rate stifles employment growth within formal SMEs, illustrating the need for a more favorable tax regime.

## Tax Compliance Costs Equally Stifle Compliance

It is perhaps time to reiterate that the complexity of Cameroon's tax system leads to higher compliance costs for businesses. The requirement for various local charges—such as property taxes (0.1% of building value), land taxes, and value-added taxes (set at 19.25%)—further increase this burden. As such, companies must spend a minimum of \$600 in compliance costs diverting resources away from potential reinvestments or expansions.

## Implications of Local Taxes

In addition to corporate taxes, businesses in Cameroon face several local taxes that increase the tax burden. Local taxes significantly impact Small and Medium-Sized Enterprises (SMEs) in Cameroon by influencing their operational capacity. Additionally, the local tax framework includes business license fees, property tax, and council tax which can be up to 10%. They impose a heavy burden on SMEs who try to evade them. Meanwhile, a study conducted in Buea, Cameroon found that [60% of SMEs identify local taxes as a barrier to growth](#) and these obligations reduce their capacity to reinvest. More worrying is the fact that local governments only retain [20% of property tax](#) and the rest is sent to the central authority which does not invest in services that could benefit SMEs directly. This burden forces many companies to reduce their workforce or hiring plans altogether.

As a result of burdensome tax requirements, many SMEs operate below their potential with a limited ability to contribute to local development and economic growth. It is therefore imperative to simplify local tax regulation and provide targeted support to improve SME performance while creating a more conducive environment for job creation. On a macro level, corporate profits [contributed only 7.37%](#) to the state budget while accounting for only [13.29% of total tax revenues](#).

CEPI emphasizes the need for reform as a complex and excessive tax system is detrimental to entrepreneurship and leads to losses due to the cost of tax compliance. As such, there is growing consensus among leading economists on the need to reform the tax system. A more conducive environment for business development will support local employment and generate state revenues at higher levels than they currently are.

## **Policy Recommendation**

- To encourage more businesses to formalize their activities, an explanatory video should make the process of paying taxes online easier. Businesses should also be informed of changes to tax policy in forms other than the citizen's budget.
- Mandatory tax should be minimized to ensure that businesses that do not break even can survive longer and become profitable. However, periods of exemption should be no more than three years to ensure that the business can grow and become profitable.
- The policy of no tax for newly formed companies should be extended from two - three years. Also, licensed tax centers designed to help businesses "Centre de Gestion Agréer" should be popularized among citizens.

## **Conclusion**

The current corporate tax level is a significant challenge for SMEs and there is an urgent need to reform it. Businesses face high tax burdens and try to evade them as they do not have the operational capacity nor resources to effectively comply with current tax legislation. While recent reforms aimed at reducing rates for smaller enterprises are steps in the right direction, a comprehensive and targeted approach to reforms is necessary to improve competition and encourage formal business operations. By simplifying tax regulations and reducing overall rates, Cameroon can stimulate economic growth and attract both domestic and foreign investments. It is equally important to reduce the levels and extent of tax exemptions to level the playing field and protect nascent companies and industries.

In conclusion, addressing these taxation challenges is crucial not only for improving businesses and economic development but also for creating an economic environment that benefits all Cameroonians.