Implications of New Local Taxes for SMEs in Cameroon

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Introduction

In a move to increase its tax revenues, the government of Cameroon is planning to raise local taxes, allowing local governments to impose higher taxes that will be used to finance local projects. This strategy enables the central government to further its push of decentralisation while simultaneously giving local governments more power to tax and spend.

The Cameroon Economic Policy Institute unequivocally condemns this tax as it will have a negative impact on young businesses that are struggling to survive. This brief looks at the incoming law in detail and outlines the probable impact on small and medium-sized enterprises (SMEs), the bulk of which create local employment and struggle to survive due to a difficult operational environment.

Some Background on Cameroon's Tax Policy

Back in 2021, the government attempted to impose a tax on electronic devices, which was reversed after an outcry on social media by most Cameroonians. However, it went ahead to increase the price of stamps in the Finance Law of 2020 and it now wants to add local taxes to the mix to broaden its tax base.

i. The New proposed Tax

Cameroon's Finance ***Minister Louis Paul Motazé*** presented a bill to the National Assembly – currently in session – that aims to provide financial resources to municipalities across the country by *FCFA126.4 billion. This is intended to increase the amounts that are collected by local tax authorities for* decentralized local authorities (CTDs), which are estimated at FCFA261 billion in 2023, representing a mere 7.3% of the state's revenues. The bill also proposes the extension of municipal surcharges to excise duties, special income tax, and registration fees for public contracts. This measure is expected to provide CTDs with an additional CFA43 billion annually. Furthermore, the reform includes an increase in the special excise duty rate from 0.5% to 1% to help fund waste collection and treatment, which is expected to generate CFA20 billion more.

ii. Public Debt is Falling But Taxes are Rising

According to the International Monetary Fund the total public and publicly guaranteed (PPG) debt is around FCFA 12,556 billion or 45.3% of GDP, down from 46.4% in 2022. Doubling local taxes cannot be justified by a need to pay off debt loads when debt has been falling steadily. Moreover, rather than raising taxes on a population with 40% of people living below the poverty line, the government can use other means to address current debt levels; These include but are not limited to;

- ***Fiscal consolidation.***
- ***Reducing fuel subsidies.***
- ***Monitoring debt service.***
- ***Strengthening debt portfolio management.***
- ***Promoting exports, improving the domestic business and investment environment.***
- ***Strengthening management of State-Owned Enterprises (SOEs) and Public Private Partnerships projects.***

iii. Other Reforms are Designed to Give Local Governments More Control of their Finances

Besides the amount, there are several reforms that accompany the proposed bill. One key reform is the introduction of a simplified general tax (IGS) for businesses with revenues of FCFA 50 million a year.

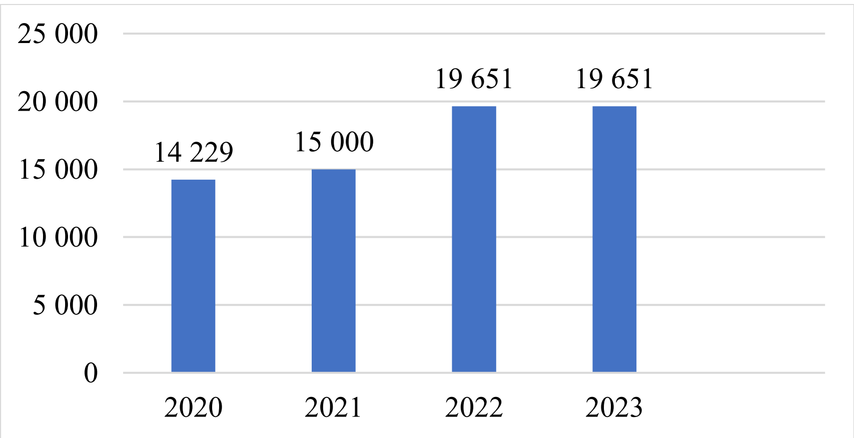
This will replace the current lump-sum tax and simplified tax regime and could generate up to FCFA 50 billion per year. This ambitious reform is, above all, a commitment to modernize the local tax administration, making it more effective and better connected to the realities and needs of Collective decentralized territories (CTDs). To ensure this, local governments will have access to a Treasury Single Account allowing each CTD revenue collector to have a unique bank identifier linked to the Bank of Central African States (BEAC). This system will allow each unit to manage its own expenses autonomously and mobilize local tax resources, subject to the approval of the central Treasury accountant.

iv. The Government Plans to Increase Taxes Until 2027

According to the Economic and Budget Programming Document for 2025-2027, Cameroon plans to increase more taxes, which reflects the share of taxes as a percentage of GDP. Currently, taxation as a percentage of GDP is estimated at 13.6% of GDP in 2024 and is poised to increase to 14% in 2025, 14.2% in 2026, and 14.4% in 2027. The forecast rate for 2027 marks the highest level in six years.

Even as taxes are higher in Cameroon, the General Tax Directorate (DGI) of the Ministry of Finance argues that taxes are well below the average across Africa, estimated at 17.2% a few years ago. They argue that for the government to drive sustainable development, taxes should be 25% of its national income. We disagree and argue that the government can make productive investments that pay for themselves such as automated toll roads, parks and other useful infrastructure that can generate revenue for it.

Figure 1: Number of New Businesses Created



Source: INS, Ministry of Small and Medium Sized Enterprises

Some Uncertainty Regarding the New Taxes

It remains unclear whether this projected increase in tax pressure will come from current taxes or whether new levies will be created to expand the tasks base in addition to other strategies. However, businesses will certainly suffer even as the number of newly created businesses have risen (Figure 1), the share of businesses that go bankrupt in the first three years of operation range from 30 – 45%. Between 2009- 2016, this figure stood at 36% according to the Institute for National Statistics.

It is still unclear whether the new revenues will come from raising existing taxes, creating new levies, expanding the tax base, or a mix of these strategies. Regardless, this move will reduce the incentive for businesses to formalize their operations, causing the informal sector to loom even as the country tries to encourage more companies to become formal.

v. Businesses are Against these Tasks and Rightfully So!

The Ministry of Economy, Planning, and Regional Development (Minepat) published a recent survey of the business sector which finds that 81% of business leaders in Cameroon view the current tax pressure as high, while 18% consider it average, and only 1% see it as low. The current tax regime is confiscatory and will remain so if the government does not acknowledge the need for a more supportive tax regime for businesses. Moreover, large companies pay most taxes but higher taxes will discourage entrepreneurs who intend to formalize their activities.

CEPI agrees with the International Monetary Fund (IMF) in this regard as large companies in Cameroon face not only a high overall tax rate but stringent restrictions when it comes to deductions. Furthermore, a high effective tax burden on profits of formal businesses promotes informality and misreporting of profits and revenue. We reiterate our recommendation that the Cameroonian Government should consider reducing the legal rate for corporation tax, minimum tax, and flat-rate simplified tax systems outlined in the General Tax Code.

If the government imposes higher tax rates on companies, it will blunt entrepreneurship and cause more businesses to hide in the informal sector. Furthermore, investment will fall as more businesses will pay taxes rather than invest in technology and human capital which is desperately needed to drive productivity.

Recommendations

- The government should consolidate spending by reducing the size of the public sector and improving transparency, accountability, and governance by digitizing processes from procurement, tendering to payments across the public sector. Preliminary estimates from CEPI find that the government could be saving up to FCFA 10 billion a year.

- Newly registered businesses should not pay any taxes for three – five years, unless they make profits above FCFA 10 million to support budding start-ups and entrepreneurs who need time to adapt to market conditions and grow their clientele.
- Finally, the government should consult with civil society before it engages in additional taxes to truly understand the impact on local businesses and stat-ups. There are still no formal mechanisms to consult and engage the general public, which suggests a top-down approach to policy that is counterproductive.

Conclusion

Small and Medium-sized enterprises are important actors in the Cameroonian economy, creating employment, paying taxes and boosting GDP growth. This policy brief analyses the impact of new taxes on SMEs and find that they will discourage the formalization of SME activities, increase the cost of compliance and slow investments. Rather than simply tax business, the government should improve the efficiency of revenue collection and keep the levels of taxes low to encourage entrepreneurship, job creation and private-sector led economic development. .

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