The Effect of Taxation on the Cameroonian Economy: Case of *Small and Medium Scale Enterprises.*

Cynthia Ebanganow Chunow[1], Joshua Sopuru[2]

Abstract

This study aims to assess the causes and effects of taxation on Small and Medium-Scale Enterprises (SMEs) and the national economy of Cameroon. The study will examine the perception of SMEs regarding taxation and government spending, the level of awareness and compliance to taxation among SMEs, and the perception of SMEs on the effect of taxation on the economy of Cameroon. The study area is the south-western region of Cameroon, and a total of 250 respondents were selected from various SMEs using a purposive sampling method. The data was collected using a structured online questionnaire. Three hypotheses were tested, indicating a no significant difference in the perception of taxation and government spending among SMEs, no significant difference in the level of awareness and compliance to taxation among SMEs, and no significant difference in the perception of the effect of taxation on the economy of Cameroon among SMEs. The study is expected to be helpful to tax administrators, policy makers, and other stakeholders, as it will provide insight into the impact of taxes and its scheme on the development of Cameroon.

Keywords: Corporate Reputation, taxation, government spending, performance of SMEs

Introduction

It is vital to state how vital taxation is to a country's financial health. Certainly, tax revenues are the primary means through which a government may fund national expenditures and population services (Lamantia & Pezzino, 2017). Taxes, on the other hand, are a significant component that impacts the fiscal decisions of every home and business. Yet, a tax is a difficult subject for tax officials in most nations and has been around for a long time. According to Akdede (2006), taxation is the imposition of forced fees on individuals or businesses by governments in nearly every country throughout the world. He goes on to suggest that people would naturally prefer to avoid paying taxes if they could. To develop effective strategies and tools for tax enforcement, it is essential for the majority to instill

comprehensive grasp of the various elements contributing to these challenges. Tax compliance can be hindered by taxpayer-related factors such as low fiscal morale and high compliance costs, as well as tax administration factors such as ineffective collection and enforcement mechanisms and limited monitoring and verification capabilities (Khanal, 2019).

Taxation revenues are a significant source of money for governments. Tax revenues used to fund public facilities and services are vital for economic expansion and development. In recent years, rising economies have failed to produce the necessary tax revenues to fund spending (Fuest & Riedel, 2009). The conventional wisdom holds that raising tax rates will boost the scope of the shadow economy. One of the most significant difficulties confronting the Cameroon tax system nowadays is the issue of taxes, a phenomenon that might impact development and productivity (Mukah & Fossung, 2019). Often, this occurs when people intentionally conceal their income from the tax office in order to decrease their tax burden(Devarajappa, 2017). As a result of these observations, this study will investigate the various effects of taxation on a nation's economy.

Statement of the Problem

The tax structures themselves are undoubtedly skewed by the realities of taxation. Existing studies have considered the identification of the motivations for taxation (Alm, 2012), effect of taxation (Onyeka & Nwankwo, 2016). There has been a dearth in the assessment of the impact made by SMEs on the economy of Cameroon which has also led to a lack in literature regarding the level of taxation among SMEs in Cameroon. Also, there is no study that has conducted an assessment of the reasons and the effect of taxation among SMEs in Cameroon, hence this study.

Research Questions

It is vital to draw a clear path for each study, in this work we attempted to provide meaningful answers to the subsequent questions;

What is the perception of SMEs regarding taxation and government spending?

What is the level of awareness and compliance to taxation among SMEs?

What is the perception of SMEs on the effect of taxation on Cameroon's economy?

Aim and Objectives of the Study

This study is aimed at the assessment of the causes and the effect of taxation among macro-enterprises and its effect on the national economy of Cameroon.

The specific objectives are to

Examine the perception of SMEs regarding taxation and government spending;

Examine the level of awareness and compliance to taxation among SMEs; and

Assess the perception of SMEs on the effect of taxation on Cameroon's economy.

Significance of the study

The study will be useful to tax managers and other stakeholders since it educates them about the influence taxes and their schemes have on the development of a nation by the government. Policymakers would benefit from the study's results and recommendations in terms of enhancing tax administration tactics and policies in Cameroon. Researchers performing similar research in the study area might refer to this research for more research.

Literature Review & Hypothesis Development

Taxation

The amount of tax revenue collected has a significant impact on the economic growth and prosperity of a country. Taxation is a vital tool for governments in both emerging and developed countries to manage their national finances, especially in the context of widespread tax evasion (Gangl et al., 2014; Schneider et al., 2010). As Hanlon et al. (2015) note, taxation also influences government budgetary decisions. Taxes are the primary source of revenue for developmental engagements (infrastructure) in an economy as well as communal finance/service provision. They are essential according to Gangl et al. (2014), for socioeconomic as well as progress across developing and advanced economies. In this

regard, acquiescence in respect to the tax, is crucial for governments the world over (Alon &Hageman, 2013). Tax evasion has a number of negative consequences, including decreased tax revenues, increased inequality, reduced company productivity, and impediments to economic growth. It also leads to increased costs for the government, as it must invest resources to detect and prosecute tax evaders (Alm, 2012; Nur-Tegin, 2008; Alm, 2014; Johnson et al., 2000).

Ultimately, it influences the accuracy of macroeconomic statistics. In general, understanding the entire consequences of taxation is impossible without accounting for tax fraud. In this light, increasing acquiescence (compliance) is a key problem facing administrations, given that taxes fund a large portion of government spending (Chung & Trivedi, 2023). Consequently, politicians as well as academies' have accorded the issue regarding tax evasion considerable attention (Lee, 2018).

Taxation among SMEs

Most nation's economies rely heavily on small and medium-sized companies 9 SMEs) as contended by (Atawodi & Ojeke, 2012). They constitute a lion's share of transitional economies' vibrant firms (Akimova, 2002). Authentically, effective SMEs have an outstanding role in both emerging as well as developed economies based on (Magableh et al., 2011).the propensity of increasing exports have been demonstrated by Ghana's SMEs as well as supply of extra-terrestrial currencies. Jones (2016) Its role in provision of services cannot be overlooked, as a result, SMEs contribute to growth in Ghana's economy (Saymeh &Sabba, 2014).

Assessing SMEs' tax obligation has piqued the interest of various research for the reasons indicated below. First, according to Akinboade (2015), SMEs are believed to have lesser tax responsibilities than large enterprises. Similarly, SMEs have been perceived as lifeblood for growth as well as expansion of the majority of nations (Maseko, 2014).). In the same light, SMEs provide taxes for the government (Akinboade, 2015), because of this, the capacity to realize socioeconomic aspirations of governments rest on SMEs tax acquiescence (Akinboade, 2015).

Theories of tax compliance

As stated by Zikmund, Babin, Carr, and Griffin (2013), a comprehensive and verifiable account of specific events is essential in understanding the interactions between objects. In the light of preceding studies, voluntary tax acquiescence is subjective to multiple factors (Damayanti, 2012; Ross & McGee, 2012). Therefore, relying solely on a few factors may not suffice to fully capture the complexities of tax compliance, and depending solely on a single theory may be inadequate in explaining the various phenomena associated with tax acquiescence (compliance) (Ayuba et al., 2006). In this regard, understanding tax acquiescence entails acknowledging the multiple factor contributors which motivate tax behavior: such elements are capable of extending further than traditional economic or crime methods to incorporate social as well as psychological theories regarding conduct.

Tax compliance issues, based on Kasipillai & Abdul (2006), relates a range constituting multiple professions viz; accounting together with psychology, political science as well as public administration including economics. Al-Taffi & Abdul (2015), suggested economic as well as socio physiological theories to might fairly elucidate complicated nature regarding tax acquiescence. Andreoni et al., (1998) noted how critical it is to integrate economic theory with social psychology theory. Moreover, Sapiei et al., (2014), insisted behavioral as well as economic methods to have enormously eased comprehension, clarifying tax acquiescence conduct. While learning theory is based on scientific principles such as sociology and psychology, economic schemes rest on economic efficacy.

In regard to the financial approach, traditionally, the most typical method for promoting tax compliance has been intimidation (Frey, 2023) economic crime model in reality produces economic research regarding tax evasion; utilization of this model inclines towards curtailing illegal activities. As a result, a fundamental premise was put forth as a preventive measure to curb crime resulting from illegal actions. Becker (1968) suggested some behavioral patterns regarding tax payers; each taxpayer is assumed to maximize the expected utility of the tax noncompliance risk, evaluating the advantages of successful tax noncompliance in respect to reviews as well as punishment. There is evidence in this submission since payers pay taxes because he or she is afraid of being caught and penalized if he or she does not (Alm, 2012).

Building on Becker's (1968) crime model, Allingham and Sandmo (1972) proposed the first theoretical model of tax evasion. This model, also known as the deterrence theory model or the anticipated utility maximization model, is the most widely accepted paradigm for understanding tax evasion. It is based on the assumption that the tax system can deter tax evasion through penalties and audits. In other words, the model posits that taxpayers weigh the expected benefits of tax evasion against the expected costs, such as fines and imprisonment, when deciding whether to evade taxes.

Tax review (audit) describes likelihood of experts (tax authority) to identify payers that fail to adhere with tax rules via reviews (auditing programs) nevertheless, penalties or tax punishments are not ruled out from those who fail to make tax payments. Its evasion is clearly regarded as a financial crime, with penalties being levied on the guilty as apt punishment (Isa, 2012). Underlying purpose of preventing noncompliance is generally to instill panic as well as emphasize the severity regarding punishment as well as increase in number tax audits (Forest & Sheffrin, 2002). Moreover, constraining (deterrent) strategy assumes that external pressure compels individual to settle tax payments complying with the law (Ariel, 2012)

The deterrence strategy assumes that "external pressures" encourage taxpayers to comply with the law (Ariel, 2012).

As a result, the deterrence theory provides evidence for the expected relationship amid; higher preemption (deterrence) productivity as well as preempt (deterred) conduct thus, a drop in deterrent activities would impair compliance (Verboon & Dijke, 2012). Dwenger, Kleven, Rasul, and Rincke (2014), on the other hand, discovered that deterrence had a little impact on the intrinsic motive for tax compliance while having a big impact on the motivational factors in respect to tax compliance.

From Wenzel (2004) perspective, these precautionary dealings are directed towards tax payers' void of morals regarding tax payments. Furthermore, the fear of deterrence undoubtedly raises tax requirements, but it seldom secures complete responsibility (Brockmann et al., 2015). In addition, Feld & frey (2007), discovered stating that deterrent strategy regarding tax noncompliance falls short of raising tax acquiescence rate unless combined with other strategies. But, by relying solely on deterrence,

the penalty may appear ineffective and even detrimental at times (Leonardo, 2011). Even if the amount of deterrent is too minimal in many nations, tax compliance is high (Torgler, 2007).

As a result, experts propose that non-economic elements can aid in the resolution of this problem appropriately (Torgler & Scheider, 2009). Nevertheless, the strategy however, is not reliable since it contradicts evidence arousing from empirical verdicts. Submissions regarding this issue incline towards the inference that psychological inclination to economic resolution stands out as appropriate technique to enforcing tax acquiescence (Frey, 2003)

Taxation effect on economic development

It cannot be overlooked that both advanced and developing economies′ major sources regarding government revenue rest on taxation. In order to boost their economies, nations significantly rely on direct and indirect taxes (Torgler & Schneider, 2009). Individuals are required by law to abide by tax regulations, regardless of whether they are self-employed or hired by a firm. Therefore, even when some people opt not to comply with tax laws, everyone has an obligation to do so (Kirchler, et al.,2006). Tax authorities have serious concerns about this non-compliance, which is manifested via tax evasion by both firms and individuals. Research was done by NurTegin (2008) to determine the root reasons of tax evasion in Egyptian society, paying particular attention to these issues. Presuppositions arise inclining towards insufficient transparency regarding governments' expenditure as paramount to tax evasion.   Taxpayers in Syria lack morality and are hesitant to pay their taxes, and they have faith in the administration. Additionally, government goods and amenities were disproportionately huge in relation to its total realization (tax payments) resulting in friction amid payers and the government.

Alm et al., (2018) examined the data on tax evasion and concluded that the tax agency had substantial operational and structural deficiencies leading to suspicion from taxpayers said in respect to relevance embedded within tax goals, leading to uninterrupted evasions. The subject of tax evasion was also a call for concern as investigated by Torgler (2011), He observed that evasion is becoming more common within Jordan, and that it is an intentional and planned activity. Taxpayers were also found to have paid significant amounts of cash to tax professionals in order to avoid paying taxes. Al- Bakri (2010)

investigated factors influencing business tax evasion using questionnaires distributed to a hundred and seventy three auditors, the resultant indicated penalties including tax rates as well as firm size to have substantial affirmative wave regarding income tax evasion.

Role of Tax Compliance as a Moderator

According to Khasawneh et al. (2008), a tax is a required payment paid by individuals based on their wealth that is used to satisfy government commitments. Affirming levies on specificities such as wages, including profits, some things are excluded from taxes as a way for tax authorities to promote particular behaviors (Payne & Raiborn, 2018). Undoubtedly, tax compliance is important for a nation's development. Fischer et al. (1992) noted the lack of widely agreed criteria for tax compliance and non-compliance, despite the fact that research regarding tax compliance goes back to the early 70s (Alm & Torgler, 2011).

Tax compliance is defined as the timely and accurate filing of tax returns and the payment of all taxes owed in accordance with the applicable laws, regulations, and court rulings (Roth et al., 1989; Jackson & Milliron, 1986) acquiescence from sales tax perspective entails on time filling in respect to returns as well as the accurate reporting of sales including taxes together with payment of owed in accordance with the relevant laws and regulations (Zainal et al., 2017)

Tax non acquiescence (compliance) in contrast to tax acquiescence, entails the ability of a taxpayer to satisfy his or her tax reporting duties (Abdul & Pope, 2008). This term includes both inadvertent and purposeful noncompliance. However, inferring from Sikka's (2013) perspective, tax evasion could be described as any questionable including dishonest or intentional conduct not in concord with established legal framework to increase discounts, hide chargeable incomes, or lower the right tax payable. Payne and Raiborn (2018) define tax avoidance (or tax mitigation) as the practice of using permissible means to reduce the amount of tax owed based on stated provisions in the tax laws. Yet, there has been no agreement from numerous literature submissions on specific meaning of tax acquiescence (compliance).

Methodology

Study Design

The goal of the study was to investigate how taxes and SMEs' companies affected the Cameroonian economy. The south-western region of Cameroon was chosen as the research location for practical reasons. SME employees from all throughout south-west Cameroon were chosen for the research, including both low-level and top-level management professionals. For the purpose of gathering information from chosen respondents, the study used a survey methodology. The many tasks that were completed in this study are presented in detail in the sections that follow.

Study Location

Western Africa's Cameroon, located in the south-west of the continent, is the subject of this study (Kouega, 2007). Equatorial Guinea, Gabon, and the Republic of Congo border Cameroon to the south, along with Nigeria to the west, Chad to the northeast, Central African Republic to the east, and Nigeria to the west. According to the National Climatic Data Center (2012), the nation has a coastline along the Bight of Biafra, which is a portion of both the Atlantic Ocean and the Gulf of Guinea. More than 10 ethnic groups, including those who practice Christianity, Islam, and traditional faiths, make up the varied nation of Cameroon.

Study's Population

Embarking on any crucial endeavor as well as realizing its essence require comprehension of significant elements as regard the endeavor. Population is one of such crucial elements within a research undertaking, it can be viewed in simple parlance as an all-inclusive group in which an inquisitive being (researcher) seeks to draw inference about. Various small and medium scale enterprises (SMEs) which are located across south-west Cameroon constituted the population for this work.

Sampling Size and Method.

In this study, a total of 250 respondents were selected from various small and medium scale enterprises (SMEs) which are located across south-west Cameroon. The sample consists of the members of the top-level, mid-level and low-level management positions working in the selected SMEs. The respondents were selected using a non- random sampling method that is a purposive technique for the purpose of suiting the research endeavor.. Following which the link that was required for assessing the questionnaire was sent to their respective email.

Method of Data Collection

A structured online questionnaire was used to collect the data that was required for this study. The questionnaire was distributed across the respondents using various online messaging tools. The questionnaire was designed with the use of Google Docs application called Google Form®. Figure 3.1 shows a screenshot of a view of the form which can be retrieved online via the URL https://forms.gle/aCbsDm2kXsxmbZC8A. The structured questionnaire was composed of four (4) sections, namely: socio-demographic information, SME perception of taxation and government spending, SME awareness and compliance to taxation and SME perception of the effect of taxation on the economy of Cameroon.

Appropriate utilization of questionnaire sections to collect information regarding the socio-.demographic information of selected respondents considered in this study. The information collected include: gender, age group, marital status, highest level of education, size of SME, as well as years of experience in SME. Year of establishment of SME as well as their roles at the said SME. The respondents were required to select one of the options that best describes the respondent. This section will also be required in the assessment of the variation in the opinion of responses during the assessment of the other sections of the questionnaire.

Section B of the questionnaire was used to collect information regarding the SME perception of taxation and Government spending. This section was required for assessing the knowledge of SMEs regarding the purpose of taxation, compliance and tax regulation and laws. The section was also used

to assess the perception of SMEs about how well the government is putting tax money into use in the provision of services, utilities and infrastructure. The section was presented as a set of items which were assessed using a 5-point Likert scale. The respondents were required to select any of the responses that describes their level of agreement to each item listed. In total, 10 items were used to assess information regarding the perception of SMEs regarding taxation and Government spending.

Section C of the questionnaire was used to collect information regarding the SME awareness and compliance to taxation. This section was required for assessing the awareness of the SMEs of complying with taxation and the level of their participation in compliance with taxation. The section was presented as a set of items which were assessed using a 5-point Likert scale. The respondents were required to select any of the responses that describes their level of agreement to each item listed. In total, 8 items were used to assess information regarding the perception of SMEs regarding taxation and Government spending.

Section D of the questionnaire was used to collect information regarding the perception of SMEs regarding the effect of taxation on the economy of Cameroon. This section was required for assessing from SMEs the impact of taxation on the economy of Cameroon. The section was presented as a set of items which were assessed using a 5-point Likert scale. The respondents were required to select any of the responses that describes their level of agreement to each item listed. In total, 6 items were used to assess information regarding the perception of SMEs regarding taxation and Government spending.

Method of Data Analysis

The data provided by the respondents was stored online via Google Sheets®. Figure 3.2 shows a screenshot of the online sheet that was used to collect the data containing the responses provided by the respondents selected for this study. Afterwards, the data was downloaded and stored as a spreadsheet file which contained the responses provided by the respondents. The study made use of standard software that is; statistical (SPSS-v20) in view of breaking down (analyzing) data collected The information collected using the questionnaire was coded and stored in electronic format using the SPSS software. The reliability of the questionnaire was assessed using Cronbach's alpha reliability test.

The study performed some descriptive analysis of the responses provided by the respondents for the first section using frequency distribution tables and bar charts where necessary. The responses provided in the remaining three sections were assessed by determining the mean and standard deviation of responses for each item and the overall scale. Inferential statistics was used to analyze any significant difference in responses provided by the respondents using the analysis of variance (ANOVA).

Results, Findings & Discussions

Following data collection, it was observed that the response rate of the distributed questionnaire among the respondents selected for this study was 82%. The results revealed that the majority of the respondents were single and married, within the age-group of 26 to 40 years and 41 to 60 years, with university first degree and postgraduate degrees. Also, the majority of the respondents worked on SMEs with staff force below 10 staff, with less than 5 years working experience, who worked as either entry-level or operations staff who had been working in SMEs that had been established for less than 5 years.

The results of participants' opinion regarding the perception of taxation and government spending among SMEs revealed that the respondents agree that the proceeds from taxation have not been put into good use by the government. The respondents agree that the government has no justification for the tax charged SMEs as the money generated is not being used in providing appropriate public service. The respondents agree that those in government are corrupt and as a result squander tax payers' money since no benefit is derived from the payment of taxes to the government. The results of the opinion of the respondents regarding the perception of the awareness and compliance of SMEs with taxation revealed that they are indifferent.

The respondents agree that SMEs are aware of tax and levies in the state, the approved channels for tax collection and attempts by tax officials in approaching the SMEs to confirm payment of tax. However, they are indifferent about SMEs not paying taxes, SMEs being forced to pay tax, consideration of tax payment in monthly accounts and payment of penalty for defaulting in payment of tax. The results of

the opinion of the respondents regarding the effect of taxation on the economy revealed that they are indifferent about the positive impacts of taxation. The respondents disagree with the impact on the redistribution of income, reduction in inflation rate, reduction in the rate of corruption and increase in the country's reputation. However, the respondents agree that taxation leads to an increase in the costs of products and services provided to clients. The results of the hypothesis testing regarding the difference in opinion of the respondents concerning the perception of taxation and government spending among SMEs across their socio-demographic information revealed a number of observations. It was revealed that there was a significant difference in the opinion of the respondents who had university first degree and those who had postgraduate degree. The results of the hypothesis testing regarding the difference in opinion of the respondents concerning the perception of awareness of taxation and compliance with taxation among SMEs across their socio-demographic information revealed a number of observations. Drawing from our findings; there was revelation of no significance variance on participants' socio-demographic information.

The results of the hypothesis testing regarding the difference in opinion of the respondents concerning the effect of taxation on the economy across their socio-demographic information revealed a number of observations. It was revealed that there was a significant difference in the opinion of respondents who were above 60 years and those that were either below 25 years and those that were between 25 and 40 years. It was revealed that there was a significant difference in the opinion of respondents who were single and those that were married. It was revealed that there was a significant difference in the opinion of the respondents who had university first degree and those who had postgraduate degree. The study showed that there was significant difference in the opinion of respondents who worked as members of the board of directors and those who either worked in operations or low management level.

Conclusions

The study concluded that SMEs in Cameroon do not trust the Government with taxpayers' money due to the lack of appropriate use of funds generated from taxing SMEs in Cameroon. It was believed that many tax officers in Cameroon are not trustworthy and are rather focused on enriching the pockets of greedy tax workers. The study concluded that SMEs are aware of tax laws however some feel reluctant about paying taxes to the government hence why SMEs are indifferent about tax compliance to the Government. Also, SMEs feel indifferent about the effect of taxation on the Cameroonian economy and this is likely on one part due to the lack of confidence that the SMEs have in the government in putting the funds into good use and on another part due to the level of corruption among tax officers.

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