

Digital Tax Policy and Tax Revenue Collection in Cameroon

Fossong Derrick, Ashu Mc Moi Ndi and Fabrizio Santoro

Summary of African Tax Administration Paper 33

Many African countries have made significant progress in digitalising tax administration. Recent research has shown promising evidence around the impact of digital solutions, such as electronic filing, on tax compliance and revenue generation. Very little, however, is known about how digitalisation could strengthen local tax administration, and how subnational government levels could benefit from broader national digitalisation reforms. The case of Cameroon illustrates how local tax administrations can struggle to benefit from technology.

Digitalising the tax system in Cameroon

The digital tax policy (DTP) was adopted in Cameroon in 2014 and went fully into effect in 2016. The reform introduced an online declaration and payment system, accessible through the web portal of the Directorate General of Taxes (DGT), the national tax administration. The reform also heavily focussed on pre-filing tax returns. With the information it has on taxpayers' business activities, income and assets, the tax administration automatically issues a pre-filled tax return form. In turn, taxpayers, accessing the pre-filled form online, only have to confirm the information on it if they find it is accurate. If not, they have to amend the form online. Further, the web portal permits taxpayers to make their payments digitally, through a bank or electronically.

Before the effective implementation of the DTP in 2016, councils in Cameroon, especially local councils, reported many challenges relating to delays and irregularities in the transfer of the shared taxes – taxes that are collected by the central government through the Ministry of Finance, and partly redistributed. Also, councils' direct taxes and fees were deemed insufficient given the effort needed to collect them. A DGT report indicated that the DTP has registered a positive impact, both quantitatively and qualitatively, on national tax performance in Cameroon. However, it is important to know if this national-level impact has also been felt at local-council level, in the amount of shared taxes received. In a context of historically poor performance and strapped resources at

the local level, a reform that boosts revenue capacity is extremely policy-relevant.

The key research question that this study seeks to answer is: What impact has Cameroon's digital tax policy had on tax revenue collection? Specifically, the study seeks to answer two key research questions. How has the DTP impacted the amount of general tax revenue collected? And what impact has the DTP had on the amount of shared and other taxes received by local councils?

Focusing on the local councils

Local councils are the hub of development at the grassroots level in Cameroon. The country has 10 administrative regions and 374 councils – 360 municipal councils and 14 city councils. These councils rely heavily on shared taxes, which constitute the major funding source for council projects in Cameroon. The taxes the councils collect directly include parking fees, building fees, market fees, hygiene and sanitation fees and impoundment fees. With the DTP the shared taxes should be declared and paid digitally. Earlier, before the DTP, taxes were declared and collected manually, and particularly small taxpayers paid their taxes to tax collectors in cash. These manual processes exposed taxpayers and councils to corruption and embezzlement of much-needed funds.

Empirical evidence

The study made use of quarterly data ranging from 2010 to 2021 (48 quarters). Data was extracted from reports councils have to submit to the regional treasuries. We employed an auto-regressive distributed lag (ARDL) estimation technique to measure the impact of the DTP on local councils' income.

Empirical evidence is rather mixed. The results reveal that for general tax revenue (GTR) the DTP that was fully put into effect in 2016 had a positive and significant long-term impact, but negative and significant short-term impact. The impact was positive but insignificant on council tax revenue (CTR) in both the long and short term.

Conclusion and Policy Implications

These findings indicate that the full positive gains of the DTP in increasing tax revenue collection in Cameroon are still untapped due to local constraints. Major barriers include insufficient accompanying infrastructure in the country – including electricity and a stable internet connection – as well as the necessary ICT equipment to use the online systems. This is accompanied by taxpayer-level constraints, such as many taxpayers' lack of familiarity and knowledge on how to use the online declaration and payment systems. In turn, this lack of preparedness often goes hand in hand with non-compliant behaviour, which goes largely undetected due to poor auditing capacity.

The findings of this study have important policy implications for formulating and strengthening the digital tax policy in Cameroon. First, the DTP should be further strengthened by addressing the lack of infrastructure in the country's rural areas. As manual practices tend to persist, infrastructure-level investments will boost the digital shift, and eventually reduce the corrupt practices that abound with the use of paper-based declaration and payment of taxes. Parallel investment should go into strengthening the online systems themselves. These often need

maintenance, and should be more stable and user-friendly. Ultimately, these investments will translate into enhanced GTR and CTR.

Second, in order to ensure an optimal adoption of the DTP system, training, seminars and sensitisation programmes could be developed to help taxpayers better master the online declaration and payment system. These should especially target underprivileged taxpayers, who are usually left behind by the fast pace of technological reform. This will improve the ease of use, and in parallel reduce dependence on tax preparers and third-party agents. This will also help new and old taxpayers who still face severe challenges using the online systems, and prefer to physically visit tax offices to declare their taxes manually. This persisting preference for manual practices inevitably defeats the purpose of the online system. The training and seminars are expected to improve adoption, and, in turn, boost accurate compliance and increase tax revenue.

“The full positive gains of the digital reform in increasing local tax revenue in Cameroon are still to be realised, due to local constraints.”

Credits

Fossong Derrick is a PhD Candidate at the Department of Economics, Faculty of Economics and Management Sciences, The University of Bamenda, Cameroon, and Project Manager, LoRDA Research Center.

Ashu Mc Moi Ndi is a PhD Candidate at the Department of Management, The University of Buea, Cameroon, and Researcher, LoRDA Research Center.

Fabrizio Santoro is a Postdoctoral Fellow at the Institute of Development Studies and at the International Centre for Tax and Development.

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