

PRESENTATION OF THE STATE OF TAX FAIRNESS IN CAMEROON

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REPORT



By Nina BISSEK

List of Abbreviations

ADIN: Africa Development Interchange Network

ANIF: National Financial Investigation Agency

APNIFFT: African Parliamentary Network on Illicit Financial Flows and Taxation

CEMAC: Economic and Monetary Community of Central Africa

CNPS: National Social Security Fund

COVID-19: Coronavirus 2019

CRADEC: African Regional Centre for Endogenous and Community Development

DGD: Directorate General of Customs

DGI: General Tax Directorate

DGB: Directorate General of Budget

DMJ: Global Youth Dynamics

IFFs: Illicit Financial Flows

IMF: International Monetary Fund

FCFA: African Financial Community Franc

IRPP: Personal income tax

IFI: Tax on real estate wealth

IGC: Capital gains tax

IS: corporate income tax

MINFI: Ministry of Finance

OECD: Organisation for Economic Co-operation and Development

CSO: Civil Society Organisation

NGO: Non-Governmental Organisation

GDP: Gross domestic product

PWYP: Publish What You Pay

ToR: Terms of Reference

TI-C: Transparency International-Cameroon

TJN: Tax Justice Network

TSR: Special tax on income

TSPP: Special Tax on Petroleum Products

VAT: Value Added Tax

I. Background and justification

The social, economic and political impact of the pandemic is and will continue to be felt most acutely by low-income citizens. Their resilience, already socially shaken, is at risk of collapse unless strong measures are taken for fiscal justice that strengthens (i) revenues, to finance public services, infrastructure and administration; ensures (ii) redistribution, to reduce inequalities between individuals and groups; (iii) re-prices to limit 'bad habits' such as tobacco, alcohol consumption and carbon emissions; and ensures (iv) representation, to build healthier democratic processes, recognising that greater reliance of public expenditure on tax revenues is strongly linked to better quality of governance and political representation.

The main objective of the State of Tax Fairness in Cameroon is to strengthen advocacy at both national and local levels. The 2021 edition of the State of Tax Fairness provides an overview of the national tax system and identifies the main challenges it faces. While it provides reliable evidence for lobbying and advocacy for tax equity in Cameroon, it strengthens the position of parliamentarians, the media and civil society organisations, including businesses, in the process of dialogue on public finance in general and taxation in particular, and enhances their credibility and power of influence vis-à-vis the tax administration.

The reports on Tax Equity (2019) and Illicit Financial Flows in Cameroonian Trade (2020) provide an analysis of the main systemic constraints and gaps in tax policy, norms, practices and beliefs in general and in the international trade sector in particular. The reports' findings and recommendations are critical for the government's quest for budgetary resources for economic recovery in the context of the COVID-19 pandemic.

This is the logic behind the Consortium of Cameroonian civil society organisations, composed of: ADIN, AfroLeadership, CRADEC, DMJ and TI-C, carrying out an analysis during 2021 to draft a policy note for a positioning and commitment of Cameroonian CSOs, parliamentarians, media in tax fairness for the fight against illicit financial flows in Cameroon as a contribution to the post COVID-19 economic recovery.

Illicit Financial Flows are a form of illegal and immoral capital flight that occurs when money is earned, transferred or spent in violation of the law and ethics. So, tackling these IFFs is critical to Africa's recovery, especially in the context of the COVID-19 pandemic, and must therefore be addressed urgently. There is broad agreement among tax justice experts that funds that escape from Africa, if kept on the continent, could be channelled towards achieving its development goals.

Cameroon, an Africa in miniature, rich in natural resources, has a poverty rate of nearly 37.5% (2014, World Bank). In 2017, indirect taxes alone accounted for more than 70% of the revenue collected by the Directorate General of Taxation. In 2017, indirect taxes alone accounted for more than 70% of the revenue collected by the Directorate General of Taxation: 40.9% for VAT, 10.4% for excise duties, 6.8% for TSPP, 5.7% for registration and stamp duties and 3.5% for TSR. So 30% is generated by direct taxes. This means that Cameroonians, the majority of whom are poor, pay a disproportionate amount of tax according to their capacity. The portion of the VAT that is a consumption tax hits low incomes, essentially devoted to the consumption of basic necessities, of poor households.

Since 2015, Tax Justice Network Africa, in collaboration with civil society organisations, has been working to support the African Parliamentarians Network on Illicit Financial Flows and Taxation. Thus, with the participation of CRADEC, TJNA organised from 27 to 29 September 2021, the annual meeting of the African Parliamentarians Network on Illicit Financial Flows and Taxation in Dakar with the presence of 04 Cameroonian parliamentarians (2 Senators and 2 Deputies). The latter attended the training on Illicit Financial Flows and Taxation.

This dynamic must continue in eccentric circles so that a critical mass of actors capable of defending tax justice for a fight against illicit financial flows develops, in order to guarantee

budgetary sovereignty capable of financing the objectives of sustainable development in Cameroon.

The workshop to present the state of tax fairness in Cameroon was held on 12 November 2021 at the Hotel Djeuga, Yaounde.

II. Objectives of the workshop

The main objective of the workshop on the state of tax fairness in Cameroon was to present the research, share the results and explore national and international policy recommendations on tax issues to support a post-COVID-19 economic recovery in Cameroon.

More specifically, it was about:

- Present the determinants of tax fairness;
- Explain the challenges facing the national tax system, including illicit financial flows
- Consider and adopt a policy note on tax fairness in Cameroon;
- Create and set up a National Observatory on Tax Fairness to enable participants to engage with experts and practitioners in the field of IFFs;
- Define actions for tax justice in the short, medium and long term.

III. Expected results

The expected results were:

- The determinants of tax justice and the challenges facing the national tax system are presented and explained;
- A policy note on tax fairness is adopted;
- A multi-stakeholder observatory on tax justice is launched with an action plan.

IV. Workshop process

The work consisted of the following 4 main components:

- The opening ceremony ;
- The technical presentation of the analysis;
- Questions and exchanges from the audience
- Closing remarks.

➤ Opening ceremony

The opening ceremony was punctuated by three elements, namely:

- The playing of the National Anthem led by Mr. **Mballa Mballa Jean**, Executive Director of CRADEC, Leader of the CSO Consortium on Budget Governance;
- The presentation of the workshop by Mr. **Mballa Mballa Jean**;
- The welcome address by Senator **NGAYAP Pierre Flambeau**, Leader of the CSO-Parliamentary platform on the issue of illicit financial flows.

The Senator who, after welcoming everyone, highlighted the participation of some Parliamentarians, including himself, in the annual meeting of the African Parliamentary Network on Illicit Financial Flows and Taxation in Dakar last September, through

CRADEC. Recalling that their mission is to recruit a critical mass of parliamentarians who will work to defend tax justice, and in particular fight effectively against IFFs, the man from the upper house stated the stakes of tax justice. These are in favour of creating a balanced system of rights and obligations in which the collection of resources is progressive, equitable, transparent and through which the financing of public policies aimed at improving the quality of life of the people by achieving high levels of socio-economic equity in harmony with the environment is ensured. The Senator ended his speech by insisting on the commitment of parliamentarians to play their part in this fight for tax justice, reaffirming their willingness to be trained on the issue because, he said, "a well-trained parliamentarian is more forceful in the debate and more pragmatic on the issues discussed."

This introductory session was again an opportunity to present the context and objectives of the workshop, which will stimulate a concerted reflection leading to a common result.

➤ Technical presentation of the analysis

- Parameters for tax fairness analysis

1. Tax progressivity

Share of direct taxes (IRPP, IS, Wealth Tax, Real Estate Tax, Capital Gains Tax); Gender sensitivity; Share of indirect taxes (VAT, Excise Duty, Customs); Taxpayers' perception of taxes: are we satisfied with the way taxes are presented to us?

2. Sufficiency of domestic resources

This parameter is based on Taxes on GDP (National, Comparison with others, Government targets); Weight of non-tax budgetary revenues (commodity rents, Debt, Quasi-tax expenditures); Proportion of tax payers (Is everyone included? Is there a file of actual beneficiaries of income); Impact of the Informal Sector; Weight of Illicit Financial Flows.

3. Relevance of tax exemption policies

Who benefits and why? Are the objectives being achieved? Can Parliament effectively monitor? Are there measures to recover overpayments? Does Cameroon participate in the multilateral convention on tax assistance?

4. Capacity of the tax administration

How is the collection of tax resources coordinated? Are the entities involved well-structured to carry out their work? What does it cost to collect taxes? Is this sufficient for the task?

5. Quality of public expenditure

What is the weight of the operating expenses? What is the weight of actual expenditure on health, education, social protection and security? What is the weighting of actual expenditure on infrastructure?

6. Accountability and citizen participation

Does civil society participate in discussions on the budget? Are audits of the administrations in charge of collecting resources carried out? Is information on actual and potential taxpayers accessible?

- Results for Cameroon

1. Tax progressivity

Indirect taxes on consumers are still too high. Between 2000 and 2018: CFAF 37,000 billion in taxes collected, of which 39.9% on average came from indirect taxes, and in 2018 this rose to

47.7%. There is pressure on consumers. Progressivity is effective on the IRPP, but some incomes still escape this taxation.

2. Sufficiency of domestic resources

According to cross-referenced IMF and government indicators (MINFI):

- In 2019, CFAF 3,517 billion or 15.3% of GDP was collected;
- In 2020, we collected CFAF 3,177.5 billion or 13.8% of GDP;
- African average 18.5% of GDP according to the OECD, Cameroon has never reached it;
- The share of debt is increasing, with debt now representing 40.1% of GDP according to the MINFI, i.e. nearly 67% of the stock of foreign currency currently limited in the CEMAC zone;
- The fight against IFFs through taxation has not yet been translated into a national strategy
- 5,762.5 billion CFAF) Budget projections for 2022. How much can taxes contribute, especially direct taxes??

140 million (CFAF 75 billion) is the amount of potential tax revenue lost by Cameroon each year on multinationals and wealthy individuals alone, according to estimates by the British NGO TJN. This money would allow each region of Cameroon to be equipped with 7 medical scanners in a single year, at a cost of \$2.1 million per unit, and the rest of the time to fund maintenance, all for free access for the poorest.

3. Tax exemptions for companies

We welcome the initiative of an uncompromising analysis of tax exemptions by the Directorate General of Taxation. We also welcome the opening of this discussion with regard to the fish sector. But we believe that the central administration should defend its documented findings before parliament and work with civil society in charge of budget monitoring to define a better strategy for tax exemptions. It will always be important to examine the discretionary part of these exemptions and to continue to reduce them as much as possible.

4. Capacity of the tax administration

Reports exist and are published by the DGB, and even distributed to parliamentarians. But they do not always contain economic analyses based on the actual economic cost and gain prism. A first approach of the kind by the DGI revealed unmet objectives, and requires further examination by parliamentarians.

5. Quality of public expenditure

Many international standards have yet to be met.

For basic and secondary education, 594.7 billion CFA francs of committed budgets represent 2% of GDP and 13.7%, below the standards of 4% and 15% set by the evaluation. Despite this increase in budgets, actual expenditure has not increased.

With regard to public health, according to the 2020 budget execution report, the government spent 140.6 billion CFA francs on the Ministry of Public Health, excluding Covid-19 allocations. This represents 3.2% of total public expenditure, which is far from the standard 15%. Covid-19 expenditure, which is exceptional, can be higher.

As for the agropastoral sector as a whole, the government spent CFAF 100.7 billion in 2020, i.e. 2.3% of the budget for the year, far from the standard 15%.

There are also parastatals in the agro-industrial sector that are self-financing. But they are usually in cash crop agriculture and do not contribute directly to food security. Although they are numerous in agriculture, there is no large-scale programme exclusively aimed at boosting women's agricultural productivity.

6. Accountability and citizen participation

We welcome the more frequent opening of parliamentarians and government to civil society. However, budget reports must be accessible to all, in the absence of participation in the proceedings. The law on transparency and good governance must apply in all circumstances. The audit reports of the DGD and DGI entities are not yet the subject of open sessions with opportunities for contributions by various categories of stakeholders.

➤ Questions and exchanges from the audience

At the end of the Consultant's presentation, a question-and-answer session was held to identify recommendations. These series of questions and answers made it possible to question:

- The distinction between transfers from fraudulent and honest activities;
- The need to broaden the tax base and the bottlenecks that prevent it; and
- The need to train and equip parliamentarians on IFFs issues.
- The need for joint action by parliamentarians that would have more weight in the fight against IFFs;
- The ability of the tax administration to trace losses related to hoarding and money laundering by some wealthy taxpayers.
- Taking into account material assets such as real estate resulting from IFFs that are still beyond the control of the government;
- The control of the government's action by parliamentarians;
- The need to develop local IFFs legislation;
- The status and mode of operation of the National Observatory for Tax Fairness;
- The means put in place by the Government to ensure that all citizens pay the right tax;
- The political will to take into account and implement the recommendations of the various studies on the fight against IFFs.
- Measures to encourage business investment without tax exemptions;
- The incidence of the informal sector in IFFs in Cameroon;
- Accessibility of information on public finances;

A number of recommendations and lessons were drawn from these discussions. These include:

- Be attentive to the movement of capital by citizens;
- Refer to the Constitutional Council for arbitration in case of conflict between the parliament and the Chamber of Accounts;
- Advocate for tax justice;
- With regard to the training of parliamentarians, hold experience-sharing sessions during which proposals and reflections will be made with a view to effectively combating IFFs;
- Strengthen the capacity of the tax administration;
- Work in agreement with the administrations to progressively formalise the national observatory on tax fairness and make this citizen's will a means of pressure;
- Use the recommendations from the Observatory's meetings to fuel the public debate and support the political will;
- Make the public understand that tax fairness will solve the problem of informality;
- Take measures to address the limitations of the declaration system;

- Make greater efforts to improve online reporting and meet the timetable for the publication of public finance information;
- Propose a law for beneficial ownership, a law for country-by-country reporting, and a law for the register of owners in Cameroon.
- Establish a schedule of sessions of the National Observatory for Tax Fairness to be held as follows: one session at the beginning of the Budget Orientation Debate, which will be consolidated by another session at the beginning of the budgetary session.

➤ Closing remarks

At the end of this workshop, Senator NGAYAP Pierre-Flambeau took the floor to announce the official launch of the National Observatory for Tax Fairness in Cameroon. He went on to reassure the audience of the support of Parliamentarians to continue to manage this observatory and to increase its structure.