An Investigation into the Drivers of Tax Non-Compliance by Small and Medium-Sized Enterprises in Cameroon: Empirical Evidence from the North West Region

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Abstract
This study investigated the key drivers of tax non-compliance in the North West Region of Cameroon. Specifically, the study aimed at investigating the effects of the level of tax education of the managers of SMEs, turnover of SMEs, perception of the future tax penalties (cost), corruption and tax rate on tax non-compliance. To achieve these objectives, data was collected using questionnaires with a sample of 200 respondents from the business world. To ascertain the reliability of instruments used, pre-tests were conducted and a pilot test was conducted. Data were analyzed using both descriptive and inferential statistics. The Probit Regression Model was used to test the hypothesis of the study. The findings from the study revealed that a unit increase in tax education of the managers of SMEs would lead to a decrease in the likelihood for SMEs not to comply with tax payment. It was also observed that unit increase in turnover would lead to a decrease in the likelihood for the SMEs not to comply with the payment of taxes, a unit increase in future tax penalties (cost) will lead to an increase in the likelihood for the SMEs not to comply to tax payment and unit increase in corruption will lead to an increase in the likelihood for the SMEs not to comply with tax payment. From the test results, in order to improve on the situation of tax payment in Bamenda, taxpayer’s education need to be intensified, lowering the tax rates to enhance tax collections and implementing high penalty rates. The government should be more involved in making laws that will encourage compliance by improving the taxpayers’ attitude. Tax authorities should strive to give taxpayers high quality services as stipulated in the corporate plan and in the taxpayer’s charter.

Keywords: Tax, Tax Non-compliance, Small and Medium-Sized Enterprises and Probit Model

1. Introduction

Small and medium-sized enterprises are an important force for economic development and industrialization in poor countries (Helmsing and Kolstee 1993; Mead and Liedholm 1998; Liedholm and Mead 1999; McIntyre and Dallago 2003). It is increasingly recognized that these enterprises contribute substantially to job creation, economic growth and poverty alleviation and as such, sustainable jobs and opportunities for micro entrepreneurs are the pathways to get out of poverty for the poor people in Cameroon (World Bank, 2004). Cameroon like any other developing country is taking a number of measures to promote the growth of the private sector in general and SMEs in particular. According to statistics provided by the National Statistics Institute (INS) in 2015, this category of enterprises accounts for over 90 percent of Cameroon's national economic fabric, with a share in the Gross Domestic Product estimated at 34 percent. It should also be noted that SMEs account for over 70 percent of job creation in Cameroon and their contribution to the economy is over CFAF 3,000 billion (ECCAS, 2015). However, for the purposes of protection and control, the operation of SMEs in Cameroon, Government imposes several types of taxes, which aim at protecting home/infant industries and to ensure fair competition among SMEs.

From an economic point of view, taxes increase the production cost of goods and services which would eventually lead to higher prices of goods/services to the final consumers. Taxation is therefore a major fiscal tool in mobilizing government revenue for efficient and effective planning and directing investment and for that matter proper running of the economy. On the other hand, the revenue collected from taxes represents the major funding source for governmental expenditures (Baurer, 2005). Despite the contribution that taxation can make towards Gross Domestic Product (GDP) in general, much attention is also needed to the side effects of the tax on the growth of SMEs. It should be noted that, if the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying

1 Was the supervisor of the thesis from which this article was uplifted

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organization(s) and eventually affecting the final consumer due to the shifter ability of tax (Oludele and Emiile, 2012). It is also in this light that Kolstad et al, (2006) indicated that taxes are perceived to be a major problem for both young and old firms. However, with adequate tax knowledge, taxpayers are able to understand the tax system and tax policies more comprehensively (Kasipillai et al, 2007). Conversely, if taxpayers have in-depth tax knowledge, they are more likely to engage in tax avoidance rather than tax non-compliance (Krichler et al, 2004).

Studies have shown that the problem of tax non-compliance is a widespread one (Kasipillai & Abdul, 2006). Also, tax non-compliance has always been a problem to the tax administrative system in many countries which can be differentiated into unintentionally and intentionally (Alabede et al 2011). The problem of tax non-compliance is as old as the institution of the tax system (Wentworth & Rickel, 1985). It is a serious dilemma that has worried not only tax authorities, but also the academic world and non-governmental organizations in Cameroon and even all over the world, as argued by Kastlunger et al. (2013) and as such tax non-compliance has increased over the last decades and, thus, has drawn attention in policy making and research.

Slemrod (2007) mentioned that, to determine the extent of tax non-compliance is not very explicit, as respondents might not be very truthful or honest when answering the survey questions about tax non-compliance honestly due to the fact that tax non-compliance is both personally sensitive and potentially incriminating. In addition to this, Allingham and Sandmo (1972), the pioneer researchers in the literature of income tax non-compliance (non-compliance), described that, tax non-compliance takes many forms, and one can almost find it difficult to be able to provide a completely general analysis of it. However, researchers in the area of tax non-compliance and income tax non-compliance have been trying hard to explain the factors affecting the behavioural intention in tax non-compliance.

While developed countries comply with tax payment with much ease, developing countries in general and Cameroon in particular face a lot of challenges. According to the 2009 General Enterprises Survey conducted by Cameroon’s National Institute of Statistics, more than 50% of Cameroonian entrepreneurs considered the business climate as “not good”. Among the many reasons proffered, taxation was the principal challenge, with corruption and access to credit in descending order. When there are too many compliance hurdles, the probability of filing compliance is reduced (Oludele, 2012). Furthermore the pressure mounted on Cameroonian SMEs (taxpayers) by tax collectors and other Government officials for informal payments (bribes) push them not to comply (Daniel, 2012). Without SMEs, Government will not collect taxes and without the taxes the Government cannot invest, pay salaries, carry out international trade just to name a few. Developing an environment that is conducive for the growth of SMEs and at the same time to ensure tax compliance is a major challenge to almost every country. Without SMEs, Government will not collect taxes and without the taxes the Government cannot invest, pay salaries, carry out international trade just to name a few.

It is worth mentioning that much has been discussed on taxes as a whole and tax system in many countries. However, there exists little or no literature on the drivers affecting tax non-compliance in some countries, especially in Cameroon in general and Bamenda in particular. Due to this, it therefore remains important to empirically determine in the context of Cameroon what are the drivers for tax non-compliance by SMES.

Research Questions and objectives
In the light of the above background, the key question that arises is: what are the drivers for tax non-compliance by SMEs? In line with this question, the objective of this study is to investigate the drivers of tax non-compliance by SMEs. Specifically, this study seeks:

- To investigate the effects of the level of tax education of the managers of SMEs on tax non-compliance;
- To investigate the effects of turnover on tax non-compliance by SMEs;
- To investigate the effects of the perception of future penalties(tax cost)by SME on tax non-compliance;
- To investigate the effects of corruption on tax non-compliance by SMEs in Bamenda;
- To investigate the effects of the tax rate on tax non-compliance.
Hypotheses of the study
In order to test these specific objectives, all other things being equal, we tested the following hypotheses:

- \( H_1 \): The lower the knowledge of tax education by the managers of SMEs, the higher the likelihood of non-compliance.
- \( H_2 \): The higher the turnover of SMEs, the greater the likelihood of tax compliance.
- \( H_3 \): The lower the future tax penalties, the higher the probability of non-compliance.
- \( H_4 \): The higher the level of perception on the rate of corruption, the higher the probability of non-compliance.
- \( H_5 \): The higher the tax rate, the higher the probability of non-compliance.

Significant of the Study
This present study is motivated by the non-existence to the best of our knowledge of any empirical evidence of the drivers of tax non-compliance. The vacuum to be filled by this study will be of great significance to the Government in that it would enable it to have points on which it will use in coming out with possible strategies to enhance the growth of SMEs while encouraging them to comply with taxes (making them to be aware of the taxes and how they can calculate them) on the one hand and, on the other hand, regulating the system to be a suitable ground not only for the SMEs but for everybody and to even encourage foreign investors. National Statistics Institute (2015) estimated that 85% of SMEs in Cameroon are found in the tertiary sector. The North West Region has a large number of tertiary enterprises and a few in the secondary (Archives RDSMEs, 2016), due to the fact that the region is not an industrial zone, thus a good study area. The North West Region with Mezam being its headquarters is chosen for the research because it carries a majority of SMEs in the region. This study will therefore be narrowed down to examine the drivers of tax non-compliance by SMEs in Bamenda.

The rest of the study is structured as follows: The next Section is aimed at reviewing the literature; Section 3 presents the theoretical and empirical framework while Section 4 describes the data. Empirical results are presented in Section 5 and Section 6 concludes the paper.

2. Literature Review

Under this section, we review the literature previously written by other authors in the field of taxes and especially on the determinants of tax non-compliance and those linked to our hypotheses.

Marziana and Mohd (2016) carried out a study to examine the determinants of tax non-compliance among SMEs and their perception of the tax law and regulations in the Metro Area. The results indicate that tax incentives and company size are significantly related to tax non-compliance. It also suggested that, it is very important for SMEs taxpayers to sign up in at least one form of tax education.

Ser Pei (2013) equally carried out a study on the factors that may influence taxpayers in Malaysia on their tax non-compliance decision. He cited ten determinants which he regrouped under non-economic (which included: gender, age, marital status, education level, public governance quality, tax education and tax morale) and economic factors (which included personal annual income of respondents, tax rate and expected future tax costs). After distributing and receiving 247 copies of questionnaire, he carried out analysis using the T-test, ANOVA and Pearson’s correlation and the results obtained showed that there is no difference in gender towards the level of tax non-compliance, but that there are differences between age group, marital statuses, education level and income levels towards the level of tax non-compliance. Tax rate and tax education have a significant positive relationship with the level of tax non-compliance among taxpayers in Malaysia; meanwhile, tax morale, public governance quality and future tax costs affect tax non-compliance negatively but the results are insignificant.

Ali et al. (2015) present a study on the causes of tax default among Small and Medium Scale Enterprises (SMEs) in the Tamale Metropolis of Ghana. The study examined the factors that have a higher potential for taxed default among Small and Medium Scale Enterprises (SMEs) such as high tax rates on SMEs with their
relatively low income levels, complex tax filing procedures, lack of proper tax education, high illiteracy rate among SMEs, poor record keeping, multiple taxation and under declaration of income. The logistic regression model was used in this study to estimate the effect of the statistically significant factors on tax default. The findings revealed that the three most significant factors accounting for tax default among SMEs are the kind of SMEs, inadequate tax education by tax authorities, and multiple taxations.

Demissie (2008) analysed the influence of education on tax compliance among undergraduate students in Malaysia. He gave out 560 copies of a questionnaire to this effect and the statistical results after data analysis showed that there is a prevalence of a relationship between tax education and tax compliance, suggesting tax education positively contributes towards tax non-compliance.

Mika et al, (2012) surveyed the important role tax plays in the growth of Small and Medium Enterprises (SMEs). In a low-income country like Tanzania, the role of SMEs is critical in pushing the socio-economic development agenda of the country further. Therefore, alignment of the tax system to the environment specific SME growth needs can be considered an important agenda for the policy makers. Keeping this issue at focus, the study was aimed at exploring the managers/executive officers’ perception of tax-system effectiveness in promoting SMEs growth in the Country. They surveyed 120 managers/Executive officers of the selected SMEs in the Shinyanga Municipal Region in Tanzania and found out that much attention has to be given to educating the SMEs as far as taxes and tax calculations are concerned.

Richardson (2008) carried out a study which revealed that there is a negative association between tax education and compliance. Corchón, (1992) said the occurrence of tax non-compliance is rather due to inaccurate information than the deficiency of information. With adequate tax knowledge, taxpayers are able to understand the tax system and tax policies more comprehensively.

Loo and Ho (2005) analysed that the competence in the Self-Assessment System in Malaysia but limited their sample to individuals who pay taxes in and prior to 2003 and who are likely to pay taxes in and after 2004. By using a survey of 250 copies of a questionnaire they concluded that although the respondents have tertiary education, their tax knowledge in relation to personal taxation was considered to be relatively low thus making incompetent in calculating their taxes. We will therefore find out if the same argument holds with SMEs in Bamenda from the questionnaire we will be analyzing in section four of this study.

Eriksen and Fallan (1996) attempted to determine the relationship between the levels of tax knowledge and attitudes toward taxation. The study was conducted through a quasi-experiment with pre-testing and post-testing of two student groups in Norway. The result of the study supports the principle of attitudes being affected by better tax knowledge and demonstrates that it holds other attitude dimensions such as fairness of tax.

Lewis, (1982) examined the perception of fairness of tax systems. It stipulated that there is an increase as tax knowledge is improved. On the other hand, low tax knowledge correlates with negative attitudes towards taxation. However, that tax education instead promotes tax non-compliance. Conclusively, we will say that when a taxpayer has a positive attitude towards tax, this will reduce their tendency to evade tax payment.

Daniel G, (2012) carried out a survey in Cameroon on corruption and the growth of a small and medium-sized enterprise. This paper uses data from a firm-level survey carried out in Cameroon to investigate the types of public services for which small and medium-sized enterprises pay bribes, the characteristics of these transactions and to estimate the impact of bribe payments on the SMEs growth. The results show that tax inspectors, police officers, hygiene and epidemiological officers, Officials from ministries and other public bodies, customs officers and Electricity officers exercise pressure on business people most often for informal payment. Bank staff and telecommunication officers are assessed as being the least corrupt. The econometric assessment of the correlation between corruption and firm performance reveals that bribe payments significantly slow the growth of SMEs. The key message is that unofficial payments are costly to SMEs in monetary terms and in terms of unfulfilled transactions.
Ngong, (2015) outlined that taxes play an important role in the growth of small and medium enterprises (SMEs). In low-income countries like Cameroon, the role of SMEs is critical in pushing the socioeconomic development agenda of the country forward. Therefore, alignment of the tax system to the environment specific SMEs growth needs can be considered an important agenda for the political, economic and financial policy makers.

Oludele A, (2012) wrote a survey on Correlates of Tax Compliance of Small and Medium-Size Enterprises in Cameroon. The study revealed that high registration costs and time-consuming processes promote tax non-compliance. The perception that the tax system is corrupt discourages registration and filing compliance. When there are too many compliance hurdles, the probability of filing compliance is reduced. The factors that correlate with tax compliance of 575 small and medium-sized enterprises in Cameroon are discussed from a survey of companies in the manufacturing and wholesale sectors. However, a fair and static system encourages filing and registration compliance.

**Gaps identified in the literature and how the study attempts to fill them**

From the review of literature, it was discovered that there are diverse thoughts posed by different researchers mostly in the developed world and very few in the developing world as far as the drivers of tax non-compliance are concerned. Some are of the positive opinion that tax knowledge and tax education comply with tax, while others say they rather have a negative effect. The literature also indicates that there are still many research gaps that need to be filled with respect to issues concerning the factors for tax non-compliance, tax fairness, tax rates, and future penalty cost for the likelihood improvement in overall taxpayer compliance. Looking at Cameroon, most researchers have written on taxation basing their interest only on the incidence of taxation and the taxation system, just to name a few.

Very few researchers have provided information about the factors of tax non-compliance. This knowledge gap has therefore pushed the researcher to provide an additional research evidence of the drivers of tax non-compliance in Bamenda in order to identify various ways to fight this cankerworm for the benefit of both the taxpayers’ (SMEs) and the Government.

3. **Methodology**

*Model specification and variable of interest*

The following model was adopted in the study. The general function notation is given in the form:

\[ T = f (\text{turnover level, tax knowledge, reporting income, tax rate, tax education, corruption, future penalty cost}) \]  

Following this general functional specification, the econometric model used in this study is represented as:

\[ T = \alpha_0 + \alpha_1 TL + \alpha_2 TK + \alpha_3 \text{RI} + \alpha_4 \text{TR} + \alpha_5 \text{TE} + \alpha_6 \text{CuR} + \alpha_7 \text{FpC} + \varepsilon \]

Where \( T \) represents the Tax non-compliance, \( \alpha_0 \) the constant term, TL the Turnover level, TK the Tax Knowledge, RI the Reporting Income, TR the Tax Rate, TE Tax Education, CuR, FpC Future Penalty Cost and with \( \varepsilon \) being the error margin.

With \( \alpha_1, \alpha_2, \alpha_3, \alpha_4, \alpha_5, \alpha_6, \alpha_7 \) being the coefficient associated with the variables turnover level, tax knowledge, reporting income, tax rate, tax education, corruption and future penalty cost respectively.

**Description of Variables in the Model**

The variables in this study would be grouped under two main headings (the economic and non-economic factors) to examine their influences towards tax non-compliance. However, five out of the variables are related to the demographic profile (gender, age, marital status, education level and turnover level) of respondents, the other variables are measured with items which are adapted from some studies previously examined in the literature review. The items of each measurement will be tested using 5-point Likert scale, where 1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree; and, 5 = strongly agree. This would be...
done by asking or giving statements to the respondent to give their opinion following the scale given. The above description can be summarized in the figure below:

![Figure 01: Description of variables](source: Constructed by authors)

### Study Design

The study design is a strategic plan on how data is collected, measured and analyzed in addressing the research problem. There are numerous types of study designs and this study is applying the descriptive and causal research approach which is commonly used.

The purpose of descriptive research design is to portray the characteristics of a condition, for example, the description of individual taxpayers’ perception towards non-compliance in this research, and also, to answer who, what, when, where, and how to our study problem (which is to find out the drivers or determinants that cause tax non-compliance among SMEs). Causal research design, on the other hand, is being used when researchers intend to know the impact of a specific relationship. It involves an empirical association between the independent variable and the dependent variable, which in this study, refers to the relationship between the determinants (which consists of gender, age, marital status, education level, turnover level, tax rate, corruption, tax education, tax morale and future tax costs which all constitute the independent variable and tax non-compliance (dependent variable) are being tested.

We also made use of a binary probit regression model using SPSS statistics tools because; it best helps when the dependent variable can take two values. Also, it is good to obtain information concerning certain variables that are main determinants of both not complying with taxes and complying with taxes. With the probit regression model, we were interested in how significant variables affect tax non-compliance.

The target population in this study is SMEs taxpayers in the North West Region of Cameroon. Knowing that there are over 1100 registered SMEs in the North West Region of Cameroon, (statistics got from the Divisional Delegation of SMEs of the North West) the problem of the determination of the sample size then comes in to solve the problem. In order to decide on the size of sample, some considerations must be taken in place, like: the purpose of the study, which is aimed at investigating on the determinants of tax non-compliance by SMEs; the size of population; the risk of selecting a “bad” sample; the allowance for sampling error that may be occurred, Israel (1992). The decision on sample size introduced is more
technically computed by using formulae in different approaches. However, there are other means of sample size identification by using a table, which is easier to be understood. Krejcie and Morgan (1970) came out with a format for determining sample size in a given research. The researcher has therefore identified the sample size over the given population size based on Appendix one. From the table in appendix one, the population size in this study is 1100. Therefore, the appropriate sample size is determined to be a minimum of 285 responses.

As far as the sampling procedure is concerned, opportunistic sampling was chosen in this study. This is because, firstly, no lists of taxpayers are available during the study, thus, respondents cannot be given an equal chance to be randomly selected. Secondly, respondents are invited to answer the questionnaire based on the availability of respondents. In order to avoid being bias in data collection, the questionnaire was distributed in mass to anyone available at the time the survey was being carried out provided they are taxpayers.

Concerning the data collection method, the data that is normally used in the empirical and experimental tax compliance studies are categorized into audit data, survey data, data from the tax authority, and data obtained from laboratory experiments (Andreoni et al, 2006). Therefore, survey data is chosen as the main source of data in this study. However, as mentioned by Cummings et al. (2006), the field data in the tax non-compliance studies are usually incompletely collected, this is because tax non-compliance is illegal, and evaders will not disclose honestly. Hence, the data in this study is gathered from primary sources (through self-administered questionnaires distributed to potential respondents in their offices giving them a maximum of five working days to use their off time to fill them after which we went round and collected them) and secondary sources (from journals or articles published, National Institute of Statistics and Regional Delegation of Small and Medium-sized Enterprises, Bamenda Reference books). The two methods were adopted in order to enhance the data collection process and enable the data to be collected more completely.

As concerns data analysis, after collecting the data, it was inputted into the computer using SPSS Software package and the data was analyzed using both SPSS Software package. We also made use of tables, bar charts and frequencies tables. Since the descriptive analysis could not capture the causal relation, the inferential statistic was then made use of.

Ethical issues were well considered by the study. In the process of data collection, there was a problem of persuading SMEs to co-operate with the researcher. The rights of participants to their privacy and voluntary participation, anonymity, and confidentiality were respected. In most cases, we took permission from the enterprises before administering the questionnaire and it was promised that taxpayers’ information would not be disclosed. The questionnaire did not carry names.

**Validation of the Research Instrument**

Validity tells whether an item measures or describes what it is supposed to measure or describe (Bell, 1991). In this study, the researcher administered a self-structured questionnaire to get taxpayers’ perception of the drivers of tax non-compliance. To ensure the validity of the questionnaire, it was reviewed and approved by the research supervisor then was pre-tested in Vatican Shopping Center and Awa and Sons Enterprise and any misunderstandings were corrected before we took them to the field to administer.

**Reliability**

The reliability of a scale gives an indication of how free it is from random error (Pallant, 2007) or the extent to which the scale produces consistent results if repeated measures are taken (Kent, 2007). Internal consistency on the other hand, measures the degree to which all items on a scale measure an underlying construct (Pallant, 2007). The Cronbach’s alpha coefficient (α) with a recommended minimum value of 7 is the most common indicator for testing internal consistency (DeVellis, 2003). The Cronbach’s alpha coefficient obtained was 0.7 and according to De Vellis, the coefficient is very respectable and capable of obtaining the relevant data. Undoubtedly, the items had the potential of eliciting the desired information.
as expected. Therefore, following our well-structured questionnaire, the method of administration, and the methodology used, we are certain that the data obtained for analyses was reliable and that reliability is possible.

4. Findings

Presentation of Demographic Data and Analyses

Presentation of Demographic Findings and Interpretation of Respondents

Here, we are going to be presenting the demographic results we got from the field while giving an explanation of each figure or chart.

Distribution of Respondents by Age

The figure below is showing the age of the respondents we got from the field.

![Age Distribution Diagram](image)

*Fig 2* Age

The distribution of the respondents with respect to age as seen in Fig. 2 above shows that out of the 200 respondents, a majority of them constituting 44% were of the 26-35 years age group. This was closely followed by those of the 46-55 years age group who made 34%, this is again followed by those less than or equal to 25 years constituting 16%. The minority of the respondents were those of age group 36 to 45 years constituting 6% of the total respondents.

Distribution of Respondents by Level of Education

After carrying out our findings, the researcher got the educational level of the managers of the SMEs we contacted and it was summarized as follows:

![Level of Education Diagram](image)
The distribution of the teachers, according to the level of education represented in Fig.3 above indicates that out of the 200 respondents, 68% of them had university education while 30% had post graduate education or a professional master’s degree. Furthermore, only 2% of them had diploma/vocational courses/HND. This shows that the respondents were well educated thus adding value to this study.

**Distribution of Respondents by Gender**

We thought it necessary also to know the respondents by their gender. The figure below is therefore giving us the respondents’ gender.

The figure below represents the distribution of the respondents with respect to gender. We observe that out of the 200 respondents, a majority of 58% of them were females while 42% of them were males. It therefore shows that there are more female SMEs owners in the North West Region of Cameroon.

**Fig 4. Gender**

**Distribution of Respondents by Marital Status**

Figure 5 below represents the distribution of respondents by marital status. The figure shows that a majority of 51% of the respondents were married or cohabiting while minorities of 49% were singles.

**Fig 5 Marital Status of Respondents**

**Presentation of Other Important Findings and Interpretation**

In the paragraphs below we will be giving other important findings and interpretations we got in the field as far as the research is concerned. This will include most of the factors we used in carrying out the probit test.
Annual Turnover

The figure below represents the perception of respondents regarding annual turnover. The figure shows that the majority of the respondents were of the opinion that their annual turnover ranges from 0 to 10,000,000 CFAF (82%). Only 18% of the respondents had turnover from 10,000,000 to 50,000,000 CFAF.

Fig 6 Annual Turnovers

Talk on Taxes from Government

The figure below indicates the respondent’s perception of government talks and sensitization on taxes. The figure indicates that a majority of 54% of the respondents have received talks from the government on taxes while a minority of 46% of the respondents have not received talks from the government on taxes.

Fig. 7 Government Talks on Taxes

Knowledge of Tax System/Perception

Table 1 Knowledge on Tax System/Perception

<table>
<thead>
<tr>
<th>Measures</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax system in Cameroon is not very fair</td>
<td>0 (0%)</td>
<td>68 (34.0%)</td>
<td>52 (26.0%)</td>
<td>0 (0%)</td>
<td>80 (40.0%)</td>
</tr>
<tr>
<td>The system of tax administration in Cameroon is efficient and effective</td>
<td>40 (20.0%)</td>
<td>108 (54.0%)</td>
<td>52 (26.0%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>
Current tax law in Cameroon is complete
There is shortage of experienced and highly motivated personnel for tax assessment and collection in Cameroon

<table>
<thead>
<tr>
<th>Measures</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I will pay taxes if my income is higher</td>
<td>0 (0%)</td>
<td>4 (2.0%)</td>
<td>48 (24.0%)</td>
<td>108 (54.0%)</td>
<td>40 (20.0%)</td>
</tr>
<tr>
<td>I fully declare my principal income but not my part time income</td>
<td>0 (0%)</td>
<td>24 (12.0%)</td>
<td>28 (14.0%)</td>
<td>108 (54.0%)</td>
<td>40 (20.0%)</td>
</tr>
<tr>
<td>I will understate income if the amount is relatively small</td>
<td>32 (16.0%)</td>
<td>108 (54.0%)</td>
<td>44 (22.0%)</td>
<td>16 (8.0%)</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>

Source: Computed by Authors

From the table above, it is seen that 40% of the respondents strongly agreed that the income tax system in Cameroon is not very fair. This was closely followed by those who disagreed (34% of the respondents). Finally, 26% of the respondents were neutral about the income tax system in Cameroon not being fair.

At the same time, a majority of the respondents (54%) were of the perception that the system of tax administration in Cameroon is efficient and effective; this was followed by neutral constituting 26% of the respondents. The minority of the respondents (20%) were neutral about the fact that the system of tax administration in Cameroon is efficient and effective.

Also, a majority of the respondents (54%) were of the perception that Current Tax Law in Cameroon is complete; this was followed by neutral constituting 24% of the respondents. The minority of the respondents (20% and 2%) were strongly agreed and neutral about the perception that the Current Tax Law in Cameroon is complete.

The table further reveals that 54% of the respondents agreed that there is a shortage of experienced and highly motivated personnel for tax assessment and collection in Cameroon. This was closely followed by those who strongly agreed (20% of the respondents). Finally, 14% and 12% of the respondents were neutral and disagreed respectively about the fact there is a shortage of experienced and highly motivated personnel for tax assessment and collection in Cameroon.

Reporting Turnover

Here the respondents report on turnover being reported.

Table 2 Degree of Reporting Turnover by Respondents

<table>
<thead>
<tr>
<th>Measures</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I will pay taxes if my income is higher</td>
<td>0 (0%)</td>
<td>64 (32.0%)</td>
<td>36 (18.0%)</td>
<td>28 (14.0%)</td>
<td>72 (36.0%)</td>
</tr>
<tr>
<td>I fully declare my principal income but not my part time income</td>
<td>0 (0%)</td>
<td>76 (38.0%)</td>
<td>96 (48.0%)</td>
<td>0 (0%)</td>
<td>28 (14.0%)</td>
</tr>
<tr>
<td>I will understate income if the amount is relatively small</td>
<td>32 (16.0%)</td>
<td>108 (54.0%)</td>
<td>44 (22.0%)</td>
<td>16 (8.0%)</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>

Source: Computed by Authors

From the table above, it is seen that 36% of the respondents strongly agreed that they would pay taxes if incomes are higher. This was closely followed by those who disagreed (32% of the respondents). Finally, 18% and 14% of the respondents were neutral and agreed respectively that they would pay taxes if incomes are higher.
At the same time, a majority of the respondents (48%) were neutral on the perception that they will fully declare their principal income but not including part time income, this was followed by those who disagreed constituting 38% of the respondents. The minority of the respondents (14%) strongly agreed that they would fully declare their principal income but not including part time income.

Also, a majority of the respondents (54%) disagreed with the perception that they will understate income if the amount is relatively small. This was followed by neutral constituting 22% of the respondents. The minority of the respondents (16% and 8%) were for strongly disagreed and agreed about the perception that they will understate income if the amount is relatively small.

### Income Tax Rate

#### Table 3 Income Tax Rate same

<table>
<thead>
<tr>
<th>Measures</th>
<th>Very Low extent</th>
<th>Low extent</th>
<th>Neutral</th>
<th>High extent</th>
<th>Very high extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>The level of current tax rate</td>
<td>32 (16.0%)</td>
<td>80 (40.0%)</td>
<td>28 (14.0%)</td>
<td>0 (0%)</td>
<td>60 (30.0%)</td>
</tr>
<tr>
<td>If tax rates are reduced, more people will be encouraged to pay taxes</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>176 (88.0%)</td>
<td>24 (12.0%)</td>
</tr>
<tr>
<td>I will be motivated to pay taxes if tax rates are reduced</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>116 (58.0%)</td>
<td>84 (42.0%)</td>
</tr>
<tr>
<td>Income tax rate does not affect my decision on tax non-compliance</td>
<td>32 (16.0%)</td>
<td>100 (50.0%)</td>
<td>28 (14.0%)</td>
<td>0 (0%)</td>
<td>40 (20.0%)</td>
</tr>
</tbody>
</table>

**Source: Computed by Author**

From the table above, it is seen that 40% of the respondents strongly agreed that the current tax rate in Cameroon is low. This was closely followed by those who disagreed (30% of the respondents). Finally, 16% and 14% of the respondents were very low and neutral respectively.

At the same time, a majority of the respondents (88% for high extent) were of the perception that if tax rates are reduced, more people will be encouraged to pay taxes. The minority of the respondents (12%) were for a very high extent about if tax rates are reduced, more people will be encouraged to pay taxes.

Also, a majority of the respondents (58% for high extent) were of the perception that they will be motivated to pay taxes if tax rates are reduced. The minority of the respondents (42%) were for a very high extent about the perception that they will be motivated to pay taxes if tax rates are reduced.

The table further reveals that, 54% of the respondents agreed that there is a shortage of experienced and highly motivated personnel for tax assessment and collection in Cameroon. This was closely followed by those who strongly agreed (20% of the respondents). Finally, 14% and 12% of the respondents were neutral and disagreed respectively to the fact that there is a shortage of experienced and highly motivated personnel for tax assessment and collection in Cameroon.

### Presentation of Hypothesis Related Findings

In the paragraphs below, the researcher is presenting the hypothesis related findings from the field and to draw conclusions.

### Summary of Descriptive Statistics

The table above shows a summary of the descriptive statistics for the variables.
Table 4. Summary of Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum Value</th>
<th>Maximum Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>200</td>
<td>1.666667</td>
<td>.7385489</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Turnover</td>
<td>200</td>
<td>2.466667</td>
<td>1.159937</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Tax Knowledge</td>
<td>200</td>
<td>3.266667</td>
<td>.83666</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Reporting Income</td>
<td>200</td>
<td>2.577778</td>
<td>1.01105</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>200</td>
<td>1.911111</td>
<td>.514438</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Tax Education</td>
<td>200</td>
<td>2.288889</td>
<td>.8426749</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Corruption</td>
<td>200</td>
<td>2.8426749</td>
<td>.9293204</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Future penaltyCost</td>
<td>200</td>
<td>3.422222</td>
<td>1.097288</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Compiled by Authors

We observe from the table that the mean value of tax compliance is 1.666667 with a standard deviation of .7385489, with maximum and minimum values of 0 and 1 respectively. The result shows that there is a low deviation of tax compliance from the mean as the standard deviation is not far from the mean. The mean value of turnover is 2.466667 with a standard deviation of 1.159937, with maximum and minimum values of 0 and 2 respectively. In the same light, the mean of tax knowledge stands at 2.577778 with maximum and minimum values of 0 and 1 respectively. The variables included in the study show from the summary descriptive statistics that the variables do not deviate too far from their mean values.

Correlation Analysis

The table below represents the pairwise correlation matrix which shows the correlation which exists among the variables included in our model.

Table 5: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>TC</th>
<th>TO</th>
<th>TK</th>
<th>InC</th>
<th>TR</th>
<th>TEdu</th>
<th>CuR</th>
<th>TaxCost</th>
</tr>
</thead>
<tbody>
<tr>
<td>TC</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>-0.1592</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TK</td>
<td>-0.2942</td>
<td>0.6651</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>InC</td>
<td>-0.2232</td>
<td>0.5013</td>
<td>0.5391</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TR</td>
<td>0.2792</td>
<td>0.2234</td>
<td>-0.0493</td>
<td>0.1010</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TEdu</td>
<td>-0.1704</td>
<td>-0.0248</td>
<td>0.1461</td>
<td>0.0397</td>
<td>-0.5685</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CuR</td>
<td>0.5298</td>
<td>0.1687</td>
<td>0.1169</td>
<td>-0.3145</td>
<td>0.1902</td>
<td>-0.2612</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>TaxCost</td>
<td>-0.0187</td>
<td>0.0024</td>
<td>-0.1007</td>
<td>-0.2659</td>
<td>0.1485</td>
<td>-0.3561</td>
<td>0.0177</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Source: Compiled by Authors

The correlation coefficients of the leading diagonals stand at 1.0000 which indicates that each explanatory variable is perfectly collinear to itself. Furthermore, the results show a weak negative correlation between some of the variables in the study while there exists a weak positive correlation between other explanatory variables of the model. We observe weak positive and negative correlations amongst all other explanatory variables indicating the possible absence of the problem of multicollinearity in the model.
Probit Regression Analysis

In this section the results of the regression are presented and commented upon. The table below is showing the results obtained after the test.

Table 6 Probit regression

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient (Std. Dev)</th>
<th>Marginal Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Level</td>
<td>-.2093005*** (.74182)</td>
<td>-.0518956***</td>
</tr>
<tr>
<td>Tax Knowledge</td>
<td>-.822806*** (.8343791)</td>
<td>-.4519604***</td>
</tr>
<tr>
<td>Reporting Turnover</td>
<td>-.0333598** (.6037622)</td>
<td>-.0082715**</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>.846811*** (1.155536)</td>
<td>.4579124***</td>
</tr>
<tr>
<td>Tax Education</td>
<td>-.5292902 (1.071965)</td>
<td>-.1312363</td>
</tr>
<tr>
<td>Corruption</td>
<td>.160116** (1.519387)</td>
<td>.7835434**</td>
</tr>
<tr>
<td>Future Tax Penalty</td>
<td>.18768*** (1.117393)</td>
<td>.277055***</td>
</tr>
<tr>
<td>Constant</td>
<td>2.381903 (11.73002)</td>
<td></td>
</tr>
</tbody>
</table>

Number of obs = 200
LR chi2(3) = 5674.85
Prob> chi2 = 0.0000
Log pseudolikelihood = -18.128602
Pseudo R2 = 0.5999

*(**)(***) => We reject the null hypothesis at 10%(5%)(1%) level of significance

Tax Non-Compliance= 0=> Base Category
Tax Compliance =1=> Category

There is a negative relationship between turnover and the likelihood of tax non-compliance. This is an agreement with our priori expectations. A unit increase in turnover will lead to a decrease in the likelihood for the SMEs not to comply with the payment of taxes by 0.518956 and to increase the likelihood of tax compliance by this same value of the marginal effect. These findings are statistically significant at the 1 percent level of significance. We therefore reject the null hypothesis and conclude that turnover significantly influences tax compliance in Bamenda.

From the result above, there is a negative relationship between tax knowledge and the likelihood of tax non-compliance. This is an agreement with our priori expectations. A unit increase in tax knowledge will lead to a decrease in the likelihood for the SMEs not to comply with the payment of taxes by 0.4519604 and to increase the likelihood for the SMEs to comply with this same value of the marginal effect. These findings are statistically significant at a 1 percent level of significance. We therefore reject the null hypothesis and conclude that tax knowledge significantly influences tax compliance in Bamenda.
Furthermore, there is a negative relationship between reporting income and the likelihood not to comply with the payment of taxes. This is an agreement with our priori expectations. A unit increase in income will lead to a decrease in the likelihood for the SMEs not to comply with the payment of taxes by 0.0082715 and to increase the likelihood for the SMEs to comply with this same value of the marginal effect. These findings are statistically significant at a 5 percent level of significance. We therefore reject the null hypothesis and conclude that income is significantly positive or negatively influence tax compliance in Bamenda.

Also, there is a positive relationship between tax rates and the likelihood not to comply with the payment of taxes. This is an agreement with our priori expectations. A unit increase in the tax rate will lead to an increase in the likelihood for the SMEs not to comply with tax payment by 0.4579124 and decreasing the likelihood for the SMEs to comply with tax payment by this same value of the marginal effect. These findings are statistically significant at a 1 percent level of significance. We therefore reject the null hypothesis and conclude that the tax rate significantly influences tax compliance in Bamenda.

In addition, there is a negative relationship between tax education and the likelihood not to comply with the payment of taxes. This is an agreement with our priori expectation. A unit increase in tax education will lead to a decrease in the likelihood for the SMEs not to comply with tax payment by 1312363 and to increase the likelihood for the SMEs to comply with tax payment by this same value of the marginal effect. These findings are statistically insignificant. We therefore fail to reject the null hypothesis and conclude that tax education does not significantly influence tax compliance in Bamenda.

At the same time, there is a positive relationship between corruption and the likelihood not to comply with the payment of taxes. This is an agreement with our priori expectations. A unit increase in corruption will lead to an increase in the likelihood for the SMEs not to comply with tax payment by 0.7835434 and decreasing the likelihood for the SMEs to comply with tax payment by this same value of the marginal effect. These findings are statistically significant at a 5 percent level of significance. We therefore reject the null hypothesis and conclude that corruption significantly influences tax compliance in Bamenda.

Simultaneously, there is a positive relationship between the future tax penalty and the likelihood not to comply with the payment of taxes. This is an agreement with our priori expectations. A unit increase in tax cost will lead to an increase in the likelihood for the SMEs not to comply with tax payment by 0.277055 and decreasing the likelihood for the SMEs to comply with tax payment by this same value of the marginal effect. These findings are statistically significant at a 1 percent level of significance. We therefore reject the null hypothesis and conclude that tax cost significantly influences tax compliance in Bamenda.

The global findings from this study are examined by the LR chi2(3) and the Pseudo R2. The Pseudo R2 of 0.5999 shows that 59.99% of changes in tax compliance is due to changes in the variables included in this study. The coefficient of the LR chi2 is significant at the 1% level of significance. This shows that the findings from this study are 99% reliable for a policy perspective.

5. Implications of the Results

The tax laws in place are too complicated for the taxpayers, thereby making them not to comply. Frequent changes of these laws year in year out, tend to increase the cost of tax compliance as taxpayers lack the necessary expertise and so, will have to hire tax experts thereby making most of them not to comply. The complication of the tax laws due to one reason or the other tends to cause most taxpayers not to comply with their taxes. This is in line with previous findings carried out by Atawodi & Ojeka (2012) who conducted a study in which he sought to identify factors that affect tax compliance among SMEs in North Nigeria and found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of SMEs. Other factors like multiple taxation and lack of proper enlightenment were also found to affect tax compliance among the SMEs surveyed only to a lesser extent. Therefore, there is a need to simplify tax laws, tax forms and procedures. The findings of this study revealed that there is a positive relationship between understanding tax laws and tax compliance. Most SMEs (taxpayers) have not undergone any formal training on tax matters, most of them partially understand tax laws or some do not even understand at all,
though liable to tax. Some taxpayers find the complexity of tax information more difficult to understand than others. This complexity may lead to unintentional non-compliance.

Taxpayer education is one of the powerful tools of enhancing compliance, this is because at such a forum, knowledge is passed to taxpayers exhaustively and this enhances future compliance. Communication channels should open up as this enhances friendly relations between the taxpayer and the tax authority. Furthermore, taxpayers would also feel part and parcel of the policy making process. It is really important for tax officials to improve tax awareness so as to encourage tax compliance. They should remove the ambiguities in the various tax related laws. This is in line with previous findings carried out by Lumumba et al. (2010) who conducted a study examining how the taxpayers’ attitude influences compliance behaviour among SMEs in Kerugoya town and found that non-compliance was influenced by taxpayers’ lack of understanding of tax laws and the feeling that the tax system was unfair. Legal cost is just one of the compliance costs. High compliance costs can result in tax non-compliance, tax fraud, and inhibit investment by way of diminishing the competitiveness of the country in terms of taxation attractiveness (Ojeka, 2012). The study concluded that compliance costs in the form of fees charged by tax consultants and other costs are positively correlated with non-compliance behavior and thus negatively correlated with tax compliance behaviour. In a study carried out on tax compliance and simplification, OECD (2004), established that compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns, and the number of levels of government involved in levying and collecting tax.

### Limitations of the Study and Suggested Areas for Further Research

Social scientists have long recognised the limitations of any research, indicating that it is impossible to create a perfect study that can be considered the final answer to a research problem (Scandura & Williams, 2000). Limitations of this study include the following aspects. From the beginning of the study we were supposed to meet the taxation department but however, we did not because we concentrated on SMEs to find out their reasons for not complying with taxes and how we can help them out to have mastery of the tax laws and tax calculation as a whole.

The questionnaire was also limited to those who were willing to participate in the research. Those who were unwilling to participate were either too busy or perhaps feared the adverse repercussions of discussing tax related matters. This limitation however is common in tax research (Kirchler, 2007; McIntosh & Veal, 2001; Song & Yarbrough, 1978; Tran-Nam, 2003; Trivedi, Shehata, & Lynn, 2003).

As the majority of the SMEs were able to give accounts of both their good and bad experiences, they provided valuable insights into their tax practices and decisions. This is because the focus of the research is not solely on tax non-compliance perceptions and practices but on what is done to discharge tax compliance obligations and experiences thereof.

Future research should attempt to collect data from SME's from other regions paying taxes and find out whether the influence of tax compliance by Small and Medium-Sized Enterprises is the same as in Bamenda. In addition, further study should concentrate on the relationship between voluntary tax compliance strategy and the deterrence strategy and the factors that motivate SMEs to be tax compliant.

### 6. Conclusion

The main objective of this study was to investigate the drivers of tax non-compliance on SMEs. To attain these major objectives it was further split into for specific objectives; to investigate the effects of the level of tax education of the managers of SMEs on tax non-compliance, to investigate the effects of turnover on tax non-compliance by SMEs, to investigate the effects of the perception of future penalties (tax cost) on tax non-compliance and to investigate the effects of corruption on tax non-compliance by SMEs in Bamenda. To achieve these objectives, data was collected using a questionnaire with a sample of 200 respondents from the business world. To ascertain the reliability of instruments used, pre-tests were conducted and a pilot test
was carried out. Data were analyzed using both descriptive and inferential statistics. The Probit Regression Model was used to test the hypothesis of the study.

Findings from the study also revealed that most of the identified factors have a direct influence on tax compliance among SMEs and they included tax registration in the system, timely filing of returns, complicated tax system, lack of information and education on taxation and costly tax compliance procedure. There was a general feeling from taxpayers that taxes they pay do not translate to services rendered to the public by the government and hence they are demotivated to pay them. Most of the respondents felt the tax rates should be reviewed, thus the government should relook at the tax rates currently charged on SMEs. Information received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements; on the same note the tax officials should address the complexities of annual tax returns, periodic variations in the tax laws, and levels of penalties and fines. Any amendments in the tax laws should be passed promptly to the SMEs via various channels like tax seminars, banners, booklets and media channels. This will greatly improve the level of compliance by SMEs as the complexities associated with tax matters will be demystified.

With regard to the attitude of taxpayers toward the payment of taxes to the government, they should ensure that taxpayers are always motivated. This is by changing the SMEs “perception through involvement because already they feel that tax rates are not fair, the system is corrupt and that business makes high profits by operating illegal business and under reporting profits. They should also make tax laws easy to understand, teaching the SMEs how to calculate the taxes they are to pay, reward outstanding taxpayers while at the same time penalizing those who default.

References


