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DEPARTMENT OF BUSINESS STUDIES

THE EFFECTS OF TAXES ON THE PERFORMANCE OF MICRO ENTERPRISES: THE CASE OF NJINIKOM SUB DIVISION

A research project submitted to the Department of Business Studies in partial fulfillment of the requirements for the award of a Bachelor of Science (B.Sc) in Accounting and Finance

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BUEA, AUGUST 2015

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DEDICATION

I dedicate this work to my beloved parents, Mr. /Mrs. Ngong Romanus.

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I am deeply grateful to many people who have gone out of their way to spare time, energy and effort to make this work a reality.

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ABSTRACT

Taxes play an important role in the growth of micro, small and medium enterprises (MSMEs). In the low-income countries like Cameroon, the role of MSMEs is critical in pushing the socio-economic development agenda of the country forward. Therefore, alignment of the tax system to the environment specific MSME growth needs can be considered an important agenda for the political, economic and financial policy makers.

This study applied both qualitative and quantitative research designs where interviews and questionnaires were used. Data was collected from both primary and secondary sources. Data was processed and analyzed using frequency tables and narrative text, to find out the relationship between taxes and performance of Micro enterprises. A total of 50 respondents were considered in Njinikom Sub-Division.

The findings indicated that the performance of Microenterprises is affected by stock levels, capital employed, daily sales and the average amount of taxes paid annually.

Most business owners are aware of taxes to be paid, uncertain of the mode of assessment and little assistance is given as regards tax awareness.

The findings revealed the problems faced by the tax payers as regards mode of assessment, collection and tax collectors, inefficiency by tax collectors, loss of equipment, loss of sales and loss of stock as a result of taxes.

Recommendations on impact of taxes included; improvement on the method of collecting taxes, educating the business community about different tax rates, introducing a scheme that allows tax payers to pay the tax liability.

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MSMEs: Micro Small and Medium Size Enterprises

SMEs: Small and Medium Size Enterprises

TRA: Theory of Reasoned Action

AGI: Adjusted Gross Income

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Micro enterprises are usually small individually-owned or family managed businesses offering basic goods and services. Microenterprises tend to lack organizational and management structures, and are generally characterized by uncertainty, innovation and evolution. Udechukwu (2003) notes that microenterprises are mostly sole proprietorships and partnerships, and only a few are registered as limited liability companies. Micro enterprises generally have a simple management structure, and in many cases the owner is the manager. With few employees who in most cases lack the appropriate skills and competencies. Given the simple management structure and extensive dependence on the owner, the lifespan of the enterprise is often dependent on the longevity the owner and his/her interest in continuing the business.

MSMEs (of which microenterprises constitute the largest proportion) are considered the most reliable engine of development for the less Development Countries (LDCs). This is because they enjoy a wider geographical presence, ensure more equitable income distribution, employ a high number of poor persons, and facilitate diffusion skills (Panitchpakdi 2006). For MSMEs to achieve their goals the government has to provide the necessary infrastructure to the sector. one of the ways through which the government generates income is through taxes paid by MSMEs.

According to Akinsulire (2010), MSMEs accelerate rural development, decrease urban immigration and the problems of congestion in large cities because they have lesser competition by serving dispersed local markets. Moreover they contribute to domestic capital formation; and also play a value-adding role in mobilizing private savings.

Tax is a compulsory and non-refundable contribution executed by government for public purposes and payment cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the tax payer. Payment is not followed by concurrent benefit in return (Balunywa, 1988).

Tax revenue contributes to development and to welfare through three sources; financing public services and social transfers at a high level of quality, reallocating income and offering incentives for more employment and the efficient use of natural resources, (Holban 2007). This notwithstanding the profit generated by MSMEs is for the expansion of their businesses, so their income and need for survival ought to be taken to consideration when designing a tax policy. To this effect, the tax policy should be one that would encourage MSMEs to move to the formal sector and limit tax evasion.

An efficient tax system encourages growth; investment, innovation, and facilitate international trade and mobility. Assessing the effects of tax systems on MSMEs would include the tax rates, tax burden, incidence, timing and multiple taxes. The considerations of micro enterprises are to minimize administrative burden, ensure compliance, and effects of operating in the informal economy (ITD, 2007).

Oludele 2012 argue that high tax rates and tax complicity discourage the growth of MSMEs and this has an economic effect on the growth of the economy. Taxes increase production cost of goods and services and as a result the final consumers suffer from high prices of these commodities. Mean while, the revenue collected from taxes represents the major funding source for governmental expenditures (Baurer, 2005). If the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying organizations and eventually affect the final consumer due to shifting tax ability.

Micro enterprises in developing countries face difficulties when dealing with tax matters because, it is indeed rare not to hear complaints about the complexity and/or ambiguity of the tax laws, high tax rates, multiple taxes, complex tax regulations and local taxes when determining the overall tax burden placed on the business community (Baurer, 2005). This implies that as a policy maker and regulator, the government must consider the factors that could affect the competitiveness of businesses.

"Moreover, despite the contribution that tax can make towards the Gross Domestic Product (GDP), the growth of micro enterprises has to be taken into consideration. This is because micro enterprises play a crucial role in driving economic growth in both developing and developed countries. The situation raises a serious concern about the issue of aligning the tax-planning system to the specific requirements of a particular country's growth need, as it has to balance both short-term and long-term impact of the policy. This also triggers need for an in-depth study of the different issues, preventing the development and implementation of effective tax policy and systems, particularly in the context of MSMEs (Njemo C. 2014)."

Taxes are broadly divided into two namely; direct and indirect taxes Lawal (1982). Examples of direct taxes include; income tax, corporation tax, capital gains tax, and inheritance tax. While indirect taxes are usually taxes on commodities or services, examples of indirect taxes include; value added tax, excise duties, import duties, purchase tax, and export duties (Aanu Ojeka1 2012).

For the protection and control of MSMEs operation by the Cameroon government several types of taxes are being imposed which aim in protecting home/ infant industries (protectionism) and also ensure fair competition among micro enterprises, some of these taxes include; tariffs, import duties, excise tax, to name a few. (Njemo C. 2014)

Tax resources are basically the exclusive responsibility of central government, both in terms of collection and allocation of tax resources. The weakness of local taxation is a consequence of the deficiencies in the process of decentralization, and more particularly in the process of financial decentralization (Ayyagari 2005).

1.2 Statement of the Problem

Although there is a general perception that taxes are an important source of fund for development of an economy and the provision of social services, the problems faced are in the area of negative relationship between taxes and the business' ability to sustain itself and to expand, micro enterprises are faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper orientation or education about tax related issues. Not minding other challenges that micro enterprises face in developing countries like Cameroon include; inadequate capital, poor technical and managerial skills, environmental effects, multiple taxes and government regulations which most often affect the operation of micro enterprises. These factors have led to increase record of close-up of Micro Small and Medium Enterprise (MSMEs).

1.3 Objectives of the Study

Main objective

The main objective of this study is to examine the effects of taxes on the performance of micro enterprises in Njinikom sub division.

Specifically, this study seeks to;

- Examine the perception of taxation by micro enterprise owners in Njinikom sub division.
- Assess the stock performance of micro enterprises in Njinikom sub division.
- Investigate if taxes affect the plough back profits of micro enterprises in Njinikom sub division.

1.3 Research Questions

- How owners of micro enterprises perceive taxation n Njinikom sub division?
- What is the situation of micro enterprises in Njinikom sub division in terms of stock performance?
- Do taxes affect the plough back profits of micro enterprises in Njinikom sub division?

1.5 Significance of the Study

To the researcher

This research would enable the researcher to learn more about taxes and especially how the taxpayers are being accessed and the various taxes business operators are entitled to. Above all, to ease understanding of the responsiveness of micro enterprises taxation in Njinikom sub division.

To the tax authorities

The study would provide useful information to business owners and tax authorities on the relationship between taxation and the growth of micro enterprises. The findings of the research would also benefit the regulatory authorities and policy makers in understanding the specific issues, especially in the modification of various rules, laws and regulations.

To the tax payers

This research will enable taxpayers to know the important role taxes plays in the development of the economy.

To the government

This study will enable the government to bring out possible solutions which will enable small and medium size enterprises enhance on their growth.

1.6 Definition of Terms

Tax: Tax as a statutory compulsory contribution imposed by government exacted from a person's or entity's income, property or transaction for the purpose of funding governance

Tax Compliance: The degree to which a tax payer complies or fails to comply with the rules of his country.

Stock: Stock represents a claim on the company's assets and the earnings

Enterprises: An enterprise is an activity or a project that produces services or product.

Micro Enterprises: A small business that employs a small number of employees or has less capital asset.

1.7 Organization of the study

This research comprises five chapters, with chapter one providing a general introduction and a background study, problem statement, objectives and research questions, significance of the research, definition of terms and organization of the study. Chapter two is cantered on the literature review, theoretical framework and empirical review. Chapter three dwells on the research methodology, it describes the research design, analytical approach and the validity of the research. Chapter four will constitute the presentation and analysis of data, implication of result and limitation of the research. And chapter five will constitute the summary of findings, conclusion, recommendations and suggestions for further research.

CHAPTER TWO

LITERATURE REVIEW

This chapter of the study is divided into two sections, Theoretical framework and empirical literature; the theoretical framework presents theories relevant to the study, while section two presents the empirical literature related to the study.

2.1 Theoretical Framework

The theoretical framework will constitute related theories and concepts on the perception of taxes by micro enterprise operators, stock performance of micro enterprises, and taxes and plough back profits.

2.1.1 Tax Perception by Micro Enterprises

The business constraints for small enterprises explained by Kolstad (2000) argue that taxes are perceived to be a major problem for both young and old firms, caused by high tax rates and uncertainty about tax policies. Tax authorities are the most "feared" institutions by informal sector operators for institutionalizing (inter-alia) their activities, registration with the tax authorities and subsequently the requirement to pay relevant taxes, tax is a cost to its payers. With multiple and high tax rates, the costs becomes escalating .Tax therefore reduces business's profit.

(Oludele 2012) concludes that the regulation and company laws are primary regulations that have negative impact on small and medium size businesses. Businesses registered with the Ministry of Trade tend to be more regulation compliant while those registered with the Municipality are not.

Theory of Reasoned Action: The theory has been applied to various behavioural situations and has been used to explain human behaviour as dominant theoretical framework behaviour. Behavioural performance in the theory can be predicted from people's intentions. TRA focus is on behavioural intention as antecedent to actual behaviour. Favourable Intentions are assumed to capture the motivational factors that influence behaviour. Intentions indicate how individuals are willing to try or how much effort they would exert to perform the behaviour. In order to understand a particular individual's behaviour (for example, taxpayer's behaviour), it is important to identify the determinant of behavioural intention. TRA postulates two independent determinants of intentions that is attitude toward behaviour and subjective norms. Ajzen and Fishbein (2003) defined attitude as the degree to which an individual has a good or poor evaluation on a particular behaviour. One of the factors that determine attitudes is behavioural belief, which involves evaluation of the consequences or outcomes of a particular behaviour. Attitudes are influenced by a belief in an outcome in which its degree is measured in terms of outcome the evaluation. Subjective norms refer to social pressures perceived to be exerted on an individual to act or not to act. The belief that underlies subjective norms is referred to as normative belief. Normative belief is influenced by one's belief towards a referent other and/or referent group. This means that an individual attempts to believe that other people think it is important for them to carry out the act. Despite its universality in explaining social behaviour, the theory's application is yet to be tested in the context of indirect tax (for example, GST). As such, the present study on GST was carried out based on Theory of Reasoned Action whereby intention to comply with GST is the main focus of the study.

Attitudes and Behavioural Intention: According to Theory of Reasoned Action, attitudes are believed to have a direct are effect on behavioural intention. Many researchers found attitudes to be a significant predictor of behavioural intention. Ajzen (2003) stipulated that attitudes towards compliance reflect feelings of favour and disfavour towards compliance behaviour. In the context of taxation. Thus, it was anticipated that taxpayers with favourable perceptions of the tax system were more likely to have positive attitudes towards the tax system and consequently encourage them to comply. (Zainol Bidin 2013)

A review study on tax compliance of micro enterprise owners (Kamleitner 2012) clearly presents three key aspects affecting micro enterprise owners' perceptions of their tax situation, these are; perception about non-compliance opportunities; meaningful taxation knowledge; decision frames that render taxes as painful losses.

The main theoretical approaches to tax compliance have commonly been divided into the 'economic deterrence' approach, and the wider behavioural approach which incorporates both social and fiscal psychological approaches. The economic deterrence model has been commonly used to examine tax evasion and compliance formal theoretical perspective. Factors that have been examined in the economic deterrence model include:

• Complexity of the tax system

• Level of revenue information services
• Withholding and information reporting
• Prepare responsibilities and penalties
• Probability of receiving audit coverage
• Progressive and actual level of tax rates, and
• Penalties for non-compliance.

Despite the number of factors which have been examined under this model, the early pioneering work of Million 2011 shows that there is no unanimous agreement on any one of these factors, thus indicating a positive relationship with taxpayer compliance. (Zainol Bidin 2013*)*

The social/fiscal psychological model on the other hand, focuses on psychological variables which include moral values and the perception of fairness of the tax system and the tax authorities. This section proceeds to outline the elements and characteristics of the two models and the various studies which have employed them.

Economic Deterrence Model

The models which have been based on the economic theory of compliance generally focus on deterrence. Deterrence can be achieved through a number of approaches, punitive and persuasive. That is, deterrence may take on the form of increasing the probability of detection, increasing the tax rate or by the imposition of tougher penalties. Alternatively, it may take on the form of better education, increased advertising/publicity and incentives. The focus of this section of the chapter will be upon the punitive impact of penalties, sanctions and other enforcement factors which shape taxpayer compliance attitudes and behaviour. (Faridah 2013)

The economic definition of taxpayer compliance views taxpayers as 'perfectly moral, risk-neutral or risk-averse individuals who seek to maximize their utility, and chose to evade tax whenever the expected gain exceeded the cost.' Thus, a pure 'cost-benefit' approach is given for why or why not taxpayers may comply with the tax laws. Some researchers propose that individuals are expected to weigh 'the uncertain benefits of successful evasion against the risk of detection and punishment.' Consequently, a penalty structure forms part of the punishment, and is a critical factor in an individuals' choice to evade tax.

Given this background, the following analysis illustrates how the economic deterrence model has evolved over the last five decades. Over this period, studies have demonstrated a gradual 'watering down' of the pure economic deterrence model. This concentrates predominantly on maximizing utility, to a model which now incorporates other non-economic and persuasive factors, albeit in a somewhat primitive form.

Fiscal and Social Psychology Models

Fiscal psychology models blend together aspects of economic deterrence models and social psychology models. The essential thrust of this approach is that individuals are not simply independent utility maximizer's rather individuals are recognized to contain an array of attitudes and beliefs which interact and respond to social norms. Social psychology models inductively examine the attitudes and beliefs of taxpayers in order to understand and predict human behaviour. The studies based on these models are many and varied in terms of the methodologies employed and the potential compliance factors examined. In this regard, the focus of this section of the chapter is to analyze studies which examines the human factors that affect taxpayers' compliance attitudes and behaviour. Consequently, the following analysis illustrates how the fiscal and social psychology model has evolved over the last five decades. Over that period, studies have demonstrated a sophisticated development of both the methods and variables employed within the model. While methodologies explored both quantitative and qualitative approaches, the variables have ranged from social norms and personal characteristics to fairness perceptions and taxpayer education and awareness. (Cummings et al., 2004)

The model of tax compliance and enforcement according to Dryden Witte is a simultaneous equation model with equations for taxpayers' reports and for the probability of an audit. It includes equations for reported Adjusted Gross Income (AGI) and the reported total tax liability. Separate equations are used for reported AGI and tax liability rather than a single reporting equation because of the differences in the magnitude and possible causes of income under reporting and the overstatement of subtractions (that is adjustments, exemptions, deductions and credits). The results for the reported AGI equation helps to determine the factors affecting income reporting and also compare results for the reported AIM, tax liability equations allows us to infer the factors associated with the overstatement of subtractions. To specify the equations for reported AGI and total tax liability, we surveyed the theoretical literature on tax compliance. This literature suggests that taxpayer's reports of income and tax liability depend on the enforcement policies of the tax authorities, income, tax rates, and tastes and preferences. (Dryden 1988)

Taxpayers' Morale and Tax Compliance

Taxpayers' morale is the intrinsic motivation of persons to pay taxes (Frey, 1997a). It differs across countries because taxpayer values are influenced by varying cultural norms, with different societal institutions acting as constraints. Therefore, taxpayers' morale is an important and integral attitude and a determinant of taxpayer compliance and other forms of behavior. In addition, tax compliance is enhanced when individuals view the paying of taxes as a fair fiscal exchange and as transparent (Edlund & Åberg, 2002). Taxes paid by individuals can be interpreted as the price paid for the government's positive actions. Thus, individuals' tax compliance might be influenced by the benefits received in the form of public goods and services relative to their price because the individuals might feel cheated if taxes are not spent adequately (Cummings et al., 2004). The willingness to pay certain types of taxes is closely linked to perceptions of fairness.

Scholars widely agree that the public will not pay taxes unless some public goods and services, such as education, infrastructure, security and healthcare, are provided in return. Greater trust in the government increases taxpayers' positive attitude toward commitment to the tax system and tax payment, which has a positive effect on tax compliance (Smith &Stalans 1991). For most citizens, the connection between tax payments and government spending is shadow at best. Although this is a pessimistic perception of the relationship between taxation, accountability and responsiveness, what is of substance to citizens is the general perception of government credibility. Thus, if taxpayers trust the government, the legal system, the justice system, and/or the public officials, they will be more willing to be honest in their payment of taxes, a reflection of high tax morale and tax compliance (Torgler, 2004, 2005; Alm&Torgler, 2006).

2.1.2 Performance of Micro enterprises

Ittner and Lacker's (2001) approach on value-based management and Kanji's Business Scorecard (BSC) attempts to link business decisions and outcomes (Kanji and Moura SA, 2002). Laitinen's (2002) factors include costs; efficiency of activities; properties of products; revenue; competitiveness; financial performance and environmental effects. The following subsection briefly explains each of the variables and their implications to measuring performance of a business. All these factors are inter-related by a causal link based on the flow of resources within the business.

Table 2.1 Factors that determine the Performance of a Business

Factors	**Details**
Costs	This relates to the traditional approach on budgeting and cost accounting. Costs of producing an item or offering the services would be the main determinant for pricing, profit margins and for other decision making process. Thus, cost is an important variable to the survival of an organization. (Ittner and Lacker's 2001)
Efficiency of activities	Production factors are used to perform activities. The factors intend to evaluate efficiency of the organisation in delivering its products and services and the costs involved. Quality of services to customers is included in the measurement. In summary, activities are measured through three dimensions: time, cost, and quality. (Ittner and Lacker's 2001)
Product and customer profitability	Products are sold to customers at a price that should provide organisations with sufficient profitability, normally based on profitability ratios. Profitability measures would help set the strategy and operational decisions in the business. (Ittner and Lacker's 2001)
Competitiveness	Products and customers are important determinants of competitiveness. External factors have a strong impact on the survival and growth of an organization particularly in small and medium sized organizations. The rate of growth in revenue and its market size could determine returns and performance of the organizations.
Financial	Financial performance is largely based on product and customer profitability but also on competitiveness. Various ratios including profitability, liquidity and gearing could be computed as the basis to measure returns on investments and performance. Financial results would be a relatively straightforward measurement comparing to those

	non-financial variables.
Environmental effects	Products and production itself may have environmental effects. Environmental factors have become important and sensitive issues to consumers. Consumers tend to opt for products that are eco-friendly and recyclable. Demand for items that are deemed harmful to the environment has become less attractive to consumers. (Ittner and Lacker's 2001)

Source; authors processing data

Tax Policy and the Growth of SMEs

According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008).

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Most SMEs have to deal with myriad of agencies at great cost as stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labour income taxes and social contributions (International Tax Dialogue 2007). An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortion effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2009) and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses (Weichenrieder, 2007), Among the factors militating against SME tax compliance with are: high tax rates, low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000).

The Concept of Growth

The purpose of the existence of SMEs is to make profit and business sustainability. A firm is an administrative organization whose legal entity or framework may expand in time with the collection of both physical resources, tangible or resources that are human in nature (Penrose, 1995).

The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements also the firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labor and appropriate management and opportunities for investments that are profitable. The determining factor for a firm’s growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

One of the major barriers to the development of Micro and Small Enterprises is access to credit. These enterprises differ in the level in which they are and the products and services offered to them by the MFIs. The small and medium size enterprises need to be financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. Stable survivors are those who benefit in having access to the financial services provided by MFIs to meet up with their production and consumption needs. Unstable survivors are groups that are considered not credit worthy for financial services to be provided in a sustainable way and Growth enterprises are Micro and Small Enterprises with high possibility to grow. In identifying the market, MFIs consider whether to focus on already existing entrepreneurs or on potential entrepreneurs seeking for funds to start up a business venture. Working capital is the main hindrance in the development of already existing SMEs and to meet up, the borrow finance mostly from informal financial services which have high interest rates and services offered by the formal sector or not offered by these informal financial services. The business activity of small and medium size enterprises is equally as important as the level of business development. There are three main primary sector where an enterprise may be classified; production, agriculture and services. Each of these sectors has its own risk and financing needs that are specific to that sector.

2.1.3 Multiple Taxes and Plough Back Profits

Multiple taxations in relation to a company or individual is a situation where the same profit or income respectively which is liable for tax in Cameroon has been subjected to tax by another tax authority in Cameroon or another country outside Cameroon (Osita, 2004). In such situations relief is usually granted to that tax payer for the earlier tax paid or to which he may be liable. Specific arrangements are made with a view to preventing such multiple taxes or to provide relief as is appropriate in the circumstance. In Cameroon there exist two categories of taxes namely; direct and indirect taxes.

Direct Taxes are those levied on income and property of individuals. The payers of direct taxes bears the direct burden (incidence of taxation) since they pay directly to the state. Direct taxes usually fall on incomes taxes, project taxes, poll taxes and capital taxes. As proposed by lawal (1982).

Also, direct taxes are levied on the income and wealth of individuals and on the profit of companies. The burden of these taxes is borne by the person or the company responsible for paying the taxes. Examples of direct taxes are;

• **Income tax**: As seen below is the largest source of revenue. A certain amount of a person's income will be tax free. The rest of the amount is known as taxable income. It is taxed at higher rates as income increases.

• **Corporation tax**: This is the tax on the profit of all companies resident in Cameroon whether the profits are earned at home or abroad. This tax is charge after allowance for such things as interest on loans and depreciation of capital.

• **Capital gains tax**: This particular tax is levied on the increase in the value of certain assets for examples shares between the time of their purchase and the time of their sale .There are important exceptions for such things as personal private residence, private motor cars, winnings from gambling's and capital gains on government securities.

• **Inheritance tax**: This tax applies to transfers of wealth made on death above a certain amount. It is a proportional tax. Other direct taxes are; Pull tax, Stamp duty, Rate, 'Patent'.

B) Indirect taxes: are usually taxes on commodities or services such as duties on beer, cement, petrol, purchase tax on furniture. The incidence of taxation does not fall directly on the payers of indirect taxes. The wholesaler, manufacturer or the retailer first pays indirect taxes and later on passes them on to the consumers of commodities in form of high selling prices. When somebody buys an article on which indirect tax has been levied, he does not know the proportion of what he spend on the article as tax. Typical examples of indirect taxes are.

1. Value added tax (VAT). This is a general sales tax which applies to a wide range of goods and services. The standard rate of VAT in the Cameroon is currently 19.25%. Firms add VAT to the value of their outputs, but they deduct from this figure the amount of VAT already paid on their input. So they pay VAT only on the value added by their particular activities. Certain goods and services are given special treatment; they are either exempted or zero rated. When goods are exempt, the firm does not charge its customers any tax, but he cannot claim back any VAT, already paid on its inputs. Exemption from, applies to land (including rent), insurance, Postage, bathing and gaming, finance, education, health services, burial and cremation. Zero-rating means complete relief from VAT. A firm does not charge VAT on the goods it sells and it can reclaim any VAT which it has paid on its input. Zero-rating applies to exports, food (except meals out) children's clothing's, foot wear, books, newspapers, construction passengers transport, drugs, medicine on prescription and certain supplies to charities. Since VAT is not levied on export (i.e. exporters can reclaim any VAT already paid on the goods). It should provide some incentive to exporters.

2. Excise Duties. These are specific taxes levied mainly on volume. Most of the revenue from these duties comes from three sources which are tobacco, alcoholic drinks and hydrocarbon oil.

3. Import duties. Also known as Tariffs are taxes levied on goods which are coming in to a country. In West Africa import duties form a substantial part of government revenue. This is due to a number of factors. At this stage of their development West African countries import a variety of commodities upon which import duties are levied.

4. Purchase tax. This is imposed on a range of selected consumer durables such as cars, cameras, radiograms and television sets.

5. Export duties. These are taxes levied on goods which are exported in to other countries. Such taxes are levied on cocoa, palm oil, groundnuts, hides and skin, cotton to mention a few

The Nature of Taxation

The system of taxation adopted in a country may be progressive, regressive or proportional. In many countries, all the three systems are adopted to ensure that all the people are taxed.

The Progressive Tax System: A tax is progressive when it takes a greater percentage of income or wealth from the higher income or wealthier groups. As taxable income increases, it becomes subject to higher rates of taxation.

The Proportional Tax System: This tax system imposes the same percentage of taxation on everyone, regardless of income. The amount of the tax to be paid is obtained by applying a fixed rate of tax on the assessment base of the tax. The tax rate remains constant whatever the amount of the assessment base. Though favoured by the economist, Adam Smith, a proportional system of taxation is nowadays regarded as being less equitable than a progressive system.

Regressive tax system: Taxes are regressive when they take a greater percentage of income or wealth from the poor. Flat rate taxes, such as the excise duties on tobacco, beer and petrol, act regressively since the amount of tax included in the prices of these goods represent a greater percentage of the incomes of the poorer groups.

Tax Rate: This is often defined in terms of the marginal and the average tax rates.

• Marginal Tax Rate (MTR): It refers to that proportion of income that is absorbed by taxation as income increase on charges. In effect, it measures that proportion of the last franc that is paid as tax when income increases (changes).

It is given as =

• Average Tax Rate (ATR): This is that proportion of total income that is taken up by taxes. In effect, it measures the total tax paid expressed as a proportion of total income at all levels of income.

It is given as =

It should be noted that, it is the average tax rate that indicates whether a particular tax system is progressive, proportional or regressive.

An income tax is therefore:

Progressive when MTR > ATR

Regressive when MTR < ATR

Proportional when MRT = ATR

Incidence of taxation in Cameroon

A review Studies on the effects of taxation in Cameroon are rather rare. To our knowledge, the only empirical study on this topic is that of Emini (2000). Using a computable general equilibrium mode, Emini evaluates the impact of an imperfect value-added tax with reference to that applied in Cameroon. This evaluation is based made on the allocation of labour between sectors of activity, on public finance, and household welfare. Simulation results show how an imperfect VAT can generate effects opposite to those of a perfect one, especially with regard to resource allocation. This model also helps to verify certain theoretical assumptions such as the fact that substituting a perfect VAT for cascading taxes, for example, induces a relatively greater demand for productive factors in activities whose tax burden was heavier in the cascading system. The simulations also show that despite its imperfect nature, VAT implemented in Cameroon is economically more desirable than the ex-ante tax status quo because it generates a substantial increase in tax revenue, improves the budget deficit, and stimulates investment. But these positive effects are diminished by the subsequent deterioration of household welfare. Nevertheless, this deterioration may only be transitory to the extent that the increase in investment may give rise with a time lag to an improvement in household welfare. In sum, the tax system will be more favourable to the economy as a whole as long as VAT becomes more neutral.

The Economic effects of Taxation.

• **On the Distribution of Income:** Progressive taxes make income more evenly distributed, whereas proportional taxes leave the distribution of income unchanged. Income tax, a direct tax is a progressive tax and it’s imposition reduces the inequality of incomes. In contrast most indirect taxes are regressive. The goods which are subject to heavy indirect taxation are widely consumed and have inelastic demand. Since the lower income groups tend to spend a greater proportion of their income on some of these commodities the effect of the taxes can be regressive. For example, there is evidence that the tax on tobacco is regressive. It takes a higher proportion of the income of the poor than of the rich. It appears to be getting more regressive because tobacco consumption has fallen among the higher income groups. On the other hand, the tax on some forms of alcohol seems to act progressively. The higher income groups consume relatively more wines and spirits which are subject to higher rates of tax.

• **On consumption:** Direct and indirect taxes will affect both the total amount and the pattern of consumer spending. Direct taxes reduce disposable income, but the effect on consumption will depend upon the propensity to consume and the level of savings. If there is very little there is very little saving, direct taxes will not reduce consumption. If, however, tax payers are enjoying a relatively high standard of living which enables them to save, an increase in indirect taxes may have relatively little effect on consumption. People may resist any cost in their current living standards by reducing saving rather than spending. Indirect taxes will also reduce the total demand for goods and services. The higher price will reduce people’s purchasing power. However again the effect will depend on the propensity to consume and the existing levels of saving.

• **On Incentives:** Direct taxes particularly income tax and corporation tax are criticized by some for reducing the incentives to work, save, invest and take risk.

It is argued that high and progressive rates of income tax will discourage some people from entering or staying in the labour force, some from working extra hours and some from taking promotion and extra responsibility and some from declaring the income they earn. This is the thinking behind the laffer curve.

The double taxation which takes place on some saving. This occurs because the income from which savings are made is taxed and then the saving are they taxed. However, some forms of savings are tax free and there is a number of influences on savings.

High corporation tax will similarly reduce the ability and incentive to invest. This is likely to be particularly true of risky projects.

• **On the general price level:** Direct taxes fall on income and do not have direct influence on the general price level. However they could reduce inflationary pressure by lowering aggregate demand. Conversely, they could result in cost-push inflation by stimulating workers to press for wage rises to maintain their real incomes.

A rise in indirect taxes will raise the general price level as measured by RP1, RP IX and HICP but not RP1Y. Whether this results in inflation (i.e. a sustained rise in the price level) will depend on how people react to the initial rise in price.

e) On the realization of resources: When certain activities are heavily taxed, people tend to divert resources from such activities and invest on those activities with low taxes.

f)On the Standard of Living: When taxes are high, there is a danger that they can cause hardship to those with low income and depress the standard of living of workers who are not or near the minimum necessary for full efficiency.

The Principles or Canons of Taxation.

Canons of taxation describe the basic principles to be followed by government and local authorities in formulating their taxation policies so as to optimize their tax system. This is based on the ideal of harvesting as much as possible taxes, while minimizing the effects of taxes on individuals and activities.

According to the economist, Adam Smith, governments have to observe four principles when formulation taxation policies.

Table 2.1 Principles of Taxation

Canons	**Description**
Equity	The argument here is that the tax should be fair. Vertical equity occurs when the tax is based on people's ability to pay. Smith thought that proportional taxes would satisfy this criterion. However, most now agree that progressive taxes are the most equuitable type of tax. The argument is based on the idea that the principle of diminishing utility applies to income. Economists now also discuss horizontal equity. This is achieved when people in the same financial circumstances pay the same amount of tax.
Certainty	Tax payers should know how much tax they have to pay, when it must be paid and how much must be paid. They should be able to assess their tax ability from information provided and should not be subject to tax

	demands made in an arbitrary fashion.
Convenience	Taxes should be convenient for tax payers to pay and for the government to collect. Taxes should be easy to pay and the timing of their payment should also be appropriate.
Economy	The cost of tax collection and administration should be small in relation to the total revenue for both the government and tax payers.

Source: Author's processing data

From class lectures the following where obtain; flexibility, efficiency, unharmful to effort, acceptable, adjustible and automatic stabilizer.

Table 2.2 Canons of Taxation

Flexibility	A tax should be capable of being changed to meet changing economic conditions and changing government objectives. The revenue from some taxes, e.g. income tax and VAT, changes automatically with changes in national income. The rate of some taxes can also be adjusted relatively quickly and easily.
Efficiency	A tax should not reduce economic efficiency and should ideally increase it. A pigovivian tax is one which aim to increase efficiency by eliminating a market failure and ensuring that price reflects marginal social cost.
Unharmful to Effort	should have little effect on the ability to work and to save.
Acceptable	A good tax system should be one that will be accepted by the people paying it. Such a tax system will eliminate riots and other civil disturbances.

Adjustable	A tax system should be sufficiently elastic so that increases or decreases in the tax should show automatically on the receipts.
Automatic stabilizers	It should be one that the government can use to influence the entire economy.

Source: Authors processing of data.

Taxation and decentralization

In Cameroon, local taxation remains embryonic, and tax resources are still basically the exclusive responsibility of central government, both in terms of collection and allocation of tax resources. One can note that the weakness of local taxation in Cameroon, as elsewhere in Africa, is a consequence of the deficiencies in the process of decentralization in general, and more particularly in the process of financial decentralization. It should be pointed out that the greater share of tax resources in the country, amounting to 10 per cent of certain state taxes, is redistributed to local governments. More specifically, the municipalities' own taxation involves the levying of a global tax (Impôtliberatoire) which replaces for certain taxpayers the business license, personal income tax, and turnover tax. Otherwise local government taxes comprise the business license fee, license tax, livestock tax, firearm tax and taxes on the certification of vehicles and other machines, direct municipal taxes, and royalties levied on forestry exploitation. Taxes shared with the state involve only those disbursed to local governments. Such is the case with the Special Municipal Surtaxes (SMSs), which are annexed to certain national taxes, and collected at the same time as the principal before being disbursed to the municipalities. But currently there are reforms in the making with the aim to pool all special municipal surtaxes together for redistribution to municipalities based on demographic criteria.

The SMSs are presently appended on taxes such as personal income tax (10 per cent), corporation tax (10 per cent), turnover tax (10 per cent), land or property tax (25 per cent), the tax on gaming (10 per cent), the tax paid by traders and professionals (10 per cent) and the business license (25 per cent). These SMSs constitute the most important source of revenue for the Cameroon municipalities (on average 20 per cent of budgetary receipts).

With regard to the particular case of land taxation, it should be noted that property taxes in the country constitute the main local taxes. Also, local taxation follows the French model.1Land taxes are levied on built-up and inbuilt property; 20 per cent of these taxes are allocated to local governments and 80 per cent to the central government. The tax base constitutes land areas both with and without buildings. In general, local taxation is an essential source of revenue for the country's local governments. However, reforms are necessary for the optimization of tax yields.

2.2 Empirical Literature

The empirical literature will be made up of studies related to the perception of taxes by micro enterprise operators, stock performance of micro enterprises, multiple taxation and plough back profits.

2.2.1 Tax Perception by Micro enterprises

According to Cuccia, (1994) taxpayer compliance has been primarily viewed from three theoretical perspectives: the general deterrence theory, economic deterrence models and fiscal psychology. Deterrence theory is concerned with the effects of sanction threats on criminal and undesirable behaviour, however this had problems of identifying sanctions, determining how much effect and specifying the mechanism by which the effect occurs. On the other hand, the economic deterrence model smoothened out the problems of deterrence theory for instance by use of utilitarian approach to measure sanction threats. From the personal consequence perspective, income tax compliance is viewed as an income maximizing decision balancing the net gain of underreporting income or over claiming against the added risk of detection and penalization (McGraw and Scholz 1991).

According to Plumley (1996) voluntary tax compliance is explained by dimensions like timely filing of any required return, accurate reporting of income and tax liability and timely payment of all tax obligations. However according to Terkper, (2003) many small and medium taxpayers do not register voluntarily, while those who do register often fail to keep adequate records, file tax returns, and settle their tax liabilities promptly. Hence in the micro enterprise context, opportunities for evasion are high and resources are often scarce for field auditing. Even when high investments are made in auditing, uncovering "hidden cash" is never going to be an easy task without an adequate audit trail (Ahmed & Braithwaite 2005).

In developing countries the income tax compliance has been constrained by the significant number of changes to the tax laws, that are now so complex and only a handful of tax experts can understand them. This creates additional problems for compliance by taxpayers who do not have access to sophisticated tax specialists (Oberholzer, 2008). Moreover enforcement of these laws cannot reduce non-compliance among taxpayers because

Some tax measures put MSMEs Taxpayers under severe liquidity pressure, forcing many to fold in the informal sector (Terkper 2003).

Schwellnus and Arnold (2008) investigate the impact of corporation taxes on growth at the firm level. They indicate that corporate taxes reduce productivity and investment at the firm level, especially the case for firms who are catching up to the technological frontier. The effect of taxes also plays a role in reducing investment for firms who can embody technological progress to increase productivity. (RoinnAirgeadais 2014)

In domestic research, Conefrey & Fitzgerald (2011), estimate the impact of corporation tax rates on an economy in the 1990s and early 2000s. Their analysis focuses on the reduction in the rate of corporation tax in the business and financial services sector from 40% in 1994 to 12.5% by 2003. This policy change provides a useful natural experiment allowing the authors to derive an estimate of the broader macro-economic impact of this tax change using the Hermes macroeconomic model of the Irish economy. Using this model the policy change was shown to have increased the level of GNP by 3.7% in 2005 over what it would otherwise have been. (RoinnAirgeadais 2014)

Desai, Foley, and Hines (2007) use aggregate data on multinationals about 50 countries in 1989-2004. The state that the overall corporate tax burden is shared between workers and capital owners, they find that labour bears 45% to 75% of the tax burden. Forcing the shares of the tax borne by capital owners and workers to sum up to unity, however, neither allows for excess burden of taxation nor for consumers to bear part of the tax through higher prices. This might result in an under or overestimation of the corporate tax burden borne by labour.

Fuest, Peichl, and Siegloch (2012) exploit variation in statutory local tax rates across German municipalities between 1998 and 2008 to identify tax incidence. Municipalities set collection rates locally and as a result cause the statutory local tax rates to vary, Fuest et al. (2009) states that an increase in the marginal corporate tax rate by 1% reduces monthly wages by 0.18%, on average. In a similar approach, Bauer, Kasten, and Siemers (2012) find an elasticity estimate of daily wages with respect to the marginal business tax rate of -0.28 and -0.46.

The study by Arulampalam et al. (2012) exploits firm and time-specific variation in effective corporate tax rates to identify direct incidence. Suggest that about half of a tax increase is passed on to wages in the long run from their estimates form the direct effect of taxation on labour. This estimate is for the wage effect only; adjustments in employment in response to changes in the wage rate are neglected.

Gravelle and Smetters 2006; Randolph 2006; Harberger 1995, 2006 analyse the incidence of a corporate tax in an open economy. These models show that the share of the corporate tax burden falling on labour depends on factor mobility, factor substitution, relative capital intensities of the sectors, international product substitution, and the size of the country introducing the tax. Labour in these studies is found to bear virtually none or more than 100% of the corporate tax.

Income Tax Proficiencies

Income tax proficiencies as a centre of attention is rising hastily in both the private and public sectors and it is imperative to appreciate the commendable performance of many organizations of varying sizes as a result (Kock, Gill and Ellstrom 2008). Conversely, there are perceptible confines; studies have often been predisposed towards large enterprises and public organization (Hill, 2004); little (if any) proficiency literature in the area of taxation. But from a limited number of studies on proficiencies in SMEs, the concentration has mainly been on entrepreneurial, managerial and technological proficiencies. Focusing on definition, the meaning of proficiency changes according to the context of its use and requirement of the user, (Hoffmann, 1999). Acknowledging this Boyatzis (2008) defined proficiency as a set of related but different sets of behavior organized around an underlying construct, called the “intent” and appropriate in various situations or times”.

According to Tiner (2002) proficiencies explicated as one’s ability to show they have the essential knowledge, skills, and application of these elements to their work on the requisite standards effectively and consistently.

Armstrong and Baron, (1995) intimated that the notion of proficiency refers to applied knowledge and skills, performance delivery, and the behaviors required to get work done to a high standard. Therefore, even those SMEs with comparable small amount of resources and proficiencies can offer strong opportunities for balanced enterprise development in the competitive environment (Kock, Gill and Ellstrom, 2008).

Conversely, Sivamoorthy (2003) noted that taxpayers are generally troubled about their indecision of tax laws and interpretations of the rulings; they are normally at a loss to comply with tax requirements (Nakha, 2002). McKerchar (1995) found in Australia, that small business taxpayers have inadequate knowledge about tax laws to meet their obligations and could not efficiently minimize their tax liabilities.

2.2.2 Stock Performance of Micro enterprises

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995).

The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labor and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

MFIs, considering the growth of Micro and Small enterprises developed large-scale operations by offering a few highly standardized products with few advantages like Streamlined loan administration, Simplified decision-making for field staffs, Reduced information requirements from clients, Low operational costs, Simplified repayment obligations. But this standardization also had its own disadvantages. So MFIs paid closer attention to product flexibility. Individual need-based loans are more suitable as they can be designed to cater to the specific requirements of the clients.

The Department of Finance's review of the corporate tax system, the ESRI (2014) examine the effects of country characteristics and corporation tax on firm performance using data on newly established multinational subsidiaries across 26 European countries from 2005 to 2012. The authors find a consistently negative effect of tax on the performance of firms. Their benchmark model indicates that tax has a marginal effect of 1.15 percent. This indicates that a one percent increase in the effective average tax rate would lead to a reduction in the performance of 1.15 percent controlling for all other factors.

Lawless (2009) looks beyond the interactions of the corporate tax rate and tax base on micro enterprisees estimating the effect of the complexity of the tax system on micro enterprisees. The numbers of payments and time to comply with tax obligations are found to have significant negative effects on the presence of micro enterprisees. In terms of its economic significance, the author estimates that a 10% reduction in tax complexity is approximately comparable to a one percentage point reduction in the effective corporate tax rate.

Various authors have postulated theories on business growth. The oldest and the most used theory according to Elhiraika and Nkurunziza (2006) is Gibrat's law of proportionate effect LPE; (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. By implication it would mean that large firms are preferable in context of private sector development given that they create more employment then small firms. Conversely, Jovanovich (1982) states in his learning model that younger firms learn over time, which helps them improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones. Moreover, give that younger firms are usually smaller than older ones (businesses) for the reasons discuss earlier; Jovanovich deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other longer firm in the some sector as time goes by.

Church and Lewis (1983) as cited in Olawale&Garire (2010) on the other hand claim that as a new small firm start and develops, it moves through some growth stages, such with its own distractive characteristics. He also identified the stages of growth as; existence, survival, success, take off and resource maturity. In each stage of development as different set of factors is critical to the firm's survival and success the Churchill Lewis model gives an insight into the dynamics of SMEs growth including the distinguishing characteristics, problems and requirement of growing SMEs and explains business growth process amongst SMEs, The precise moment in time in which a start-up venture becomes a new business has not yet been theoretically determined. However the ideal of business survival could be equated with a firm that has fully completed the transaction to stage - two organisations in the five stages of micro enterprise growth.

2.2.3 Multiple Taxes and Plough Back Profits

Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost. As stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labor income taxes and social contributions (International Tax Dialogue 2007).

The recent CIPE study (2010) estimates that all tiers of tax cost firms on average about 40 percent of production costs. The World Bank (2008) High taxation levels and compliance costs have significant implications for businesses in Cameroon, reducing incentives to expand production, leading to higher prices, and distorting factor incomes. As firms take investment decisions based on long-run returns to capital, the costs of multiple-taxation reduce the size of the capital stock and aggregate output in the economy and discourage investment in productivity-enhancing measures. This ultimately leads to lower returns to human capital and lower job creation. Addressing the issue of multiple taxation and nuisance taxes would increase expected returns to entrepreneurs and would encourage capital accumulation, investment, and job creation.

Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses (Weichenrieder, 2007), Among the factors militating against SME tax compliance with are: high tax rates, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Others According to Yaobin, (2007) are double taxation, no professional tax consultancy, weak tax planning, high taxation cost.

Singh (2003) contends that knowledge is one of the significant predictors of income tax compliance, influences taxpayers" ability to understand laws and regulations and comply appropriately. As a result this has triggered the move in developing countries like Uganda to emphasize the need to enhance awareness among small and medium taxpayers (Boyatzis, 2008) in order to encourage complianc

CHAPTER THREE

3.0 METHODOLOGY OF THE STUDY

3.1 Model Specification

In the model specification, the researcher presents the structure of the relationship that is to be studied by the researcher. The following structure represents the relationship between micro enterprise owner's taxation and perception, performance and plough back profits.

Micro enterprise Owners

Perception

Taxes

Performance

Plough back profits

-Plough back profits

-capital employed

-Tax and Economic activities.

-Average amount paid as tax

-Stock levels held in the business

-Profitability

-Average daily sales

- Rate of stock replenishment.

-Tax obligation

-Tax assessment

-Tax awareness

-The nature of tax

- Tax compliance

3.2 Description of Variables in the Model

The study is a qualitative study which involves the collection of views, perceptions or opinions of respondents regarding the effects of taxes on the performance of micro enterprises. The information on the variables will be obtained using the survey method which involves questionnaire and personal interview with the respondents. This choice was made due to the fact that the survey method is effective when it comes to getting opinions, attitudes and descriptions as well as getting cause and effect relationship.

3.3 Study design

3.3.1 Sample Size and Sampling Technique

The sample of the study was gotten using the stratified sample technique. Stratification was based on the number of quarters and the types of businesses carried out by the microenterprises in Njinikom subdivision. Samples were chosen according to the number of businesses per quarter. In total a sample of 50 questionnaires were issued out and all were returned. The findings of the research were based on the 50 questionnaires.

3.3.2 Population of the study

The population of the study focused on micro enterprise owners. It was limited to the Njinikom Sub-division which is a rural environment or area with the main activities been peasant plantation and subsistence agriculture, Njinikom Subdivision has a population of 31.000 people and a surface land area of 75.000 Square Kilometers. It is 60 kilometers from Bamenda. The people are also involved in small enterprising and petty business.

3.4 Analytical Approach

The analytical approach for this study will rely more on quantitative and qualitative data analysis.

3.5 Validation of the Results

Validity was ensured through the presentation of the questionnaires to the respondent by the researcher and making sure that they understood the questions before answering. Data collected was analyzed descriptively and presented in form of frequency and percentage tables.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF DATA

This chapter presents the findings on the effects of taxes on performance of micro enterprises in Njinikom sub division. The findings were from both primary and secondary sources. The findings are presented in the list of the three objectives that the study was set to achieve, done with the use of frequency tables and narrative texts.

- To examine the perception of the taxation by Micro enterprise owners in Njinikom sub division.
- To assess the performance of Micro enterprises in Njinikom sub division.
- To investigate the effects of taxes on the plough back profits of Micro enterprises in Njinikom sub division.

4.1 DESCRIPTION OF RESPONDENTS

This is the identification of person who contributed to the request for information during the research work. The researcher came across people who had useful information which has been of great help in examining "The effects of taxes on the performance of micro enterprises". Thus it is worth identifying them since they stand as a point of judging, evaluating, criticising and concluding on the impact of taxes on the performance of SMEs.

4.1.1 Classification of Respondents by Gender

Table 4.1: Classification of Respondents by Gender

Gender	Number of respondents	% of Respondents
Males	27	54
Females	23	46
Total	**50**	**100%**

Source: Field survey 2014

Table 4.1 reveals that out of the 50 respondents 27 (54%) comprised of males while females were 23 giving a percentage of 46%. These respondents were operators of micro enterprises in Njinikom sub division.

4.1.2 Age of the respondents

Table 4.2: Identification by age group

Age	Number of respondents	% of Respondents
45-60	31	62
25-35	19	38
15-21	-	-
Total	**50**	**100%**

Source: Field survey 2014

Table 4.2 above identifies the respondents according to their age groups as shown in table 4.2, the age group between 45 and 60 had the majority number of respondents making the total of 31 respondent and 62% of the total respondents, the next age group with the highest respondents is the age group 25-35 constituting a total of 19 making 38% while no respondent was found in the age group of 15-21 (0%).

4.1.3 Response on the level of education of the respondents.

Table 4.3: Education level of the Respondents

Educational level	Frequency	Percentage
non-formal	21	42
First School leaving certificate	12	24
secondary/high school	11	22
University	6	12
Total	50	100%

Source; Field survey 2014

From table4.3 above 42% had not attained any level of formal education, 24% had had First School Leaving Certificate, 22% had attended secondary/high school, and 12% had acquired degrees. This means that the majority of respondents were literate who could understand and internalize the contents of the questionnaires distributed to them.

4.1.4 Findings on the marital status of the respondents

Table 4.4: Shows marital status of the respondents

Marital status	Frequency	Percentage
Single	4	8

Separated	11	22
Married	26	56
Widow	9	18
Total	50	100%

Source: **Field survey 2014**

table 4.4 above shows the following analysis as regard the marital status of the 50 respondents, 4 respondents representing 8% of the sample were single, 11 (22%) were separated, 26 (56%) were married while 9 (18%) were widows/widowers. This implies that most of the micro enterprises in Njinikom sub division were operated by married people, widows/widowers and separated. This finding is related to the pressing domestic responsibilities that compel people to find out avenues of fending for their families including opening up micro businesses.

4.2 Findings on the stock performance of the business

4.2.1 Response on stock levels held in the business

Here respondents were asked about stock levels held in their businesses.

Table 4.5: Shows stock levels held in the business.

Response	Frequency	Percentage
Excessive	8	16
Just enough	12	24
Average	20	40
Inadequate	10	20
Total	50	100%

Source: **Field survey 2014**

Table 4.5 above reveals that 8 respondents representing 16% kept excessive stock in their business, 12 (24%) kept stock which is just enough, 20 (40%) indicated they kept average stock while 10 (20 %) kept inadequate stock and that this is due to shut down in production.

4.2.2 Stock levels and profitability

Respondents were asked if stock levels affect profitability and the findings are indicated below.

Table 4.6: Showing whether stock level have an effect on the level of profitability.

Response	Frequency	Percentage
Yes	41	82
No	9	18
Total	50	100%

Source: **Field survey 2014**

From table 4.6 above 41(82%) out of the sample of the respondents indicated that stock level has an effect on the profitability of the business and only 9(18%) indicated that stock level have an effect on profitability.

4.2.3 Average daily sales

Table 4.7: Showing average daily sales

Response	Frequency	Percentage
Less than 10,000 Frs.	12	24
10,000 – 29,000 Frs.	23	46
50,000 – 69,000 Frs.	8	16
70,000 – 89,000 Frs.	4	8
90,000 and above	3	6
Total	50	100%

Source: **Field survey 2014**

According to table 4.7, of all the small business owners sampled, 12(24%) made sales less than 10,000frs, 23(46%) made sales between 10,000 – 29,000frs, 4(8%) made sales between 70,000–89,000frs and 3(6%) businesses made sales over 90,000frs. This means that most of the small businesses in Njinikom sub division made sales of over 30,000 FRS. Thus, most of the businesses in Njinikom sub division have an annual turnover of less than 50 thousand francs.

4.2.3 Rate of Stock Replenishment

Table 4.8, Rates of Replenishment

Respondents	Frequency	Percentage
Daily	4	8

Weekly	12	24
Monthly	34	68
Total	50	100%

Source; field survey 2014

The findings above indicates that 4 persons make purchases every day making a percentage of 8%, 12 replenish weekly making a percentage of 24% while 34 replenish monthly making a percentage of 68%. This means there is a low rate of replenishment because 34 micro enterprises in Njinikom replenish their stocks monthly, resulting in low sales.

4.3 The perception of the tax rate by micro enterprise holders.

Several studies (CTI, 2000 and World Bank, 2004) found that the business environments in developing countries are characterized by high tax rates and cumbersome tax administrative procedures. Therefore, the main purpose of this question was to know the respondents' perception towards tax rates and tax concept.

4.3.1 Average amount of taxes paid

Respondents were asked if they were aware of taxes they paid and which taxes they paid. The table below illustrates the results.

Table 4.9: Showing average taxes paid annually

Response	Frequency	Percentage
Yes	43	86
No	7	14
neutral	0	0
Total	60	100%

Source: Field survey 2014

According to table 4.10, 43(86%) respondents representing the total of 50 respondents agreed that they were aware of the taxes they ought to pay while 14% indicated that they were not aware about all the taxes to be paid. Most business entrepreneurs in Njinikom subdivision were therefore aware of the taxes they were supposed to pay.

4.3.2 Nature of tax system in Cameroon

Here the study sought to find out the respondents perception of how favourable the tax system in Cameroon.

Table 4.10: The Nature of the Cameroon Tax System.

Response	Frequency	Percentage
Strongly agree	7	14
Agree	12	24
Uncertain	7	14
Disagree	17	35
Strongly disagree	7	14
Total	50	100%

Source: **Field survey 2014**

Table 4.10 presents the perception of respondents with regard to the adequacy and accuracy of the Cameroon tax system. It shows that 7(14%) out of the 50 respondents strongly disagree that Cameroon tax system is favourable, 12(24%) agree, 7(14%) of the respondents are uncertain and 17(35%) disagree while 7(14%) strongly disagree. Therefore from the above responds majority 17(35%) of the respondents disagree, so they perceive the tax system as unfavourable.

4.3.3 Tax base perception

Table 4.11: Turnover and capital of a business as a base for taxation.

Responses	Frequency of respondent	% of Respondents
Yes	20	40
No	17	34
Neutral	13	26
Total	**50**	**100%**

Source: Field survey 2014

Table 4.11 presents the analyses of the question "should turnover rather than the capital of a business be the base of taxation?" 20(40%) of the total of 50 respondents said yes, 17(34%) said no and 13(26%) were neutral.

4.3.4 Tax assessment

Respondents were asked if they have ever been assessed for tax purposes, the table below illustrates their responses.

Table 4.12: Showing if the businesses have ever been assessed for tax purposes.

Response	Frequency	Percentage
Strongly agree	17	34
Agree	12	24
Uncertain	4	8
Disagree	8	16
Strongly disagree	9	18
Total	50	100%

Source: Field survey 2014

Table 4.13 shows that 17(34%) of the business owners strongly agreed that their businesses have ever been assessed for tax purposes, 12(24%) agreed, 4(8%) uncertain, 8(16%) disagree, 9(18%) strongly disagree. In all, majority 58% agreed that their businesses had been assessed for purposes of paying taxes. This implies that Boyo tax department carries out assessments of the micro enterprises before levying taxes.

4.3.4 Tax Knowledge

Here respondents were asked if they are aware of the various taxes they are to pay or suppose to pay.

Table4.13; Tax Knowledge

Respondents	Frequency	Percentage
Yes	5	10
No	31	62
Neutral	14	24
Total	**50**	**100%**

Source; field survey 2014

From table 4.12 above only 5 owners knew or had a good knowledge of the taxes they are supposed to pay making a percentage of 10%, and 31 respondents do not know the various taxes they are supposed to pay making a percentage of 31(62%). This implied that operators of micro enterprises in Njinikom sub division had very little or no knowledge about the type of taxes they are supposed to pay.

4.4 The Effects of Multiple Taxes on Plough Back Profits

This section presents the effects of taxes on the performance of micro enterprises in Njinikom sub division.

4.4.1 Taxation and economic activity

The question here is to find out if taxation retards economic activities.

Table 4.14: **Taxation and Economic Activities**

Responses	Frequency of respondent	% of Respondents
Yes	23	46
No	32	64
Neutral	0	0
Total	**50**	**100%**

Source; Field survey 2014

From table 4.13 above, 23(46%) respondents were of the opinion that the imposition of taxes on MSMEs does not retard economic activities, 32 were against taxation and expressed that it retarded economic activities making 64%.

4.2.4 Capital employed

Table 4.15: Showing Capital Employed

Response	Frequency	Percentage
Less than 0.5million francs	16	32
0.5m-0.9m	12	24
1m-4.9m	7	14
5m-9m	8	16
Over 10m	7	14
Total	50	100%

Source: **Field survey 2014**

According to table 4.8, 32% employed capital of less than 0.5m frs, 24% employed capital of between 0.5m-0.9m frs, 14% employed capital of between 1m-4.9m frs, 16% employed capital of 5-9mfrs while 14% employed capital of over 10 Million. This implies that most businesses in Boyo have capital contribution of less than 32%.

4.2.5 Plough back profits

Here respondents were asked if after paying their expenses and tax they are still left with enough money to plough back into the business

Table 4.16 Plough Back Profits

Response	Frequency	Percentage
Yes	13	26
No	28	56
Neutral	9	18
Total	**50**	**100%**

Source; field survey 2014

From table 4.15 above 13(26%) respondents acknowledged that having paid their taxes and other expenses, they have surplus which is plough back into their businesses, 28(56%) were of the contrary view, while 9 were neutral making a percentage of 18%. From the results it shows that micro enterprises are left with little or no profits to plough back into the business.

4.2.6 Average amount of tax

The researcher sought to find out from the respondents how much money they paid annually. The table below illustrates their responses.

Table 4.17: Showing average amount of tax paid.

Response	Frequency	Percentage
0-100,000 Frs.	38	76
100,000 – 190,000frs	7	14
200,000 – 290,000frs	6	12
300,000 – 390,000frs	0	0
400,000 – 500,000frs	0	0
Total	**50**	**100%**

Source: Field survey 2014

According to table 4.16, among the businesses sampled, no business is exempted from paying taxes, 38(76%) pay average tax of 100,000frs, 7(14%) pay on average between 100,000 – 190,000frs while 6(12%) of the businesses pay between 200,000-290,000frs. By implication, based on the working capital that micro enterprises employ and the kind of merchandize they deal in, the above results show that micro enterprises in Njinikom sub division pay more money in terms of levy from taxes.

4.5 Implication of the Study

Cameroon tax department should increase taxpayers' assistance and educational programs. This includes internet services and electronic filing of tax returns where technology and legislation permit. Electronic payment of taxes through the banking system should also be introduced and utilized. When taxpayers are educated about various tax matters, they know their rights and there will be less/ no tax ambiguity and tax evasion.

MSMEs are advised to maintain primary books of accounts and payroll summaries since they will help them to know the actual amount collected as revenue and the actual expenditure of their businesses. Thus, having a significant effect as this will help to reduce the amount paid as tax since the tax imposed on them will be reflecting the true figure of business' turnover.

4.6 Limitations of Study

The researcher in carrying out the research work was limited in the following ways,

1. The research was limited by time period. The researcher had only two months to carry out the research. Due to this limit the study could not cover all the components of tax affecting the performance of micro enterprises, and posed difficulties to compile all the necessary information about the effects of taxes on the performance of micro enterprises due to time limit.
2. Most operators of micro enterprises were uneducated and this made it difficult to get valid information from them about the effects of taxes on the performance of their businesses. Worse still the business owners were busy attending to their customers and rarely spared time for the researcher.
3. Financing the research study was too costly in terms of transport costs, feeding and processing of the proposal and research report.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents a summary of findings, conclusions and recommendations. This brings together the result of the researcher's work on the effects of taxation on the performance of micro enterprises. It shows the effectiveness of the questions and their validity. The purpose of tax levied by government is to; to encourage economic activities within the country, to reduce unequal distribution of wealth between citizens, to reallocate resources within the country.

Micro enterprises in Njinikom sub division have a negative impression about the taxes. This is because little education is being given to them about the various taxes and also they have little information about the tax obligations.

Taxes also affect the growth rate and performance of a business. That is, when numerous taxes are being imposed on the business, business owners are left with little or no profits to plough back into the businesses. And when tax rates are high, prices turn to increase and consumers go for substitutes and as a result the businesses experience slow sales.

Taxes also hinders the growth of micro enterprises in that, paying taxes is among the out flow of cash from the business which reduces the business purchasing power and as a result reduces stock levels which in turn reduces the profits in the business.

Taxes also have an effect on the consumption pattern of a country. This is because when taxes are high, prices of products increases thus reducing consumption. When taxes are low, both the consumers and businesses have enough money. Thus, increasing savings.

5.2 Conclusion

Having gone through this topic it will be reasonable to conclude that though taxation is aim at providing favourable economic climate, that is using the fiscal policy as means of managing the economy, economic growth and taxation are not alternatives but complementary. With each mutually supporting the other .For example when taxes are too high and numerous, it discourages economic activities. This account for the low rate of industrialisation in Cameroon in general and Njinikom sub division in particular.

Also, high taxes render the citizens poor and reduce their disposable income. Thus reducing their demand power and consumption thereby reducing sales and industrial activities. (What is the need to produce when nobody will buy?)

It can be concluded that taxes are major limitations to the growth and expansion of micro enterprises in Njinikom sub division. This is because very little and sometimes nothing is left after covering expenses and tax to plough back into the business in order to ensure their expansion and growth.

The tax system is unfair. Owing to the fact that operators of micro enterprises have little or no tax education and information regarding their tax obligations

5.1 Recommendations.

Provide adequate information and ensure taxpayer education. Responsibility for this lies with the tax administration, which must help taxpayers to meet their obligations. The tax department needs to ascertain that taxpayers receive adequate information on their obligations, the types of taxes facing them, deadlines for submitting tax returns, and payments to be made. Taxpayers also need to be informed about changes in tax legislation, have tax forms readily available, and have easy access to information.

Improve the services and education provided to taxpayers. This goal implies the development of information programmes (in particular for small taxpayers and new businesses), simplification of tax forms and procedures (by eliminating requests for unnecessary information), training tax agents to develop better taxpayer/tax administration relations, and making available to taxpayers more efficient means for legal recourse.

Cross checking of tax information; the importance and great quantity of data available for processing requires that the management of big enterprises become the primary source for information gathering. However, a more dynamic approach in terms of research must also be developed to diversify sources of information.

The government should moderate the taxes of micro enterprises so that after paying taxes and other expenses, micro enterprises can have some profit to plough back into the business in order to enhance their growth.

5.2 Suggestion for Further Study.

Further research is therefore needed in areas such as;

i) Factors leading to tax evasion among small scale businesses.

ii) The effect of firms' management technique on the performance of MSMEs.

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APPENDIX

Appendix 1: questionnaire used for the study

QUESTIONNAIRE FOR BUSINESS PROPRIETORS

Dear respondent,

I am a student of PAN AFRICAN INSTITUTE FOR WEST AFRICAN DEVELOPMENT (Buea) undertaking a Bachelor's Degree in accounting. Currently am carrying out a research study on impact of taxes on small businesses in Njinikom Sub-Division as part of the requirements for a ward of Bachelor's Degree of accounting of PAN AFRICAN INSTITUTE FOR WEST AFRICAN DEVELOPMENT (Buea). This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given. (Please, tick the appropriate answers where options are given).

Section 1: Description of Respondents

- Sex of respondent. a) Male□ b) Female□
- To which age group do you belong: a) 15-20 □ b)20-25 □ , c) 25- 30 □ , d)30-35, □ e) 35-40 □ , f) 40 and above□
- Marital status: a).Single □ b) Married □ c) Widowed □ d) Separated □
- The highest qualification you have gotten in terms of education?

a) Primary □ b) secondary □ c) High school □ d) University □ e) Others Specify…………………………………………………………….

Section 2: Stock performance of Micro enterprises

- Do you take stock a)Yes b)No□

- How much stock level do you always have in your business? Excessive Just enough Inadequate

- Has the business ever experienced any shortages? a) Yes □ b) No□

- How often do you replenish stock? a) daily□ b) weekly □ c)monthly □

- Do stock levels have an effect on the level of profitability? a) Yes□ b) No□

- What are the average daily sales of the business? a)Less than 10,000□ b) 10,000 – 29,000 □ c)30,000 – 49,000 □ d) 50,000 – 69,000 □ e) 70,000 – 89,000□ 90,000 +□

- How often do you replenish your stock a) daily□ b) weekly□ c) monthly□

Section 3: Perception of tax

- Do you pay your taxes a) Yes b)No

- Are you aware of the taxes you are to pay? a)Yes □ b) No□ c)neutral □

- Is nature of the taxation system in Cameroon favourable? a) Strongly agree□ b) Agree □ c)Uncertain□ d) Disagree □ e) strongly disagree□

- Should the turnover rather than the capital be the base of taxation? a)Yes□ b) No□

- Your business ever been assessed for tax purposes. a)Strongly agree□ b) Agree □ c)Uncertain□ d) Disagree □ e) strongly disagree□

- Do you meet up with your tax obligations? A) yes □ b) no □ c) neutral □

- Do you meet up with your tax obligations a) yes□ b) no□ c) neutral□

Section 4: Multiple Taxes and Plough Back Profits

- After taxes and expenses do you have enough profits to plough back into the business? a)Yes□ b) No□ c)neutral □

- How much capital is employed in the business? a) Less than 0.5m □ b) 0.5m – 0.9m □ c)1m – 4.9m□ d) 5m – 9.9m □ e) Over 10m□

• What is the average amount you pay as tax a)0-100000frs b)100000frs-190000frs c)200000frs-290000frs d) 300000frs-390000frs

• Does taxation retard economic activities? a)Yes b) No c)neutral

• What the average amount you pay as tax? a) 0-100000frs b) 100000frs-190000frs c) 200000frs-290000frs d) 300000frs-390000frs

<u>INTERVIEW QUESTIONS</u>

- How is your tax being determined by the tax administration?...
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Do u think it's fair? ……………………………………………………………………………….

- Do you have any other means of generating capital for your business?

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- What are your reasons for not keeping accounting records?

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- How do you determine your profit or loss?

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