

Memorandum on the Property Tax in Cameroon

To: The General Director of Taxation

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Introduction

An analysis of the property tax in Cameroon, reveals that this tax is lowest paid, in view of the large number of people owning real estate. Therefore, in order to increase the effectiveness and the efficiency of its revenue collection, this memorandum recommends four type of improvements. Firstly, it promotes the clarity of the tax code. Instead of generally stating in its article 577-1b that “other real estate taxable” are situated in “agglomerations”-without known limits-, the code must clearly mention that the second categories of lands and buildings subject to tax are those located in parts of local councils benefiting from urban infrastructure (roads, water, telephone, or electricity.) Then this code must stipulate precisely that the value on which the property tax is assessed is the “market value of properties”, in order to avoid corruption brought about by confusion on whether the value of assessment is the original value, the depreciated one, or the value of these properties in the market. Secondly, this paper put an emphasis on the equity in the statements of exemptions granted by the tax code, by strongly urging the introduction of exemptions in favor of poor and senior people on the one hand, and on the other hand, by claiming the suppression of exemptions profiting to industrial companies far richer. Thirdly, the next set of recommendations plead for the refinement of methods of taxation, starting with the implication of local councils in the determination and the notification of the tax basis; then the strengthening of the project on land tax security with the creation of a joint committee gathering tax officials, experts of the local councils and those of the Department of Land affairs, in order to combine efforts to publish online accurate and objective value of yearly assessed properties by trained assessors, for more transparency and less corruption. Fourthly, this memorandum stress on the necessity to view the property tax not just as a coercive instrument, but also as a tool of wide communication with taxpayers on why to pay the property tax and how the payment of this tax can increase their infrastructural welfare. Reasons of these choices are developed bellow.

I-General overview of the Property Tax in Cameroon

The brief history of the property tax in Cameroon starts during the fiscal year 1987/1988. Since its early beginning, the answer to the question “What is the property tax in Cameroon” has remained the same. According to the articles 579 and 580 of the current tax code, the property tax is a tax due because of the ownership or the occupancy of a land, vacant or not. However, the designation of the taxable properties has changed many times between 1987/1988, and 2006. In fact, from the fiscal years 1987/1988 to 1993/1994, all properties were in the scope of the property tax; however, this wide extension of the tax basis was unrealistic Then a correction was brought from 1994/1995, limiting the liability to the property tax to properties vacant or not, situated in the headquarters of administrative units. But a new provision was added in 2006, stating that properties situated in the agglomerations benefiting urban infrastructure (water, telephone, electricity, paved or motorable roads) were also subject to the tax.

As for what concerns the rates, they have moved from the flat tax rates, according to the slices of square meters, in 1987/1988, plus 25% of the principal tax awarded to local councils (**see figure1**), to 0.1% of the value of properties in 2006, plus 10% of the principal tax devoted to local councils. Besides, since the year 2009 the property tax is henceforth a tax product collected by the General Direction of Taxation (GDT) for the exclusive benefit of local councils. In the meantime, the number of exemptions has increased, including wealthier taxpayers, such as industrial for spaces devoted to industrial activities, leaving aside poor and needy people.

Despite the constant process of refinement of the property tax, it is obvious that the corresponding revenues are far from being consistent. Just for illustrative purpose, with the introduction of the taxation according to the value of real estates, the revenue of the property tax sunk in 2006 (see **figure 2.**) Unfortunately, even before that time and until now, the property tax revenue is stuck around 2 billion per year (see **figure 2.**) It represents only 0.15 % of the total taxes collected by the GDT, and **only** 1.68% of the fiscal revenues of the local community of Douala, the engine of the Cameroonian economy. In addition, for the Cameroonian Ministry of Finance, in an interview published in January 2014 in the website <http://www.agenceecofin.com>, the potential yield of the property tax is at least 8 billion; therefore, the collection gap is around 6 billion (see **figure 3.**) This negative trend is confirmed by the General Director of Taxation, who recognizes, in an announcement published in the taxation website <http://www.impots.cm> in April 2016, that the number of taxpayers paying their property tax in only 138 510 in 2015, whereas this number could be raised to 1 163 510, based on statistics held by the General Direction of Taxes, in connection with different entities dealing with real estate owners.

In a nutshell, the observations above underline the failure of the self-assessment tax system in force in Cameroon regarding the property tax. Even if the Tax Administration can reassess the values declared by taxpayers in their returns, this usually feeds more a system of corruption based on the bargaining of the tax basis. This fainting is moreover exacerbated likewise by some defaults of clarity of key notions such as the value of assessment, and the situation of properties subject to the tax. Similarly, even the granting of exemptions disrespects the principles of equity and taxation according to the ability to pay. All these factors combined contribute to lower the yield of the property tax and motivate the following recommendations.

II Recommendations

Based on the findings listed above, I recommend improvements of the tax code accuracy, equity, and relevant changes of tax administration processes and communication.

II-1- Improvements of the clarity and equity of the property tax law

II-1-1 A clear definition of the scope and the taxation base

First, regarding the necessity of a clear precision of the scope of the property tax, I recommend that the **article 577** of the tax code be rewritten like this:

“The property tax is yearly due on properties, built or not, situated in the headquarters of administrative units. Are also subject to the property tax, the properties of the same nature mentioned above situated in **local councils** benefiting urban infrastructure that are: motorable paved or paved roads, water, telephone, and electricity supply systems.”

What is new here is the replacement of the term “agglomeration” by “local councils.” In fact, the actual version of the tax code states that properties situated in agglomerations benefiting urban infrastructures are also taxed. But the word “agglomeration” leads to more misunderstanding; because in the 2006 Instruction of the General Director of Taxation explaining how to grasp the concept of agglomeration, this notion is referred to the suburb benefiting of roads or water, or electricity. But obviously, there is no clear boundary to the suburbs. Actually, very far from towns, it is easy to find empty and constructed grounds near paved or passable roads, sometimes with electricity facility. In the other hand, the French dictionary defines an agglomeration as a town with its suburbs, a village or a town, regardless of administrative boundaries. Therefore,

due to its lack of clear precision in the tax code, the notion of agglomeration open the door to an escalation of tax harassment by tax officials, who can confusedly use this article to press taxpayers to pay or to give them a bribe in order to avoid a heavy taxation, unsubstantial.

In addition, local councils master more than any other entities what urban infrastructure exist in their area. The tax system will gain in accuracy and fairness, by involving them in the process of determination of the scope of the property tax.

This is why next, I strongly advise that the **article 580** talking of the base of taxation be reviewed as follows: “The property tax is assessed on the basis of **market values** of lands and buildings determined **yearly** by the **local council** which **notified** the amount of tax owed, after the **countersignature** of the local tax officer.”

From these changes of the article 580 derive many recommendations. Only one is discussed in this section. Thus, my second recommendation is stipulated as follows: the tax base to property tax must be the **market value** of “lands and buildings.” The current wording of the **article 580**, is not clear. This absence of clear definition of the taxable value leads to the insecurity of taxpayers who are almost always imposed arbitrary tax bases. However, the notion of market value is one of the most widely admitted to assess the property tax, because it decidedly enable comparison between properties of the same nature. To apply this recommendation, it can appear difficult to find competent officials charged with the duty of the valuation of the market values. But analysis show that experts in this domain exist in many local councils and in the Department of Land Affairs. For example, local councils grant each year building permits, which fees are based on the values of the square meters of constructions, according to the zonings. They also have at their disposal the values of empty lots. In the Community council of Douala for instance, building permit fees are every year far above the amount of property tax collected by the General Direction of Taxation (GDT) in their behalf (**see figure 4.**) Therefore, there is no doubt that most local councils know where every new constructions are located, as well as their basis of assessment. Their contributions will be deployed totally as members of the committee of land tax security discussed further, as they will use the same national platform of data.

II-1-2-Equity improvements in the assessment of the property tax

To achieve the horizontal equity preconizing that taxpayers in the same situation be treated similarly, I thirdly urge to get rid of property tax provisions granting exemptions to companies for their properties devoted to industrial activities.

Without contest, this exemption, considered as an incentive, aims at promoting industrial activities. But at the end, it appears to be more like a free subsidy, granted without engagement of compensation for the community. Moreover, this does not obey to the concept of fairness of the tax and that of submission to the tax according to the ability to pay. Indeed, industries use and deteriorate most the infrastructures. They are also causing a lot of pollution. Furthermore they are not, financially, in an inferior position as for what concern their ability to pay, compare to other businesses, or middle or low-income individuals subject to this tax nowadays.

Afterwards, I fourth recommend the enactment of exemption from property tax in favor of seniors and poor and people which revenues are exempted from the flat and income tax.

This innovation, never attempted in the history of the property tax in Cameroon, will achieve the goal of vertical equity which claims that taxpayers with different situations be treated differently,

according to their capacity to bear the tax burden. For sure, the possession of a land and a house seems more often to be a sign of prosperity. But this is not always true. Many people struggle to have a piece of land to get out of monthly rents, then fight to survive every day with about 1 000 CFA (\$1.71) for their family. Some others have just inherited their properties, are sheltered by benefactors or relatives, or just receive a meager pension to live. Thenceforth, this change will only be a correction of an old injustice. Many people would fraudulently try to produce fake documents in order to get the full benefice of this exemption. To cross out this eventuality, a commission made of local community and tax officials must annually decide who is eligible to the exemption.

Apart from the internal innovations to bring to the property tax law, good communication with the public on this tax, added to the necessity of restructuring the configuration of the General Direction of Taxes, will be the future steps of the modernization of the tax administration.

II-2- Restructuring the Tax Administration and improving communication policy

For more efficiency of the Tax Administration, and in order to secure all taxes on land, including the property tax, my fifth recommendation is to improve the power of the present project of land and real estate tax security that must become a committee for the transparency of the tax on lands and constructions. This renewed structure must include experts whose job is mostly to deliver certificates of property and evaluate real estates for different purposes in favor of the Government. This staff will become the foundation of the assessors working with the General Direction of Taxation (GDT.) For their capacity building and enhancement, I simultaneously recommend that the GDT joins the International Association of Assessors for a better professionalism of the property tax team workers. This will boost the mastery of all situations of change of ownerships, values of the transactions and trends in the market values of properties. Together, all members of this structure will have the duty of centralizing and updating data on the market values of properties. Together with local councils, the new structure will have the accurate data base system to assess the property tax, by using a computerized online system. Joining in one team people that are not used to collaborate permanently will be a challenge at the beginning. But countries like the Popular Republic of Congo, Senegal or France already experience successfully the fact of having put in place this type of crew in a single Administrations. The same success can be expected in Cameroon, resulting in an increase of the number of people paying the property tax from the current number of 138 510 in 2015 to 1 500 000 by the year 2020, considering the increasing number of people receiving authorizations to build all over the local councils of the country. One of the key to the success will be to set targets to the team, evaluate its success and reward each member financially for his or her special job.

Consequently, sixthly I recommend that the **local councils** be responsible of the notification of the amount of the property tax owed, after the **countersignature** of local tax officers. The first main idea that I advocate for in this statement is this: it must be the duty of local councils, not of taxpayers, as stated in the fiscal law in effect, to determine the base of assessment to the property tax. Obviously, an examination of the net self-reporting system in force in Cameroon reveals that taxpayers are not willing to declare the correct taxable values. Aware of that situation, tax officials always almost question every tax return. This leads either to fiscal tyranny with arbitrary reevaluation of the basis declared, or to acts of corruption and renegotiation of the bases of taxation, resulting in low performance yield of the property tax. Nevertheless the ability of the local councils to participate in major aspect of the assessment of the property tax is attested by

the Decree N0 2014/1881 dated July 4 2014 granting local councils more assignments in mater of administrative evaluation of real estate for fiscal purpose. According to this Decree, local councils must be divided into zones according to their standing and different other objective criteria (roads, water, telephone facilities.) This Decree also establish a set of rates by categories of zones; it concludes that local councils have the duty of determining within each range of rates, what is the cost of the square meter reflecting the real price of properties transactions applicable in their zones . Thenceforward, being member of the committee mentioned above on the security of land tax, their knowledge will be very useful.

More, I seventh strongly recommend the evaluation of market values of taxable properties on a yearly basis. Then the results of each evaluation for each zone determined by local councils, in connection with the above named land tax Committee, have to be yearly put on line as it is done in the United States of America. With the practice of a yearly evaluation, taxpayers will be assessed on the basis of the true value of their real estate. None will be unduly favored by under paying or over paying due taxes. Every overtaxed citizen will have the opportunity to complain on the basis of how similar properties to its own are taxed. Thereby the GDT and other professionals of inspection will therefore be able to evaluate the fairness of the system, at least by comparing the basis of assessment published. This process of transparency can be undermined by those who will like to maintain the opacity of the system, by refusing to put all the necessary information in the web system, or by not updating them. However, to increase the credibility of the Tax Administration, the General Direction of Taxation will make it a point to make sure that it gains the support of the citizens through a collaborative communication-different from injunctions-by serving and receiving from them permanent and accurate data on the values of their properties.

Finally, eighth, considering that the obtaining the adhesion of the public to willingly pay the taxes they owe is important, I strongly advise that the tax administration bases its incentive to pay the property tax under this tag: "Pay your property tax and enjoy better roads." This will mean attach the payment of the property tax to the improvement of local roads infrastructures. Therefore, the payment of the tax will cease to appear as just a compulsory payment, but as an investment with visible feedback on the use of tax payments. At the beginning, it will not be easy to demonstrate how best the property tax payments have been used. But working continuously at this aim, and communicating on the amount of money expended for local infrastructure, compare to the property tax revenue, the public will gain confidence in the local authorities and will be more willing to pay the property tax. At the end, the increased number of quality service coupled with an effective communication will motivation taxpayers to pay their property tax.

Conclusion

The property tax in Cameroon has an important potential. What people need are transparency in the system of taxation, equity, a feedback on the use of their tax payments, and the guarantee that their voice and opinion count. It is why this memorandum stress on the clarity of the tax code, its fairness and the reconciliation of the tax assessment methods with universal values of efficiency and effectiveness, through the use of shared data by all services dealing with the values of real estates; also, it claims yearly online publication of the assessed values of properties, so that anyone can know how he is assessed in one way, not in the other way, and why.

ANNEXES

Figure 1 Tax Basis of the property tax 1987/1988 to 1993/1994

- **Vacant properties :**
 - **2500 FCFA** for less than **400 m²**;
 - **5000 FCFA** from **401 to 1000 m²** ;
 - **7500 FCFA** from **1001 to 3000 m²** ;
 - **12000 FCFA** from **3001 to 5000 m²** ;
 - Above **5000 m²**, **5 FCFA** per additional square m with a maximum of **50.000 FCFA**.
 - **Build properties :**
 - **5000 FCFA** for less than **400 m²** ;
 - **10000 FCFA** from **401 to 1000 m²** ;
 - **15000 FCFA** from **1001 to 3000 m²** ;
 - **24000 FCFA** from **3001 to 5000 m²** ;
 - Above **5000 m²**, **10 FCFA** par m² additional square meter with a maximum of **100.000 FCFA**.
- N.B : Additional 25% for local councils.**

Figure 2 Evolution of the Property Tax Revenue from 2003 to 2015*

Unit: 1 Billion of FCFA

Years	Revenues
2003	2.24
2004	2.28
2005	2.07
2006	1.91
2007	2.47
Estimated average per year 2008-20015	2.60

* Sources General Directorate of Taxation website

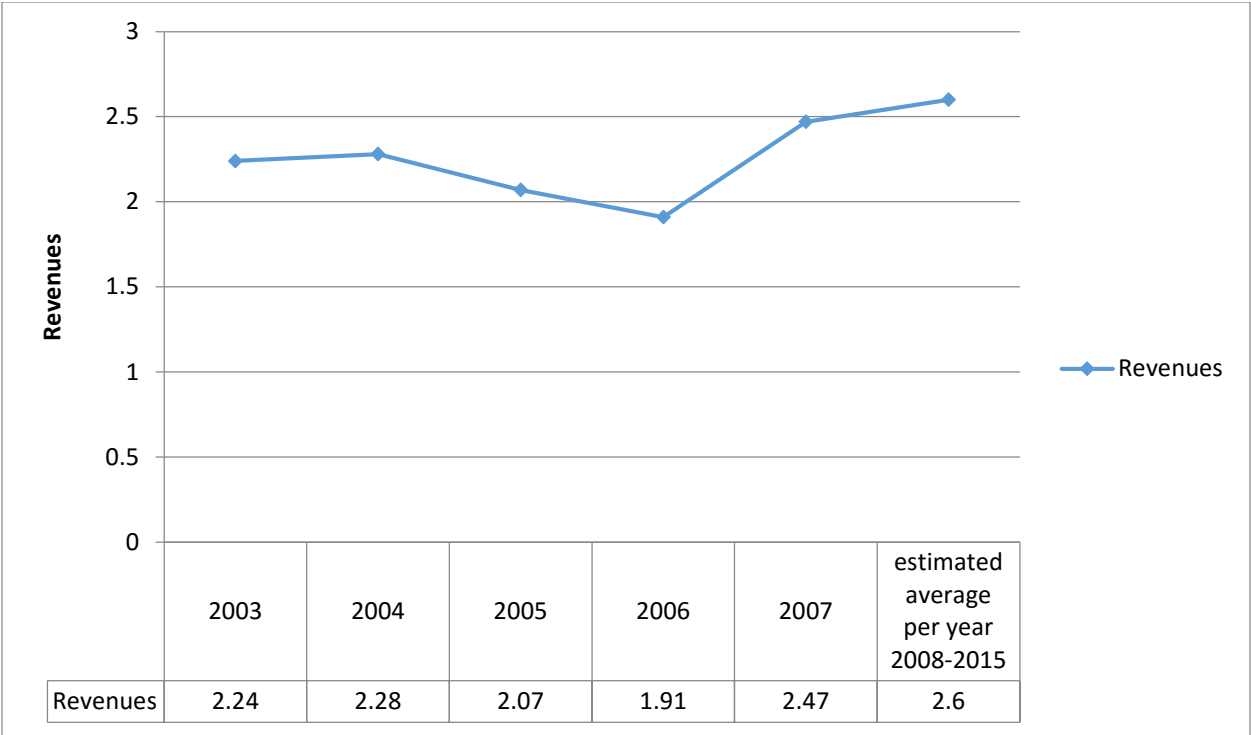
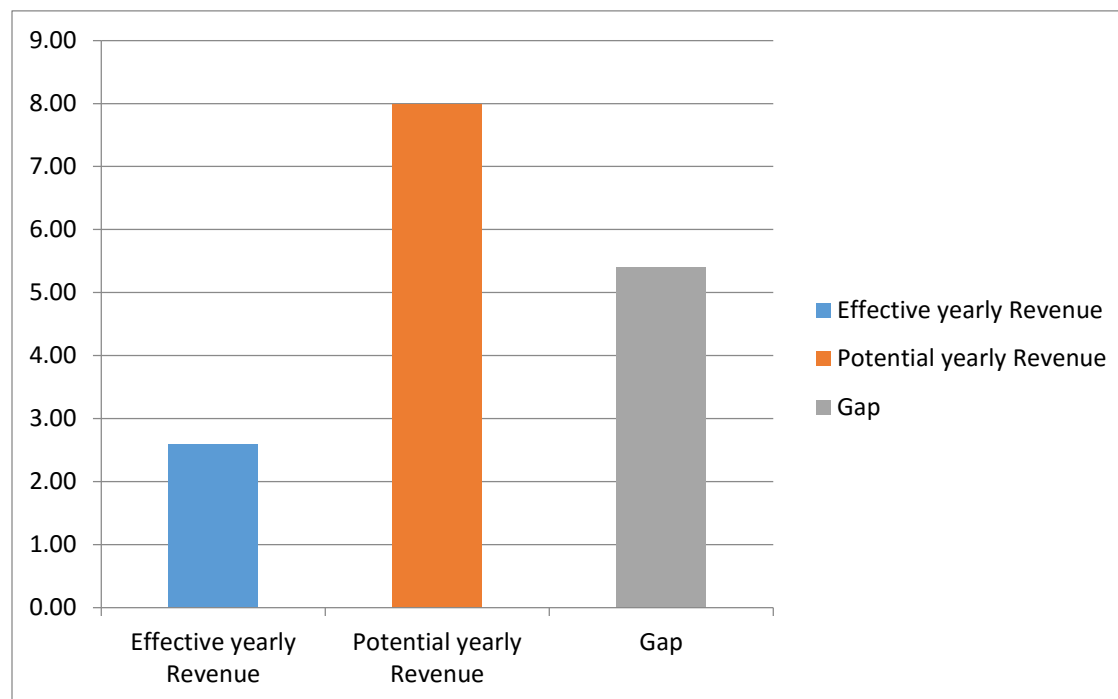


Figure 3 The collection gap of the property tax

Effective yearly Revenue	Potential yearly Revenue	Gap
2.60	8	5.4 (Double of the present yield)

**Figure 4 Property Tax Revenue and building permits fees in the Community Council of Douala**

Years	Property Tax(1)	Fees/Build(2)	Gap (3=1-2)	Observations 1/2
2011	5 635 178	755 2681 419	-749 626 241	0.74 %
2012	104 416 868	825 089 294	-720 672 426	12.65 %
2013	610 539 341	676 774 504	-66 235 163	90.21 %
2014	551 304 263	902 415 370	-351 111 107	61.09 %

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