EXPLANATORY FACTORS OF TAX PAYMENT BY INFORMAL SMEs IN CÔTE D'IVOIRE

Nohoua Traore, Université Alassane Ouattara of Bouaké, Côte d'Ivoire

dx.doi.org/10.18374/JABE-23-2.1

ABSTRACT

This paper analyzes the explanatory factors of informal SMEs taxation in Côte d'Ivoire. The data used are related to 400 informal SMEs surveyed in the framework of the CAPEC/IDRC research project. Using cross tabulation and chi-square test of independence, the descriptive statistics shows that the perception of high level of taxes, the location, the access to infrastructure, the procedure of payment and the business plan are linked to taxes payment by SMEs. As for the estimation of a Probit model, the study highlights, on the one hand, the variables that negatively influence and, on the other hand, those that positively influence tax payment. It emerges that the ignorance of the procedure, the fact that the manager of the informal SMEs is an Ivorian, the keeping of uncertified account have a negative effect on tax payment. Contrariwise, the business goodwill, the location of the SME, the access to infrastructure and the use of business plan to create SMEs boost the propensity of managers to pay taxes. However, the perception of the high level of taxes doesn't discourage taxes payment by SMEs.

Keywords : *Explanatory Factors, Tax Payment, Informal, SMEs, Côte d'Ivoire*

1. INTRODUCTION

The informal sector taxation has often been put forward by development technocrats and donor institutions as a potential solution to the poor performance of a majority of African countries in terms of tax revenue generation from the economic activity. The average ratio of tax revenue to GDP in OECD countries is 34.1 percent, compared to only 19.1 percent in Africa (OECD, 2017). It is assumed that many of the continent's untaxed economic activities are in the informal economy and that direct or indirect involvement of this sector would help fill the revenue gap for governments. This way of thinking about the tax issue has led to renew an academic interest in the issues of competitiveness, state structuring, and public policies aiming at taxing the informal sector.

The tax burden had reached its highest level at 15% during the period 2006-2008, whereas it was at its lowest level in 2001 at 11%. This fall had negative effects on consumption and investment, thus reducing tax revenues (Koné, 2019). The optimal tax ratio for WAEMU countries is 24% of GDP (Amedanou, 2018), yet despite the reforms undertaken since 2012, the tax revenue-to-GDP ratio in Côte d'Ivoire remains relatively low, estimated at about 16.5% of GDP in 2017.

In addition, taxes are the main source of funding for public spending. As a result, the mobilization of tax resources is therefore important for achieving development objectives, particularly poverty reduction (Essama Nssah, 2002). However, the heads of informal sector establishments are reluctant to have their tax obligations met. In Cameroon, less than 7% of heads of IPUs have a taxpayer card.

In Côte d'Ivoire, statistics from the Directorate General of Taxes reveal that about 60% of informal enterprises are subject to the synthetic tax, while their contribution represents only 1% of tax revenues collected in the country. However, estimates of the tax effort and the optimal tax burden suggest that Côte d'Ivoire has a significant margin for collecting more revenue (World Bank, 2019). Therefore, a judicious increase in the tax burden is the right formula for many developing countries. Similarly, while too high a tax burden can curb activity, too low a tax burden can suffocate the economy.

As a result, the government must develop appropriate strategies to encourage more SMEs to become taxed, given the acute problem of domestic resource mobilization. In this perspective, this article first deals with the controversial schools of thought on the taxation of the informal sector and the factors of taxation in