THE IMPACT OF A TAX ON DIVIDENDS AND ITS INCIDENCE ON CAPITAL GAINS REALISATION IN RELATION TO TAXING CAPITAL GAINS FROM SHARES IN CAMEROON IN LIGHT WITH THE DOUBLE TAXATION LAWS

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THE NEW VIEW AND THE TRADITIONAL VIEW OF DIVIDEND TAX

Dividend payments to shareholders are crucial in accordance with the conventional wisdom on dividend taxation in order to draw in investors. This is justified by the fact that regular dividend distributions, which are an expression of realised earnings, may serve as a signal of profitability to both present and potential shareholders. A similar goal is to impose certain managerial restraints through the regular distribution of dividends by limiting the amount of cash flow available to managers to fund their own self-serving endeavours. Since profits are ultimately paid as dividends according to this theory, investment initiatives will primarily rely on the issuance of new shares as a source of funding. Given the emphasis on distribution and the tax rate that applies to dividends, it is assumed under the traditional view that any reduction in the tax rate on dividends could contribute to a higher dividend payout. The traditional view's justification has, however, come under fire for its underlying premises.

First off, it has been thought that placing too much emphasis on dividend payments as a way to indicate company success or curb managerial mistakes is an expensive way to accomplish these goals when share repurchases and other options are available. Since the early 1980s, a lot

of businesses have adopted the share repurchase option. Indeed, studies carried out in the U.S. demonstrate a notable rise in cash dividends in the form of share repurchases from 1974 to 1998, with a rate growing from 24% to 81% As a result, even if it runs counter to the taxation of dividend payouts policy, the option to repurchase shares that include capital gains may also be impacted by the CGT rate in effect. Similarly, rather than restricting available cash flow, the board's authority should be used to effectively oversee managers.

The traditional viewpoint's reliance on the source of money for investment serves as another strong argument against it. In fact, the only source of funding is to rely on the issuance of new shares because all gains are ultimately allocated to shareholders. However, it has been suggested that in practise many, if not most, firms give preference to retained earnings or incurring debts as opposed to issuing fresh shares given the ease of having recourse to retained earnings or the benefits associated to debt as a form of financing. The new perspective, which differs from the conventional one, emphasises retained earnings as the main source of funding corporate investment projects. According to those who support this viewpoint, the distribution of dividends is not the immediate objective and won't happen until all beneficial investments have been pursued or realised. The basic assumption of the new perspective is that dividend payments will eventually be made to shareholders in the form of earnings from equity-financed investments. Proponents of the new perspective contend that the implementation of the dividends tax cut would result in a windfall gain for shareholders even though it would not have an impact on the corporate dividends policy, starting from the premise that dividends will ultimately be distributed to shareholders provided liquidation does not occur.

THE COMPARISON OF THE TWO METHODS IN TERMS OF CAPITAL GAINS TAX

The preceding development of the two schools of thought shows that, whereas the old school of thought views the dividend tax rate as having a substantial impact on the company's dividend distribution strategy, the new school of thought views the rate as being inconsequential. Regarding the viewpoints of each approach, it is crucial to emphasise that the primary differences between the two perspectives may be based on the characteristics of the enterprises involved and their amount of access to outside markets. As a result, depending on where they are in their development, companies may opt to either keep existing earnings or issue additional shares. The alternative of funding business investment with retained earnings or share repurchase could potentially result in capital gains subject to CGT, leaving aside the question about the impact of dividends tax on corporate payout policy presented by the two positions and their objections. When viewed from this perspective and taking into account the traditional viewpoint's emphasis on the primary criticism of the issue of new shares, it follows that retained earnings or share repurchase constitute the most ideal financing option. In regards to capital gains, if such alternatives were adopted, it is thought that a preferential treatment granted for taxing capital gains can be effective for two reasons, despite the criticism of the incidence of the tax rate differential on dividends and capital gains as a catalyst to the negative impact of the double taxation of corporate profits. First off, because to the Cameroonian realisation rule for capital gains taxation, a low tax rate on capital gains may encourage the selling of shares, increasing revenue yield. Second, the longer dividend distribution is delayed, the more the taxpayer may benefit from the favourable tax treatment by selling all or part of his holding to diversify his holdings. It follows that in addition to increasing revenue return, the preferential treatment for capital gains taxation may result in a variety of investment options. A similar

study carried out in the USA regarding the lock-in effect that results from the realisation rule for taxing these gains has shown some changes in the realisation response with regard to CGT tax cut, despite the fact that specific studies have not been carried out in Cameroon to evaluate the impact of the increase in CGT rate on the realisation of stocks. It is argued that the recent increase in tax on gains from shares does not represent the most effective reform, despite the fact that the degree to which such realisation is pronounced over a given period of time varies and considering the adoption of the traditional tax system used in Cameroon as in the U.S. in addition to the realisation rule for taxing these of CGT.

The justification for this viewpoint is that, in comparison to the lock-in impact that could come from the manner these gains are taxed, the equity basis on which the increase is highlighted does not constitute a good policy. It is clear from section 43's text that CGT only applies to capital gains made from the sale of shares. The increasing CGT indicates more gratuitous transfers to avoid its occurrence, which could result in a lock-in situation. Furthermore, a preferential treatment has always been provided for taxing these profits even when they are combined with a threshold exemption from taxation since the introduction of CGT on shares until the revision made by the Finance Act 2012 It follows that the equity concern was not a significant consideration up until this point.

Even though the annual budget recently emphasised the need for greater revenue, it is thought that expanding the scope to include shares owned by legal companies is a more effective way to generate income than raising the CGT on shares. As a result, with the tax rate remaining the same, adding extra incentives while taxing these gains would be the best way to address the lock-in effect and the incidence of the classical system. However, due to the country's need for financial resources, such a proposal would be examined from the perspectives of equity and

efficiency. Indeed Since 1990, two significant tax reforms have been carried out, in 1994 and 1999, to rearrange the nation's tax laws for the purpose of raising revenue and obscuring the deficit outlook. In order to better prepare for the negative consequences of the decline in revenue from import and export trade taxes, a more recent tax reform was enacted in 2007. With an emphasis on rules intended to secure the tax base, broaden the tax's application, and not forget some tax advantages, the tax system has undergone significant modifications in accordance with these goals. This goal can be identified by the consistent yearly rise in predicted revenue yield, which can come from corporate and individual income as well as VAT, customs taxes, etc. Therefore, any tax reduction must be supported by arguments for efficiency or equality.

ASSESSMENT OF PREFERENTIAL TREATMENT FOR TAXING GAINS ON SHARE PROFITS

The performance of the tax's revenue-raising efforts is the most crucial concern with regard to the implementation of a preferred treatment for taxing capital gains because of the lock-in. The extent to which this rise is effective has been regarded as disputed, despite the fact that it is generally acknowledged that a preference for taxing capital gains will lead to more realisation and so reduce the influence of the lock-in effect. The disagreement over whether preferences have an impact on realisation is typically caused by the inconsistent findings of the empirical studies done to measure such an impact. Indeed, there has been a great deal of variation in the findings due to the variety of empirical work methods and the neglect of some crucial factors, such as the transitory effect, a larger group of individuals serving as the basis for the evaluation, or the emphasis placed on the tax rate in comparison to other factors. Despite these discrepancies in outcomes, it is significant to note that among the key criteria for determining

a tax's rate that will maximise revenue, the relative ease with which taxpayers can evade the tax is the factor that receives the most attention. This demonstrates that, in addition to the high tax rate that might be implemented, the avoidance practice—in which taxpayers look for plainly better ways to postpone or avoid paying the tax—will be more widely advocated. As a result, given that gratuitous transfers and bequests are exempt from taxation and the limitation of the criteria that trigger the CGT to only disposal for consideration, it can be a deciding factor. From this vantage point, it is clear that the CGT on share transfers may be readily avoided, hence the CGT rate rise to match the appropriate dividend rate cannot be viewed as the rate that will maximise income. According to this line of reasoning, the CGT is more simpler to evade than the dividend tax because it only applies to transactions for consideration, as specified in the GTC. As a result, if corporate profits were primarily retained rather than distributed to shareholders, this retention would manifest as an increase in share price that would ultimately be transferred in the form of increased share value rather than dividends, effectively resulting in a loss of revenue for the state if some of these share transfers were made under a gratuitous scheme. It would seem that the restriction on realising capital gains on shares makes it possible to effectively encourage their realisation by offering some sort of incentive when taxing these profits.

It is important to note that, despite differences in the findings of empirical studies carried out in the USA to assess the effect of tax rates on the realisation of assets, it has been observed that the majority of these studies stress that the revenue-maximizing rate for capital gains is a rate lower than that applicable on ordinary income, even though this statement is regarded as not being without doubt. This is justified by the fact that, with a CGT rate greater than the dividend tax, businesses may choose to pay out more dividends or use debt financing in place of retained earnings, which would eventually result in capital gains. Therefore, it implies that in order to

encourage CGT on share transfers, the proposal for taxation reform should include a rate that is lower than the rate for dividends, or better yet, include some kind of exemption to lessen the taxpayer's actual tax burden, such as a discount based on how long they have owned the shares. Given the significant role that taxes play in the state's economy, it is critical to evaluate this plan in terms of equality and efficiency.

EVALUATION OF THE SHARES ON EQUITY GROUNDS CGT RATE REFORM

The introduction of preferential capital gains taxes is a significant problem since tax officials always emphasise the idea of equity (either horizontally or vertically) when assessing the value of a tax provision or even when proposing a tax system change. Given that a similar rate is applied to dividends, the CGT rate rise is consistent with the goals of the tax law reform enacted by the Finance Act of 2012 and works to make the system more egalitarian. The contentious issue is thus whether this idea of equity should be given greater prominence despite Cameroon's double taxation of corporate profits or the lock-in effect that could result from the application of the tax law, which could be successfully addressed by granting some incentives while taxing capital gains. The subject of whether equity or efficiency should be given priority when enacting a tax reform has been extensively discussed. While proponents of the Haig Simons model of income taxation emphasise the fairness requirement, tax theorists looking to increase efficiency do not view the various tax treatment that applies to different taxpayers as a key concern. The implementation of an ideal tax structure that combines equality and efficiency is the most crucial problem in this situation. From such a vantage point, it appears that if the tax structure's optimality is the primary concern, then, from the perspective of efficiency, the discrimination in the tax treatment of income earners is unavoidable given the reliance on the taxpayers' reactions to taxation. This illustrates the need to consider potential inefficiency-

causing elements when evaluating the importance of achieving horizontal equity for better analysis. The tradeoff between equity and efficiency can be supported if one assumes that the preferential tax treatment will encourage the realisation of gains with regard to the current method for handling corporate profits and the case of lock-in effect that results from the realisation rule for taxing capital gains on shares. Schenk came to the conclusion that, "despite the weakness of such preference as a policy, it can be defended as a second best alternative provided it resulted in sufficient efficiency and improved equity through the increase of the effective tax rate on the holders of capital," despite the fact that the issue of capital gains preference has been heavily criticised, particularly on equity grounds. This example demonstrates how the issue for equity can be overcome if the preference is anticipated to increase efficiency and realisation. Given the significant CGT that may be obtained from the corporate sector, we are nevertheless confident that such change could be a key step in overhauling the current Cameroonian tax system, despite the research undertaken to examine the realised response to CGT rate being inconclusive.

EVALUATION OF THE CGT RATE ON SHARES REFORM ON THE BASIS OF EFFICIENCY

It is necessary to consider the recent increase in the tax rate relative to the previous rate when evaluating the CGT preference on the basis of efficiency. Prior to assessing the effectiveness of this plan, it is crucial to keep in mind that, notwithstanding the importance put on achieving equity, the major goals of this increase are to broaden the CGT's chargeable scope and, consequently, to boost income. This revenue-raising criterion will also determine if the CGT preference will be successful for this purpose. The most crucial point is whether raising the CGT to be similar to the dividend tax is the best option to encourage the realisation of gain,

despite the fact that doing so will help raise a sizable amount of additional revenue. Economists typically use the Pareto efficiency benchmark to determine whether a proposal is better than another when determining the appropriateness of allocating resources. According to this method, an allocation is actually deemed Pareto efficient if it can only benefit one person at the expense of another. Practically speaking, this should imply that since the government has prioritised raising the CGT rate on equity grounds, any reduction in the CGT rate or other incentive must be accompanied by an equal increase in the tax burden on dividends or other taxes under the Pareto efficient standard for resolving the lock-in effect. As a result, the allocation will be inefficient as a result of this principle. However, the Pareto improvement is a related idea that is frequently employed in relation to the prevalence of such an approach. According to this theory, reallocating resources will result in a Pareto improvement if at least one individual benefits and no one suffers. The Pareto notion emphasises the existence of one alternative among a group of alternatives, which may be regarded as the Pareto better wise, from the perspective of optimality. Therefore, if there is no other option that everyone will deem at least as good and at least one person will deem as better, then this reallocation may be Pareto optimum. When seen from this perspective and in light of the fact that the 15% CGT rate, which is also applicable to dividends, is the rate for capital gains that maximises revenue, the inclusion of a discount for taxing share profits can be seen as a Pareto improvement. As a result, the alternative of establishing a discount for CGT taxpayers will make them better off by preserving the same tax rate in compared to the old low tax rate. Dividends will be taxed at the same rate thanks to this incentive, and taxpayers who have capital gains subject to the higher tax rate will also receive incentives to lessen the lock-in effect. Finally, the government will increase its revenue from both sides, namely by expanding the CGT's application and by encouraging the realisation of capital gains.

Capital gains are also far more susceptible to tax changes than other types of income since they are only taxed when they are realised, giving taxpayers more flexibility in when they choose to pay their capital gains taxes. As a result, a higher capital gains tax rate may encourage investors to hold off on selling their assets or do so less frequently, which lowers the amount of taxes that are ultimately levied. It is significant to highlight that the inclusion of CGT preference raises the issue of implementation complexity. The simplest way to avoid the administrative complexity of the proposal in regards to gains on shares could be to choose the time period from which the exemption will be applicable, given that the emphasis is on granting discounts of the taxable base depending on the length of ownership of these assets. Therefore, this preference will only apply to shares purchased after this date.

CONCLUSION

The collection of tax money plays a significant role in Cameroon's financial system. The yearly budget stands out for its strong reliance on tax income as a source of funding for public expenditures. Because of this, efforts to raise this revenue yield could be made by expanding the list of chargeable assets, limiting the range of exclusions, or even raising the tax rate. Despite the emphasis on equity, it is obvious that the recent hike in the CGT rate on shares is primarily intended to raise the yield. Efforts to change the way these profits are taxed should undoubtedly consider the incidence of the tax and how it relates to the reactions of taxpayers to their realisations. Therefore, it may be argued that the current CGT increase is an ineffective policy that needs to be changed to include discounts and exclusions, and that the expansion of the CGT's application to shares is a sufficient source of revenue for the State.