The impact of taxation on mobile growth and its associated socio-economic contribution

Gaborone, Botswana, 17 May 2011

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Taxing times

- The recession has led to decreases in tax revenue around the world, meaning governments are faced with challenging decisions on tax policy

- The temptation to impose disproportionately high taxes on the mobile sector is strong

- Types of mobile sector-specific tax currently levied by some governments in developing countries include:
  - Specific excise duties (“luxury taxes”) on mobile handsets
  - Luxury taxes on mobile usage (airtime)
  - Luxury taxes on ICT equipment
  - SIM activation charges
  - Surtaxes on international incoming traffic

The Dilemma

Higher tax revenues in the short term, or…

…longer-term rise in mobile ownership and use, stimulating economic growth and ultimately increasing total tax take

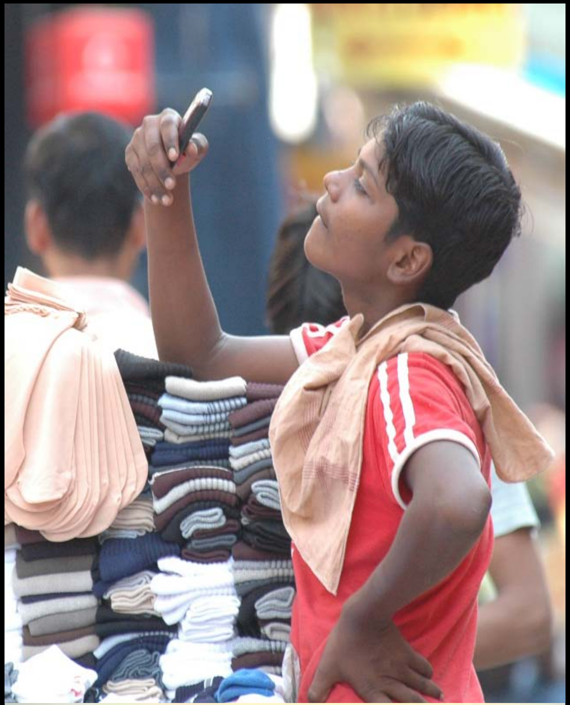
Impact on Affordability

- Luxury taxes drive up the total cost of ownership (TCO) of mobile services, making them less affordable, especially for the poorest consumers
- GSMA research has found that an average of 17.4% of mobile TCO (globally) is formed of consumer and import taxes*
- Increased TCO restricts take-up of mobile phones
  - hampers achievement of universal access goals
  - limits long-term value creation potential of the industry
- Taxes on handsets and devices delay upgrading of equipment, which has negative effects on the spread of new and higher quality services
- Surtaxes on international incoming traffic reduce competition and create artificial inflation in international calling prices

**Deloitte: Global Mobile Tax Review 2007*

Case Study: Pakistan

- Pakistan's cellular industry has long been highly taxed; strong contributing factor in decline in the growth of mobile
- Multiple stakeholders worked together since 2006:
  - Regulator (PTA)
  - Ministry of Information Technology
  - Ministry of Finance
  - Federal Board of Revenue
  - Mobile Industry
  - Media
- Activation tax reduced from PKR 2000 to PKR 250
- Federal Excise Duty reduced from 21% to 19.5%
- Result:
  - Higher mobile penetration
  - Increased investment in network by operators resulting in higher foreign direct investment for the country
  - Long-term increase in overall sustainable tax revenue



Affordability of Mobile Broadband

- In Africa mobile is the driver for broadband penetration
- Taxation policies for mobile broadband need to align with national ICT objectives; encourage growth of the nascent market
- Broadband devices (and network roll-outs at eg 2.6GHz) are more expensive than voice; additional tax burdens will have even greater impact on penetration levels than with voice
- GSMA research (2010)* found that at least 27 countries worldwide have adopted highly distorting tax approaches that will negatively impact growth of mobile broadband

**Source: Impact of Taxation on the Development of the Mobile Broadband Sector in Emerging Countries, GSMA, July 2010*

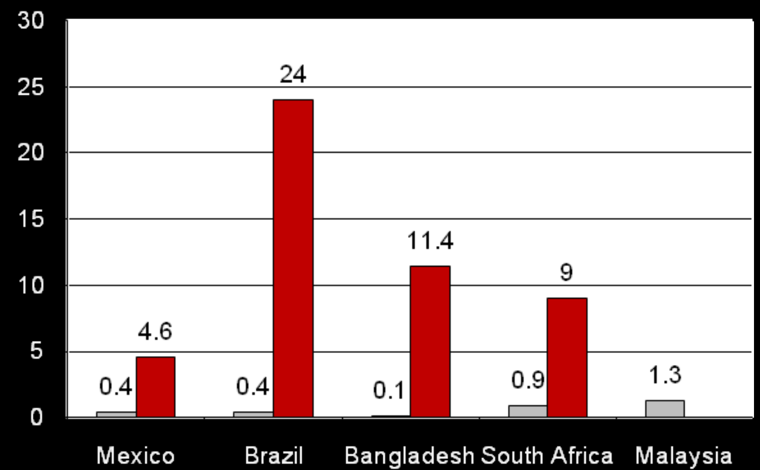
Case Study: Malaysia

- Striving to achieve a broadband penetration target of 60% by the end of 2011, the government of Malaysia has minimised taxes on both handsets and usage
- Taxes represent only 6.1% of mobile TCO
- VAT is charged at 5% on usage and 10% on handsets (handheld products such as PDAs are exempt)
- There are no mobile-specific taxes or import duties on handsets
- By mid-February this year the broadband penetration rate had reached 57.1%

Source: Impact of Taxation on the Development of the Mobile Broadband Sector in Emerging Countries, GSMA, July 2010

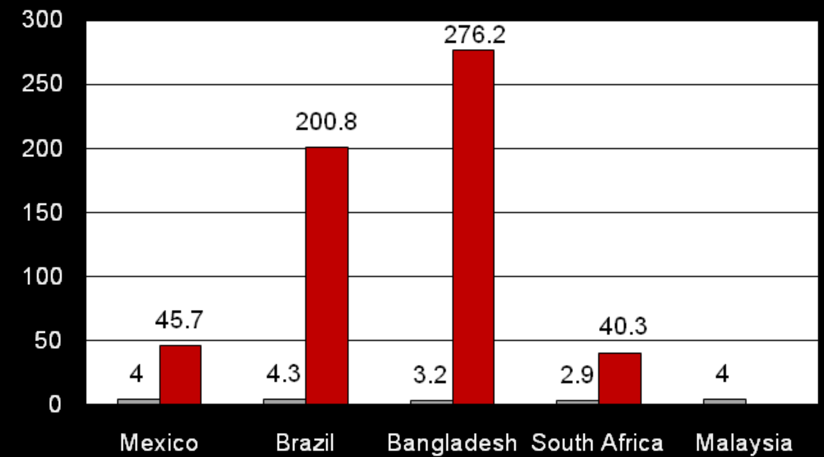
Taxation Structure Impacts Mobile Penetration

Estimated percentage increase in **mobile penetration** resulting from changes in taxation



- Reduction of 1% of tax on TCO
- Reduction of tax to benchmark rate (6.1%)

Estimated percentage increase in **mobile user base** resulting from changes in taxation



- Reduction of 1% of tax on TCO
- Reduction of tax to benchmark rate (6.1%)

Note: Malaysia is considered to be the benchmark at 6.1%

Source: Impact of Taxation on the Development of the Mobile Broadband Sector in Emerging Countries, GSMA, July 2010

Impact on the Economy

- Luxury taxes are a barrier to increased mobile penetration and the economic growth that results:
  - A 10% increase in mobile penetration boosts GDP by 1.2% [1]
  - A 10% increase in broadband penetration boosts GDP by 1.3 [2]
  - Countries with 80% broadband penetration are more than twice as innovative as countries with 40% penetration [3]
  - Increasing broadband penetration by 10% translates into a 1.5% increase in a country's labour productivity [3]
- International surtaxes negatively affect international competitiveness, driving up the cost of doing business in Africa
- For families with members living abroad, the increased cost of calling home means less money available for remittance to the home country (and into the local economy)

Sources:

1. Deloitte for the GSMA report : Global Mobile Tax Review 2006-07

2. World Bank, Qiang 2009

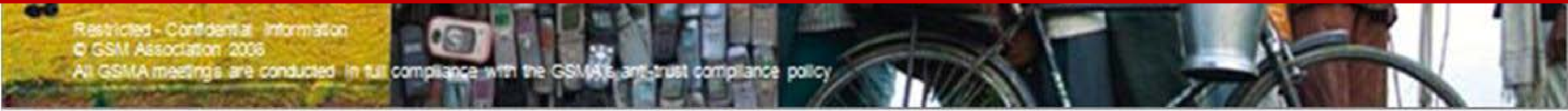
3. Booz & Company, Enabling Sustainable Digital Highways; Strategies for Next-Generation Broadband

Recommendations

- The GSMA recommends that governments recognise the following when formulating their national tax policies:
  - Mobile phones and mobile broadband boost GDP, create jobs and are a vital part of the socio-economic landscape in Africa
  - Taxing mobile devices and services as a luxury is no longer appropriate and directly hampers achievement of the MDGs
  - Surtaxes on international incoming traffic are harmful to both consumers and operators and are ultimately counterproductive for governments
  - Taking a short-term view and applying punitive sector-specific taxes is likely to be counter-productive for all in the long term

THANK YOU

For more information: www.gsmworld.com/publicpolicy



Back-up slides

Your input to us?

Mobile Industry
Reputation Index

Questionnaire Q3 2010

Thank you for taking the time to give us your views on the mobile industry. We are interested in your personal view, so please answer based on your own perceptions of the industry and not based on how you think others might perceive it. Submitting a completed questionnaire entitles you to a free copy of the most recent *Wireless Intelligence* Quarterly World Review Report*.

SECTION 1

1 In your opinion, how much does the mobile industry contribute to the advancement of society in terms of its policies and actions in the following areas?

	Not at all ←		→ Very significantly		Don't know
Social	1 ○	2 ○	3 ○	4 ○	○
Economic	1 ○	2 ○	3 ○	4 ○	○
Environmental	1 ○	2 ○	3 ○	4 ○	○

2 Compared with one year ago, do you think the mobile industry's overall contribution to society has: Select one answer

Increased ○ Stayed the same ○ Decreased ○ Don't know ○

3 How significant do you perceive the mobile industry's role to be in:

	Not at all ←		→ Very significant		Don't know
Job creation	1 ○	2 ○	3 ○	4 ○	○
Tax revenues	1 ○	2 ○	3 ○	4 ○	○
Broadband penetration	1 ○	2 ○	3 ○	4 ○	○
Innovation	1 ○	2 ○	3 ○	4 ○	○
Development of a low carbon economy	1 ○	2 ○	3 ○	4 ○	○

4 To what extent do you agree that the mobile industry offers:

	Not at all ←		→ Strongly agree		Don't know
High quality products	1 ○	2 ○	3 ○	4 ○	○
Reliable services	1 ○	2 ○	3 ○	4 ○	○
A positive quality/price ratio	1 ○	2 ○	3 ○	4 ○	○
Innovative solutions (eg mHealth, mobile payments)	1 ○	2 ○	3 ○	4 ○	○

5 To what degree do you consider the mobile industry is transparent regarding its:

	Not at all ←		→ Totally transparent		Don't know
Terms & conditions	1 ○	2 ○	3 ○	4 ○	○
Network management practices	1 ○	2 ○	3 ○	4 ○	○
Domestic tariffs and prices	1 ○	2 ○	3 ○	4 ○	○
Roaming prices	1 ○	2 ○	3 ○	4 ○	○

6 Do you think the mobile industry is more or less transparent than one year ago? Select one answer

More transparent ○ Stayed the same ○ Less transparent ○ Don't know ○

7 How well do you think mobile operators protect their customers' personal data and privacy?

Not at all ←			→ Very well	Don't know
1 ○	2 ○	3 ○	4 ○	○

*Normally available only to subscribers to the Wireless Intelligence global database of market information.

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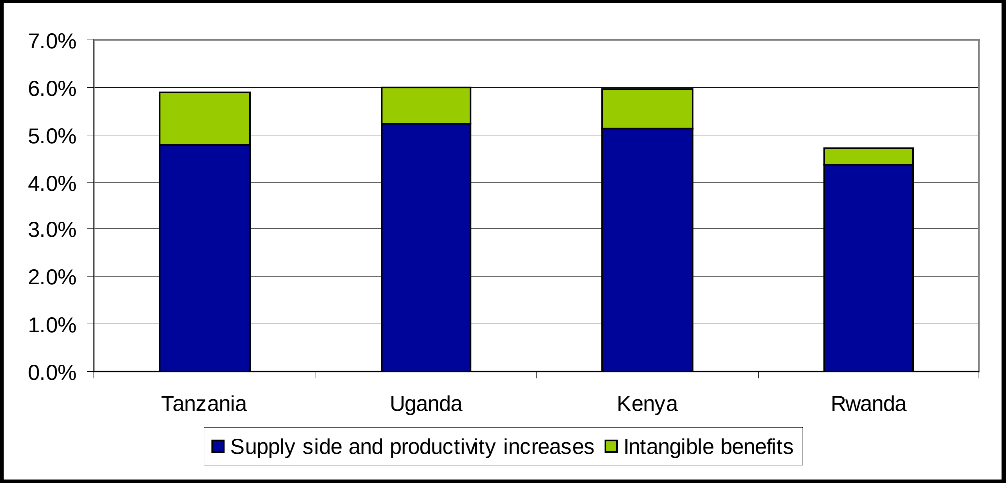
Impact on the Economy (cont.)

- Illustration: GSMA research in East Africa, published 2009, found that typical contribution of the mobile industry was between 4.7% and 6.0% of GDP



- Likely effects of reducing or eliminating luxury taxes:
  - Initial fall in tax revenues from mobile services
  - Subsequent uplift from indirect effects (increased corporate tax and regulatory fees)
  - Significant long-term uplift based on GDP and national economic multiplier impacts

Sources: GSMA & Deloitte "Taxation and the Growth of mobile in East Africa" 2009

Agenda

- Mobile sector-specific taxes
- Impact on affordability of mobile
  - Case study: Pakistan
  - Affordability of broadband
  - Case study: Malaysia
- Impact on the economy
- Recommendations