

Tax policy on telecom and digital services

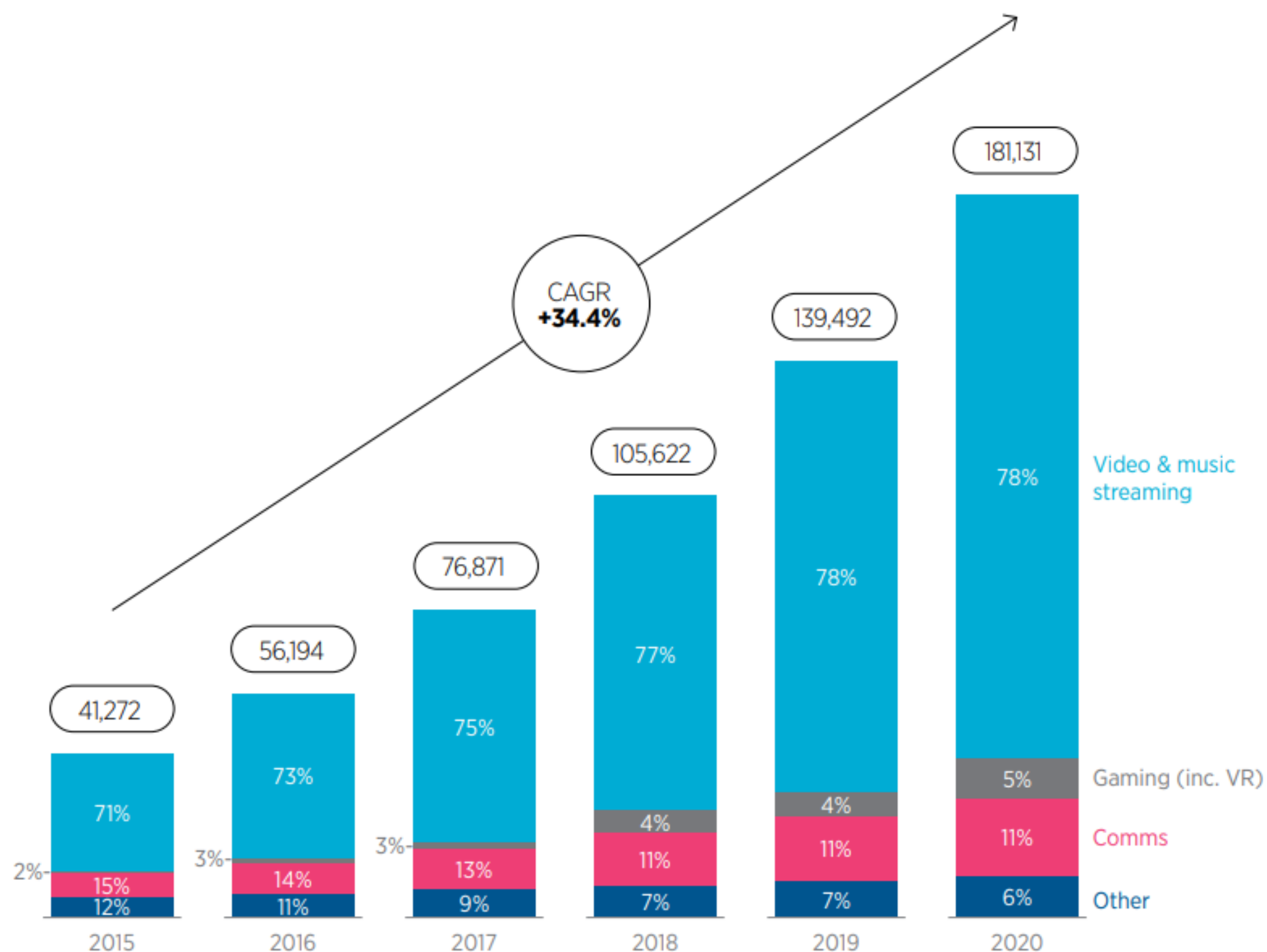
ITU workshop on economic and fiscal incentives to accelerate digital transformation of data and applications over telecommunication infrastructure

Geneva, 3-4 November 2022

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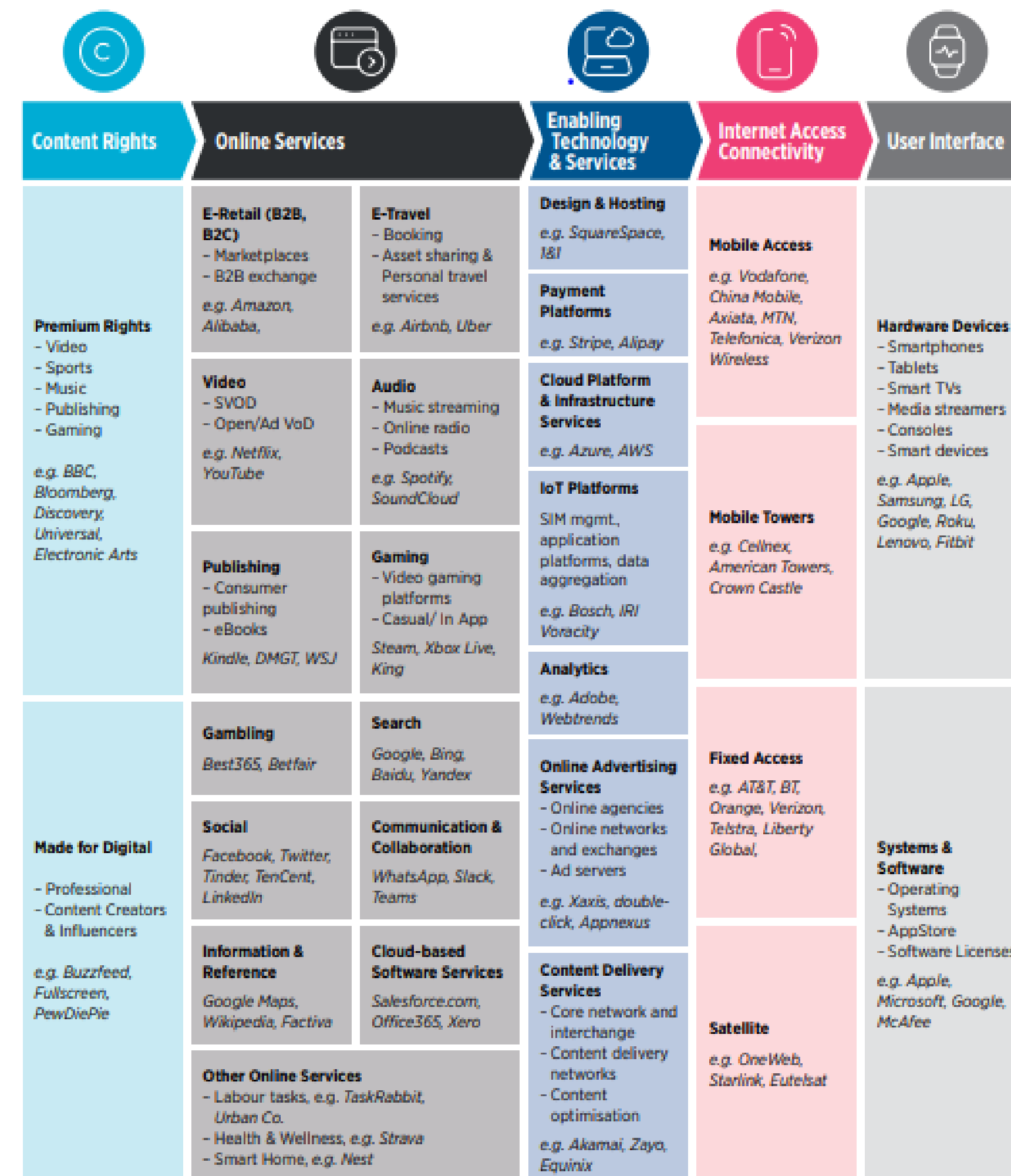
Digital services have grown exponentially in recent years

Global consumer internet traffic (average PB per month)



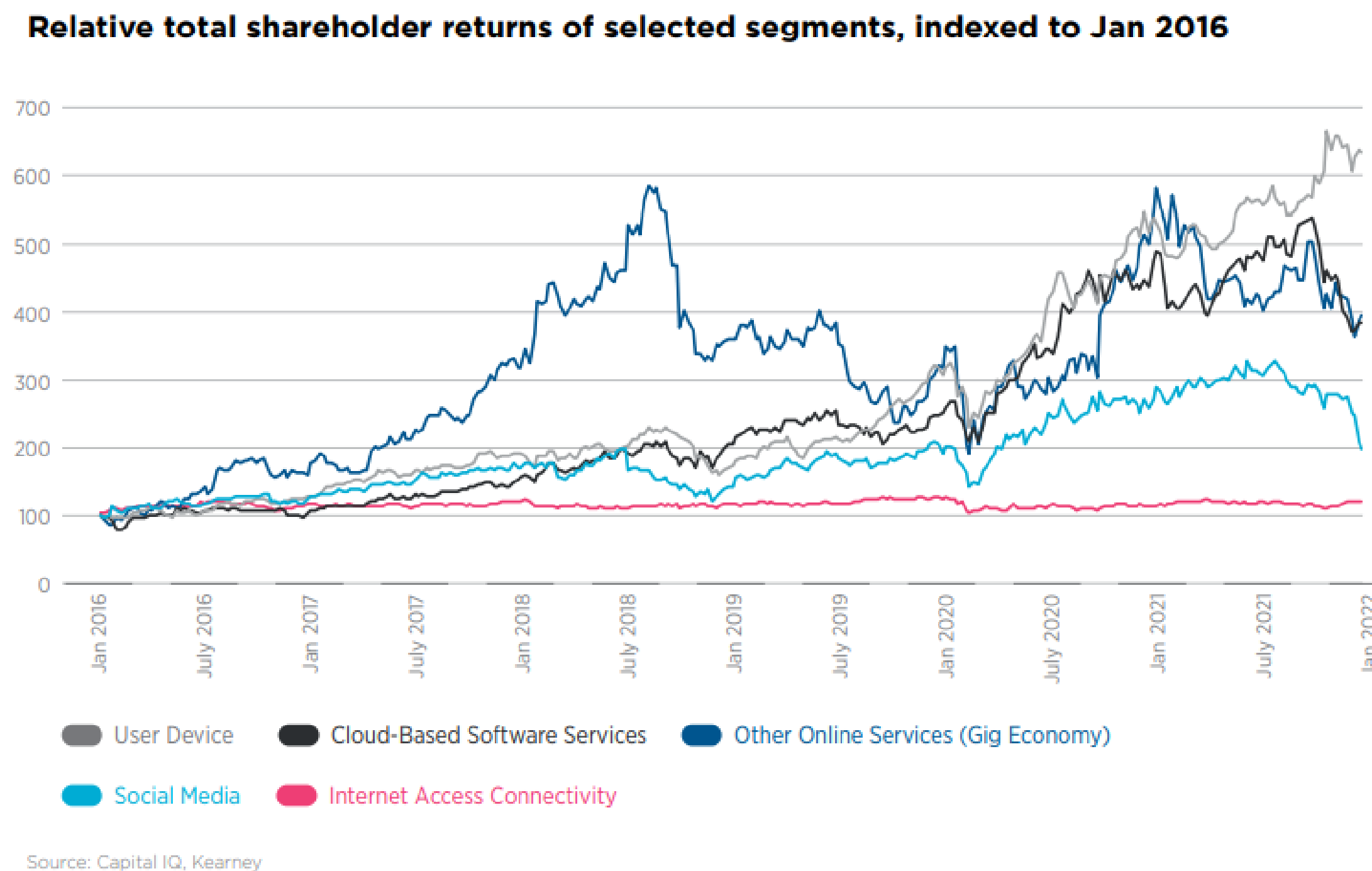
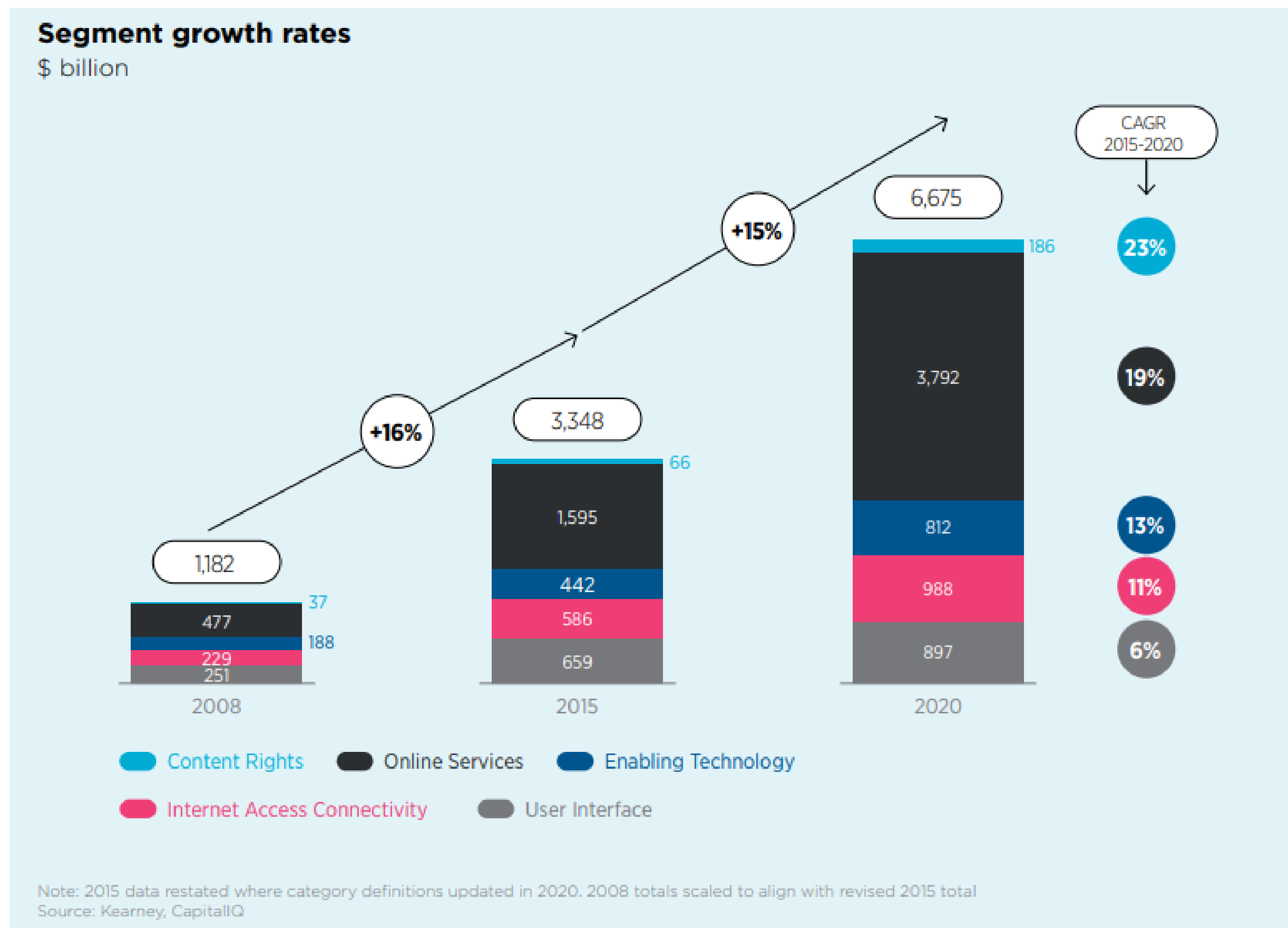
Source: Cisco, Omdia

The internet value chain



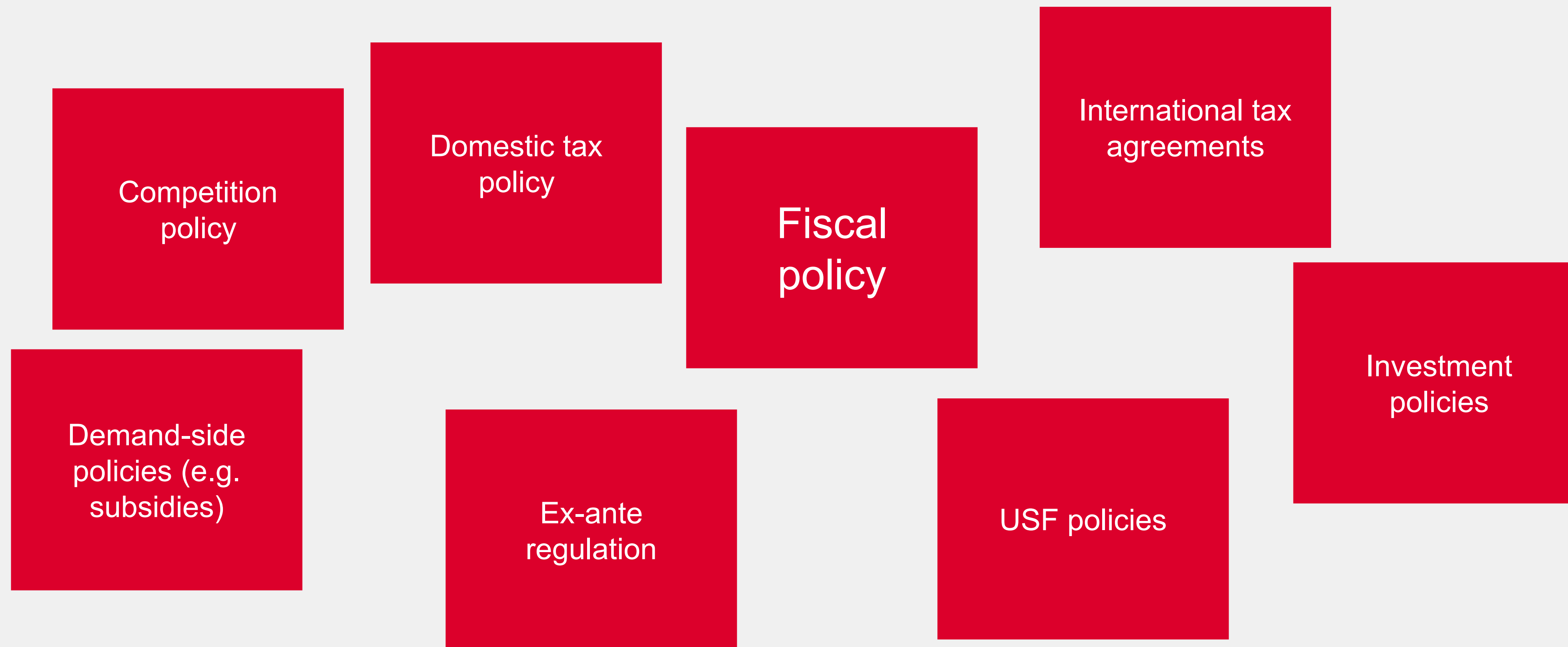
Source: GSMA, The internet value chain, 2022.

Revenues and profitability have evolved differently for different segments



Source: GSMA, The internet value chain, 2022.

Fiscal policy interacts with other digital policies and regulations to affect profitability, investment and demand for digital services



Best practice principles of taxation policy

Taxation should be broad-based

Taxation alters incentives for production and consumption. Economic distortions will generally be minimised where the burden of taxation is spread evenly across the economy.

Taxation should account for sector and product externalities

Just as the introduction or increase in taxation is designed to address negative externalities from activities like tobacco consumption, taxation policy should be appropriately applied to encourage sectors that create positive externalities in the wider economy.

The tax and regulatory system should be simple, stable and enforceable

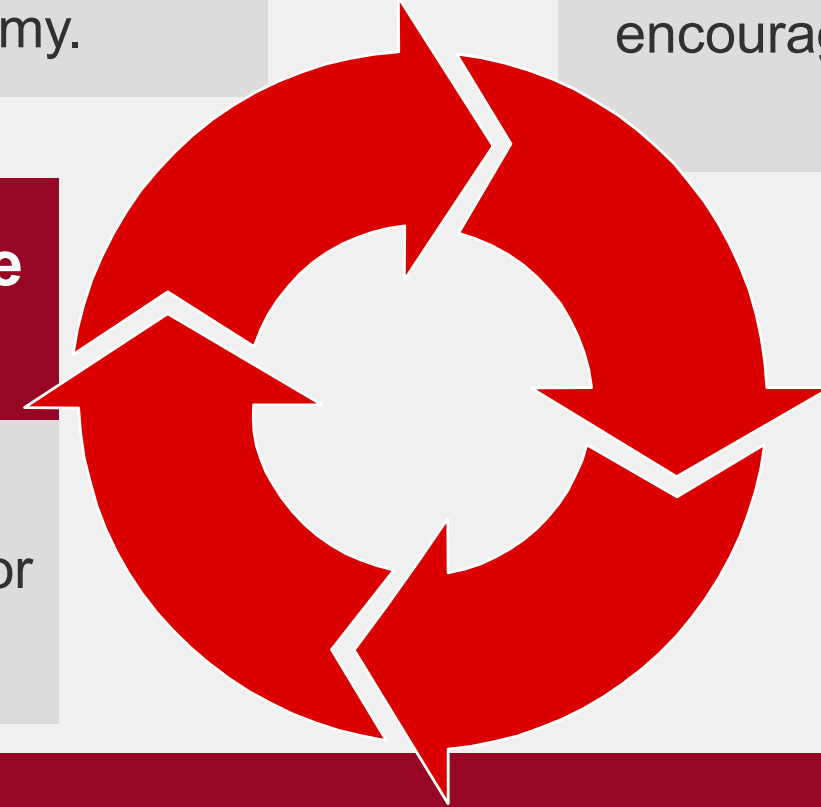
A lack of transparency in taxation systems may deter investors and increase enforcement costs for the government.

Incentives for competition and investment should be unaffected

Taxes on profits are widely accepted to be less distortive than taxes on total revenues. Taxes on operators' total revenues reduce incentives for investment in infrastructure and quality of service improvements.

Taxes should not be regressive

Certain taxes lead to a disproportionate burden on poorest consumers and risk excluding them from the benefits of digital and financial inclusion. Mobile has expanded from a luxury good to being a fundamental tool in areas ranging from agriculture to health.



However, in many countries, taxation of mobile services and companies is characterized by:

- Complex tax systems
- High sector-specific taxation
- Frequent tax changes and uncertainty
- Tax systems that do not recognize positive economic externalities of the sector (for example, a 10% increase in mobile broadband penetration leads to a 2.5% increase in GDP and digital government payments can save 0.8% to 1.1% of GDP)

Taxation on the mobile sector is often complex

Consumers of mobile services are taxed when buying a mobile device, activating a service and using their mobile phones. Aside from general taxes, such as corporation tax, operators contribute to public funding through a number of sector-specific taxes and fees.

Overview of taxes and fees										
Consumers										
TAX BASE	Activation			Usage			Handset			
TAX TYPE	VAT	SIM, connection, numbering taxes		VAT	Usage excise tax	Usage higher VAT	VAT	Handset excise tax	Handset higher VAT	Customs duties
Operators										
TAX BASE	General taxes				Regulatory fees and other payments					
TAX TYPE	Profits	Revenue		Network equipment	Revenue	Fixed amount				
TAX TYPE	Corporation tax	Turnover tax	Other revenue taxes	Customs duties	Universal service obligations	Variable licence fee	Variable spectrum fee	One-off licence fee	One-off spectrum fee	

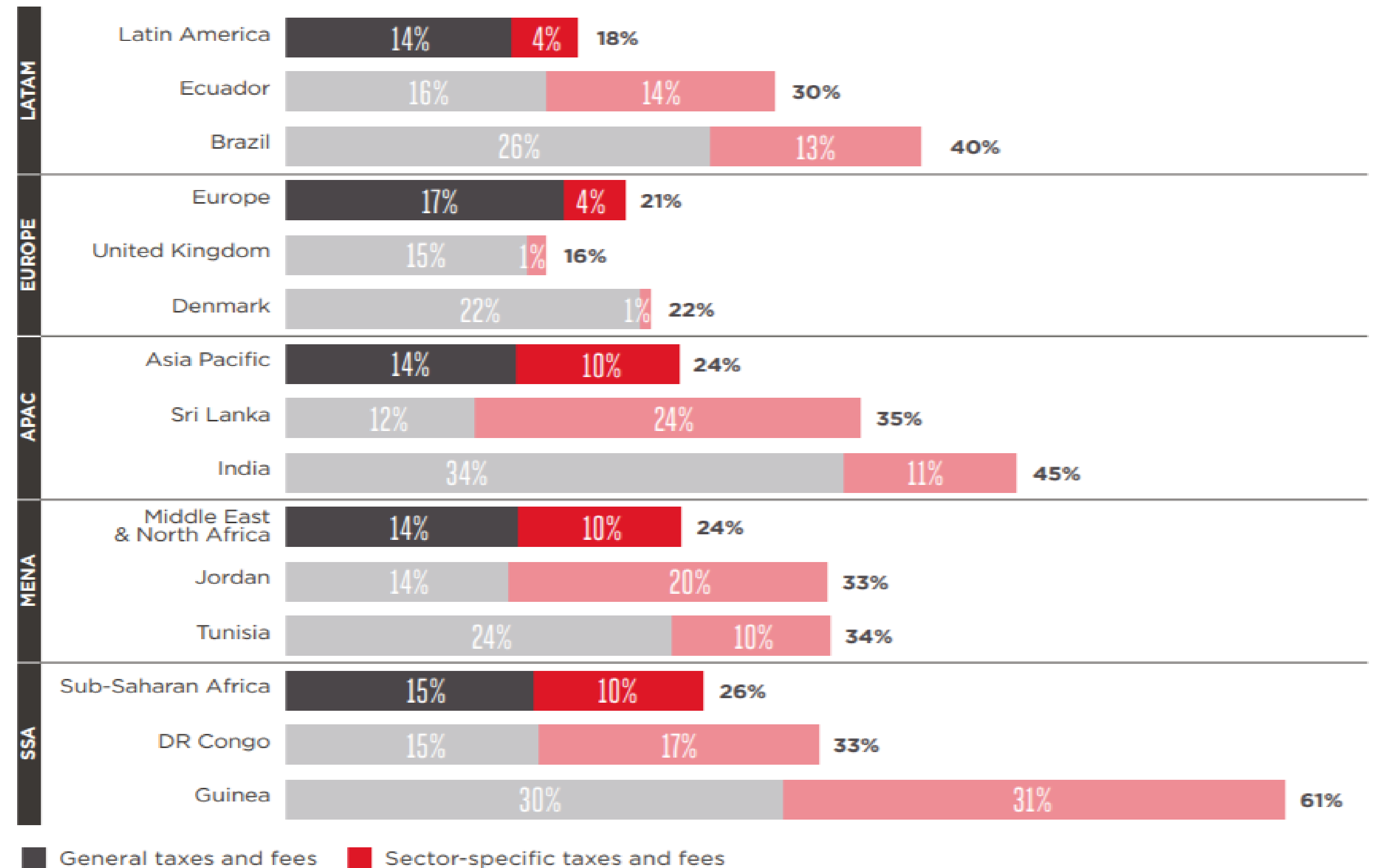
General Mobile sector-specific

Source: GSMA, Rethinking mobile taxation to improve connectivity, 2019.

Total tax burden on mobile as a % of revenues

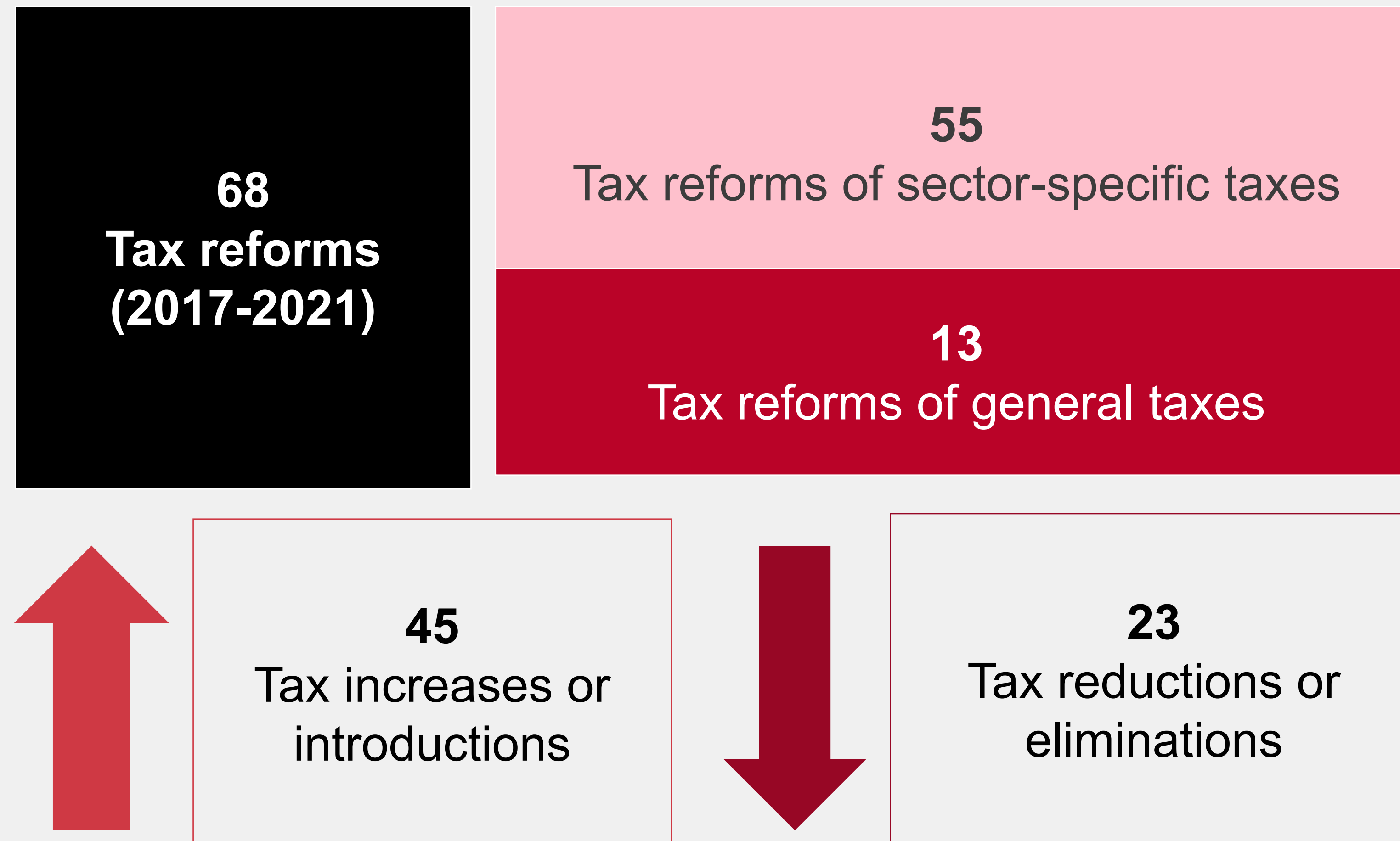
General and sector-specific taxes and fees as a proportion of market revenue (2019)

- Consumers and operators are paying taxes in excess of 30% of market revenue in many countries
- This is higher than the global average



Source: GSMA, Rethinking mobile taxation to improve connectivity, 2019.

Recent trends in mobile tax reforms in SSA



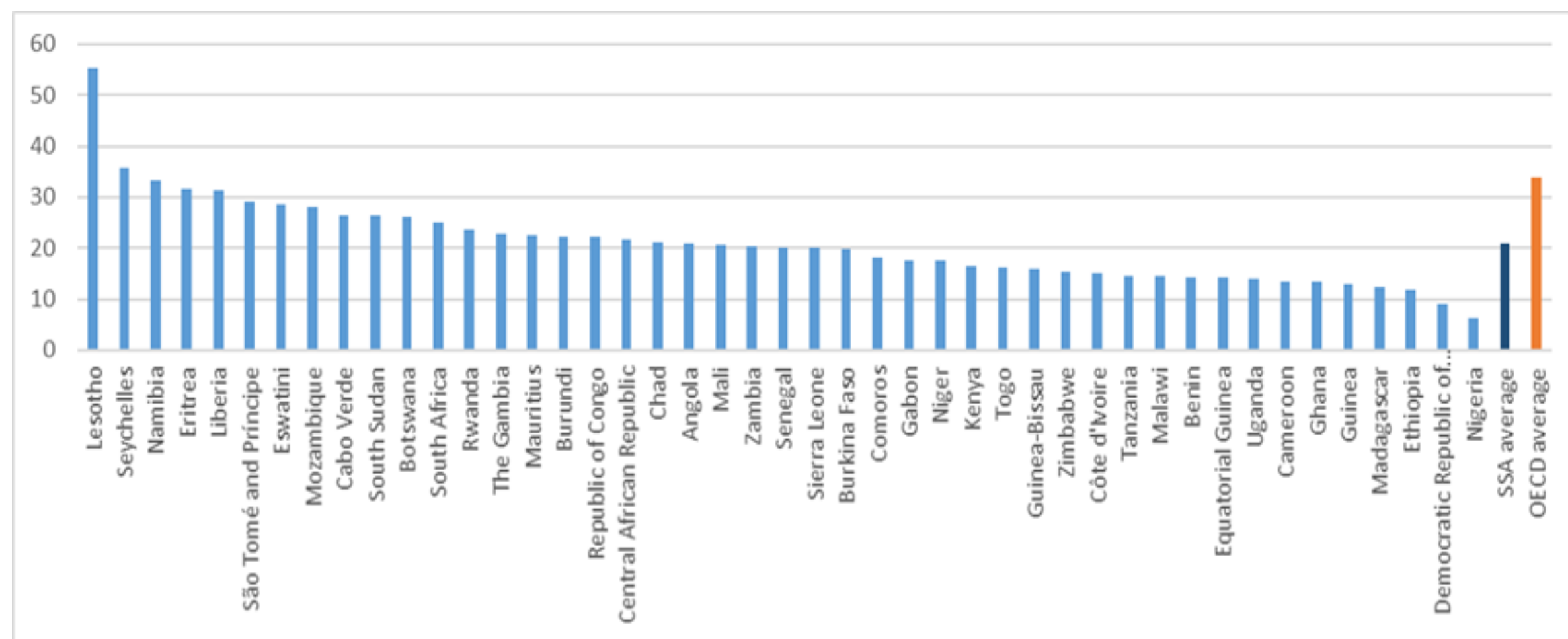
Despite its positive economic impact, mobile is subject to increased taxation

- SSA continues to have a substantial incidence of sector-specific taxes on mobile. A recent review of tax changes shows that the 2017-2021 period saw a net increase in tax pressure on operators and consumers
- The 2017-2021 period saw a net increase in tax pressure with 30 net introductions or increases of sector-specific levies on operators and consumers
- Most recent tax reforms concern sector-specific levies on mobile usage, where consumers have seen a substantial net increase in tax burden.

Source: GSMA analysis

Governments face pressures to increase the tax base

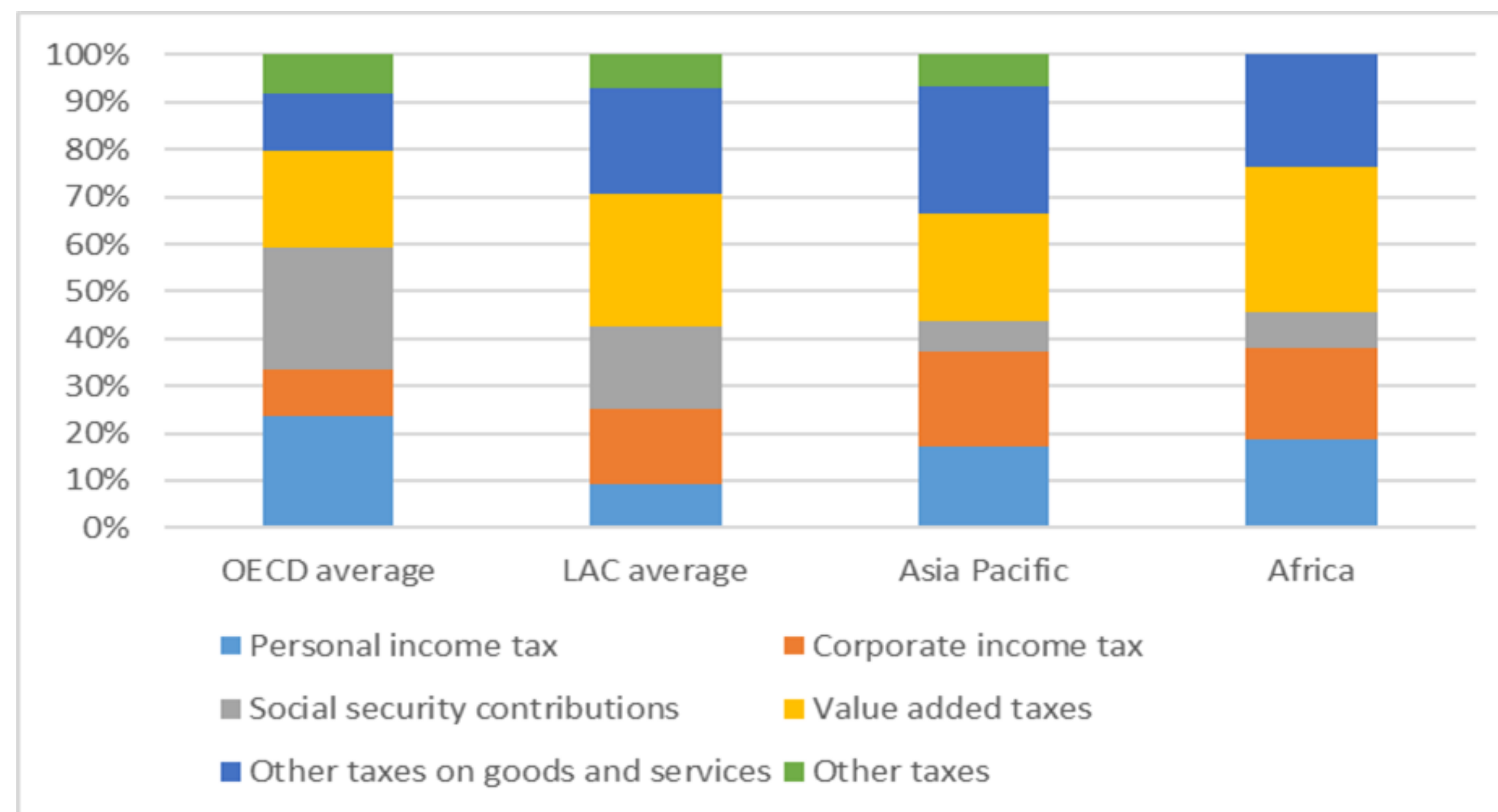
Tax-to-GDP ratios in Sub Saharan Africa



Source: IMF World Economic Outlook and OECD Global revenue statistics.

- Taxation on mobile is a convenient way to raise domestic revenues in countries with large informal economies, low administrative capacity and low direct tax revenues

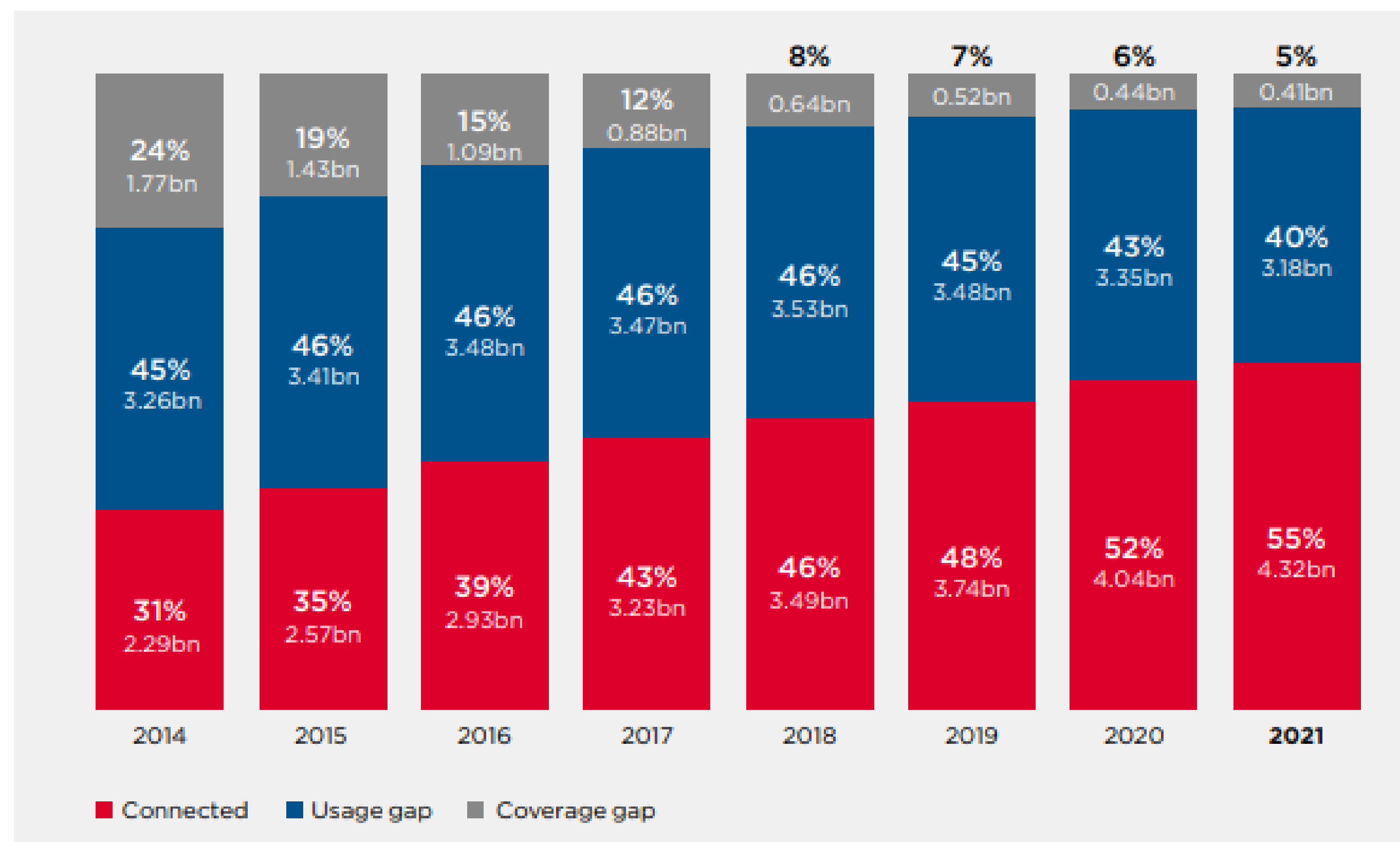
Revenue composition, as a % of total tax revenue



Source: OECD Africa Revenue Statistics 2021.

The balance to finance broader development goals, including digital agendas

Evolution of global mobile internet connectivity, 2014–2021

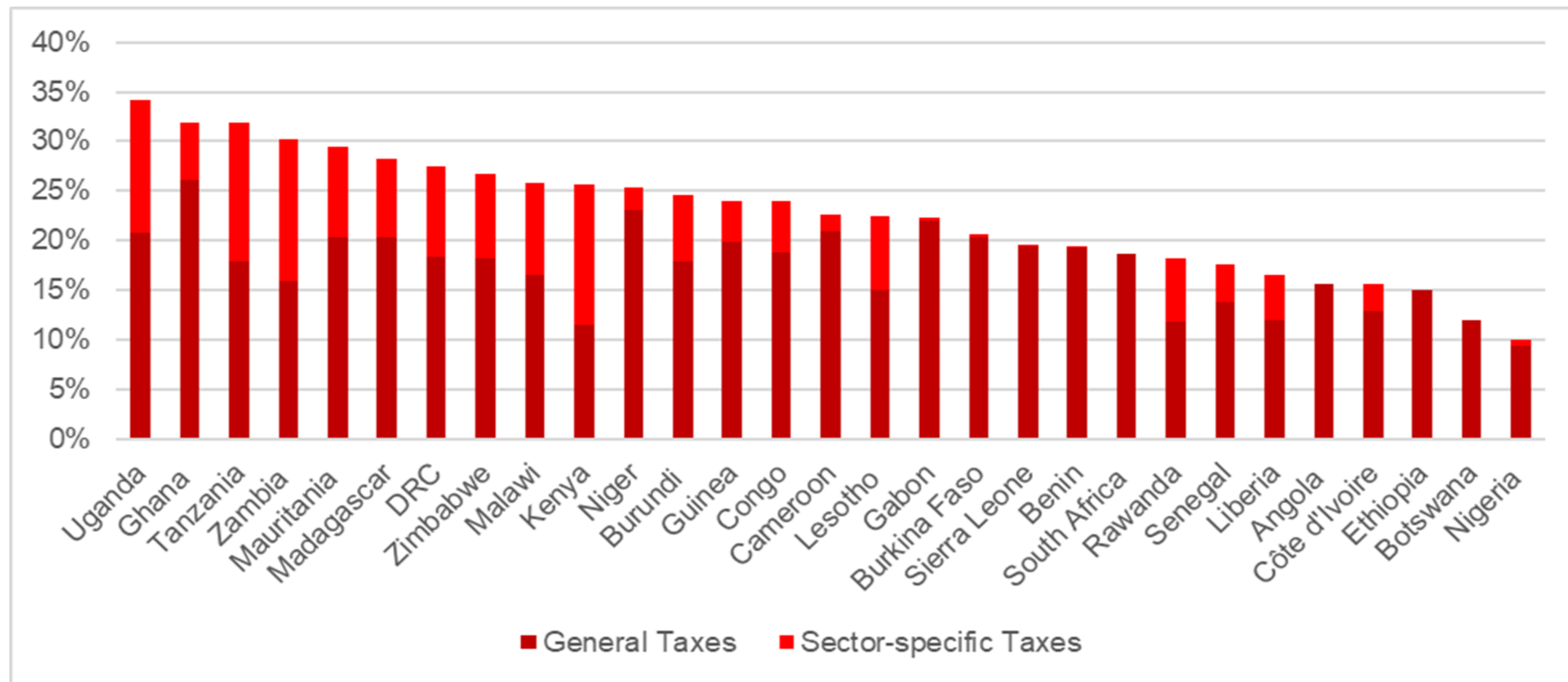


- Regional disparities : Coverage gap is 17% and 5% in Sub-Saharan Africa and South Asia respectively
- Usage gap is 61% and 54% respectively

Source: GSMA, State of Mobile Connectivity 2022.

Impacts of tax burden on affordability of mobile services

Consumer taxes - Tax as a proportion of the monthly cost of an entry-level handset and 1 GB of data basket (2021) in SSA

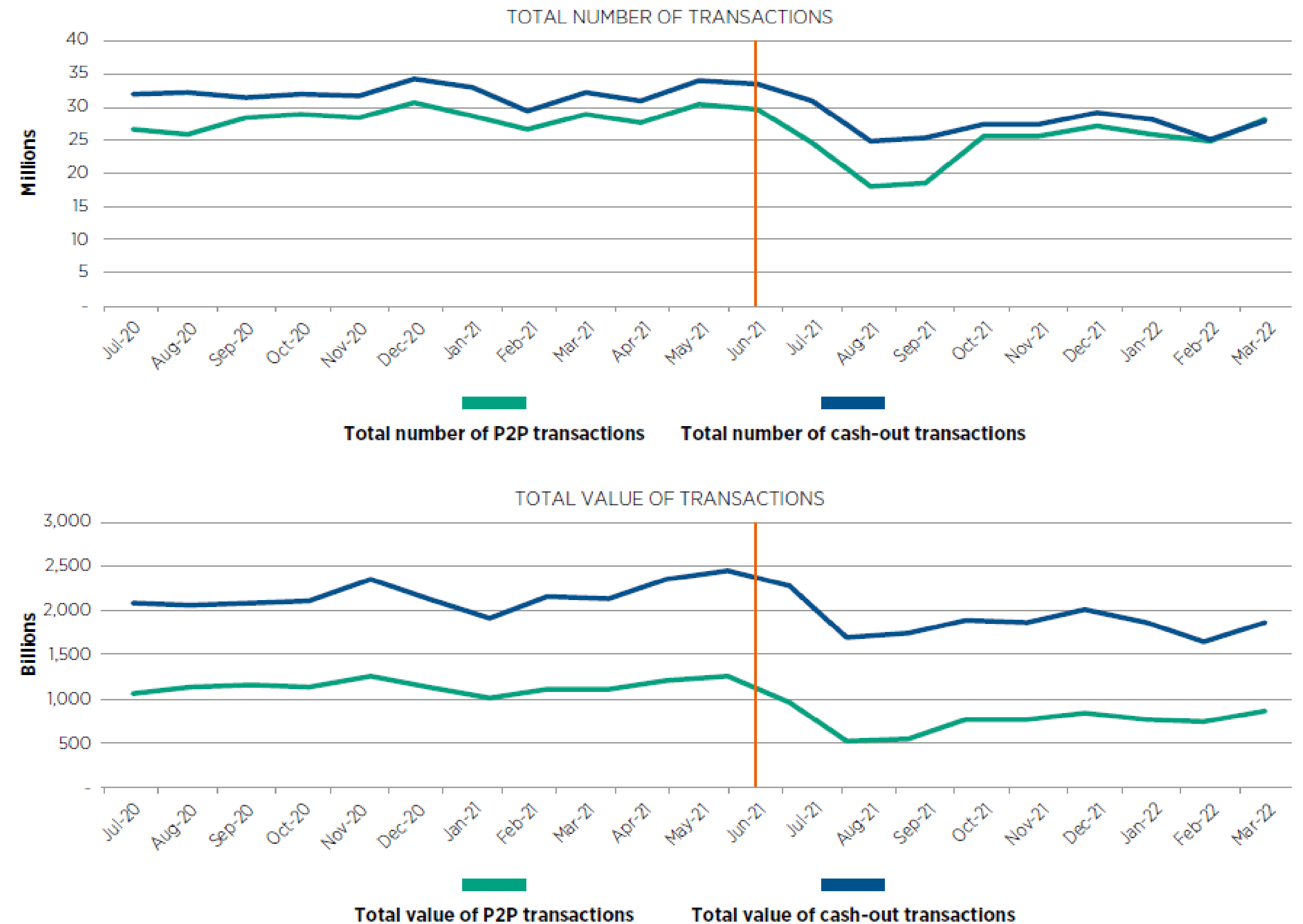


Source: GSMA analysis

Impacts of fiscal reform on demand for mobile services

Consequences of mobile money fee on transactions in Tanzania – GSMA analysis

- The new levy on mobile money transaction values was introduced in June 2021
- Demand and revenues greatly reduced, as well as the expected tax revenue for government
- As a result, the government reduced the tax in 2022

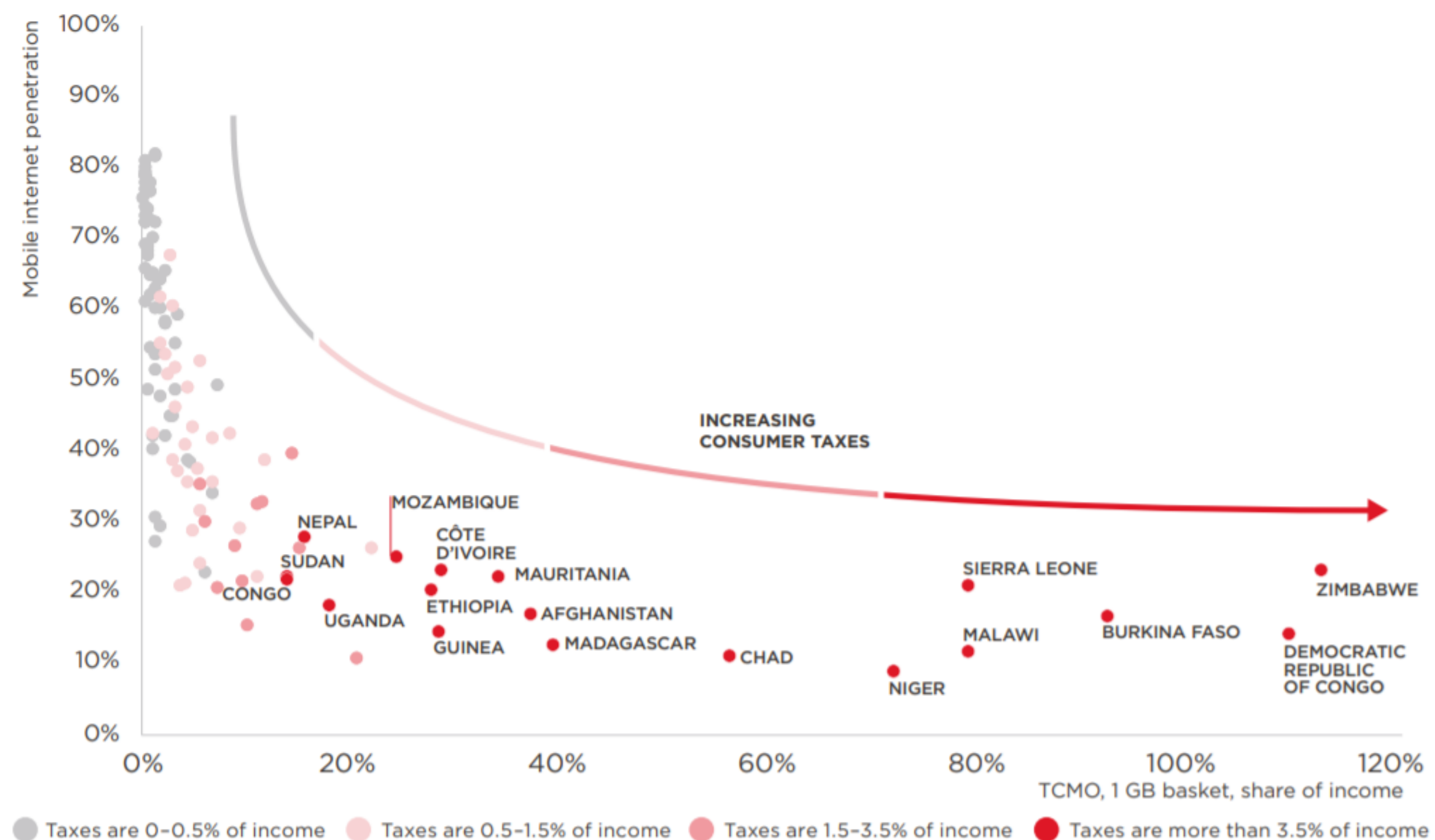


Source: GSMA analysis and operator's data

Consumer taxes restrict mobile internet penetration

Total cost of mobile ownership for 1GB as a proportion of income versus mobile internet adoption in 2017

Total cost of mobile ownership for 1 GB (as a proportion of income) and mobile internet penetration (2017)



Source: GSMA, Taxing mobile connectivity in Sub-Saharan Africa 2017.

High taxes lead to a reduction in investment, both directly and through reduction in demand

- Between 2018 and 2020, both 3G and 4G coverage increased significantly more in Nigeria than in DRC
- The key challenge to expanding mobile broadband coverage in DRC is the lack of demand. Mobile internet adoption was around 20% at the end of 2020, compared to 35% in Nigeria
- A key challenge to expanding demand in DRC is affordability. In 2021, the monthly cost of an entry-level internet-enabled handset and 1 GB of data represented almost 35% of monthly income for the bottom 40% of the income group. By contrast, the cost in Nigeria was only 5 %
- GSMA analysis shows that to close the coverage gap in DRC, and other countries with large coverage gaps, in a manner that is financially sustainable, increasing demand will be vital.
- GSMA forecasts that unless the barriers limiting the demand for mobile internet are addressed in DRC, it is likely that a third of the population will still be uncovered by 2025.



The dynamics between supply and demand for coverage:
The example of Nigeria and The Democratic Republic of Congo

		2018	2020	2025 (FORECAST)
Nigeria	3G coverage	70%	80%	>90%
	4G coverage	17%	60%	>90%
DRC	3G coverage	53%	54%	67%
	4G coverage	11%	42%	50%

Source: GSMA, State of Mobile Connectivity 2021.

Thank you

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