Taxation of mobile telecoms

Sector-specific taxes on consumption and international traffic

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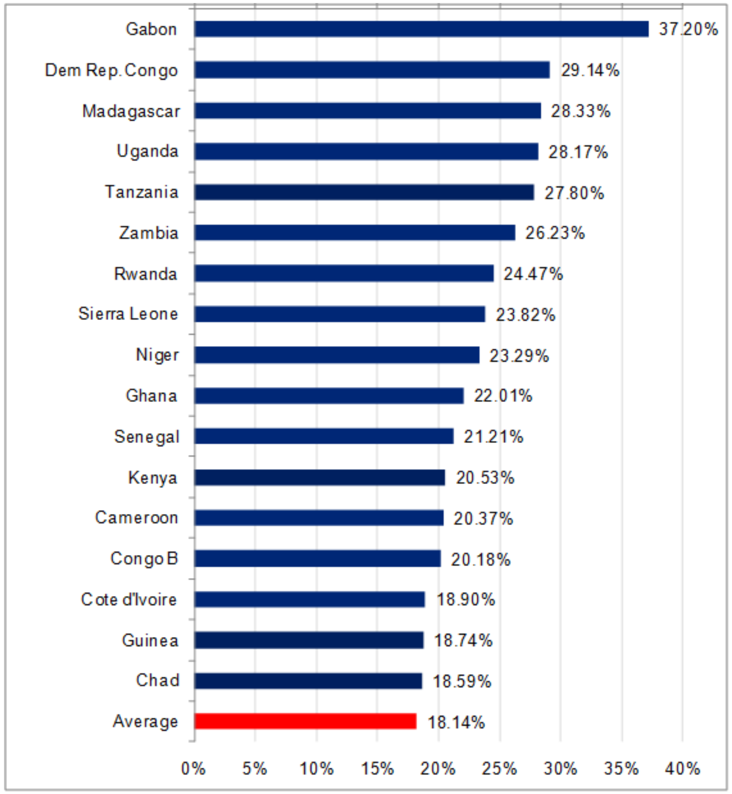
SG3 Seminar – Cotonou, Benin May 2012

Sector-specific taxes on mobile telecoms have negative impacts

- Mobile telecoms is a significant contributor to national economies
  - Direct monetary contribution
  - Mobile services stimulate activities in the wider economy further boosting GDP
  - Provides sustainable employment opportunities to millions across the region
  - Improves productivity of employees and businesses
  - Social benefits (e.g. m-money)

- Sector-specific taxes on mobile telecoms are harmful
  - Prevents consumer take-up of mobile services
  - Discourages consumer usage
  - Hinders investment in networks and services

Tax as a proportion of total cost of ownership in some countries in Africa are above global average



Source: GSMA/Deloitte Global Tax Review (2011)

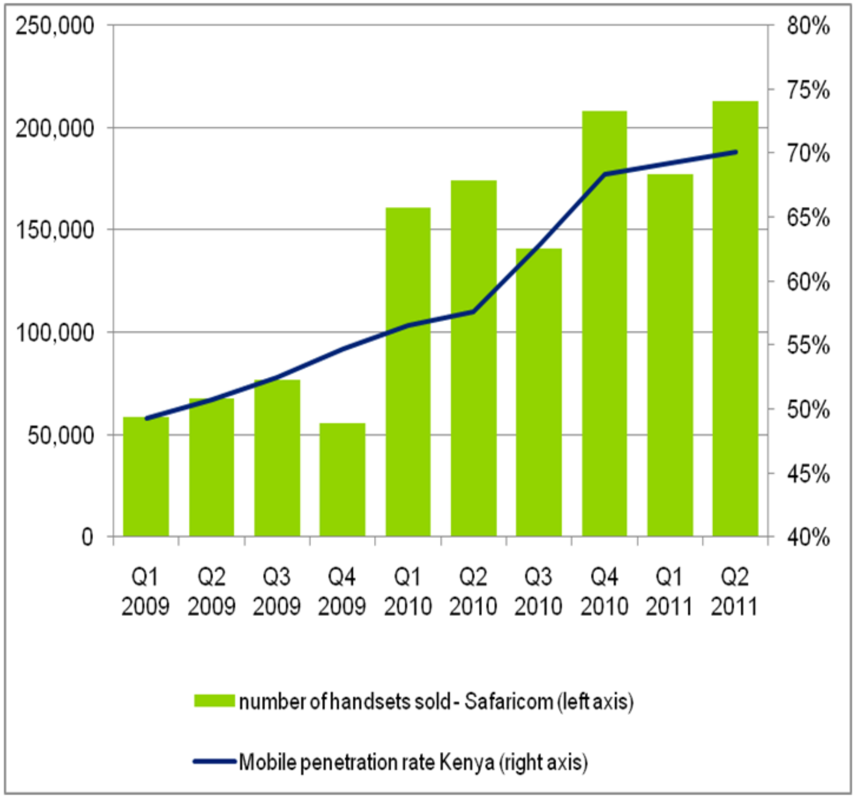
Reducing sector-specific taxes on mobile telecoms benefits citizens, businesses and governments

- High taxes send the wrong signals on consumption and investment
  - Limits the value creation potential of mobile

- Reducing mobile taxes could be beneficial
  - Increases take-up of mobile services
  - Encourages usage of mobile services
  - Stimulates economic activity (*multiplier effect)*
  - Could generate more revenue in taxes

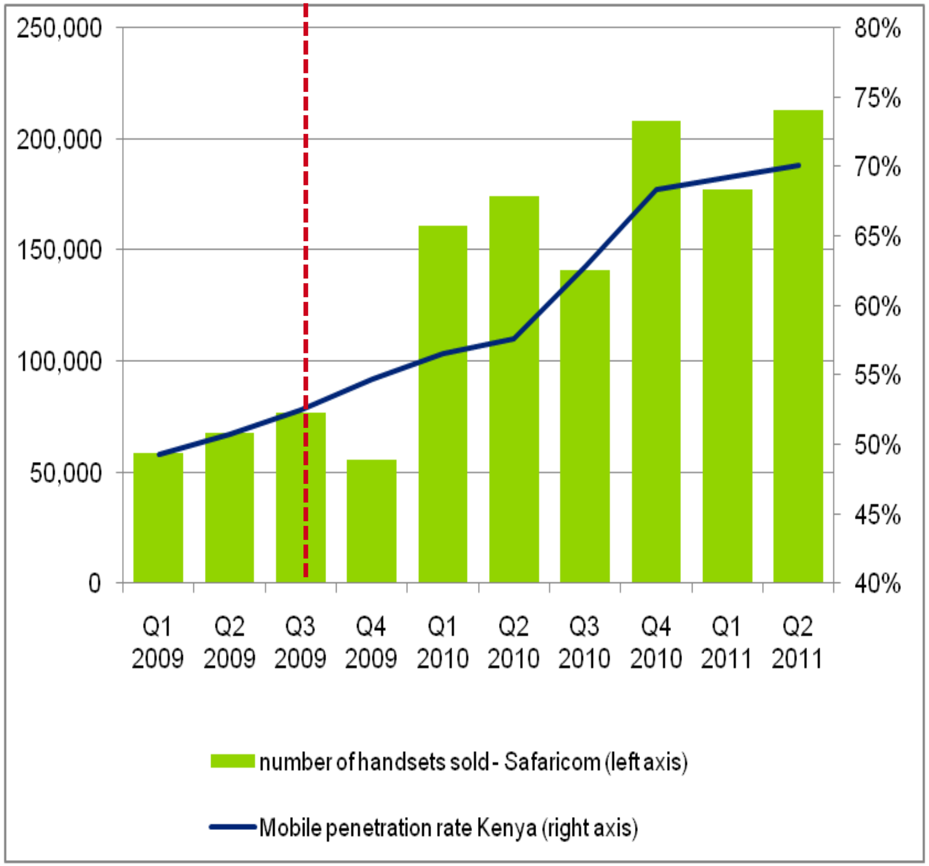
- Kenya abolished taxes on handsets in 2009
  - Increased take-up of services
  - Created more revenue for government

Mobile take-up and handset sales increased in Kenya after handset taxes were removed



Source: GSMA/Deloitte Case Study on Kenya (2011)

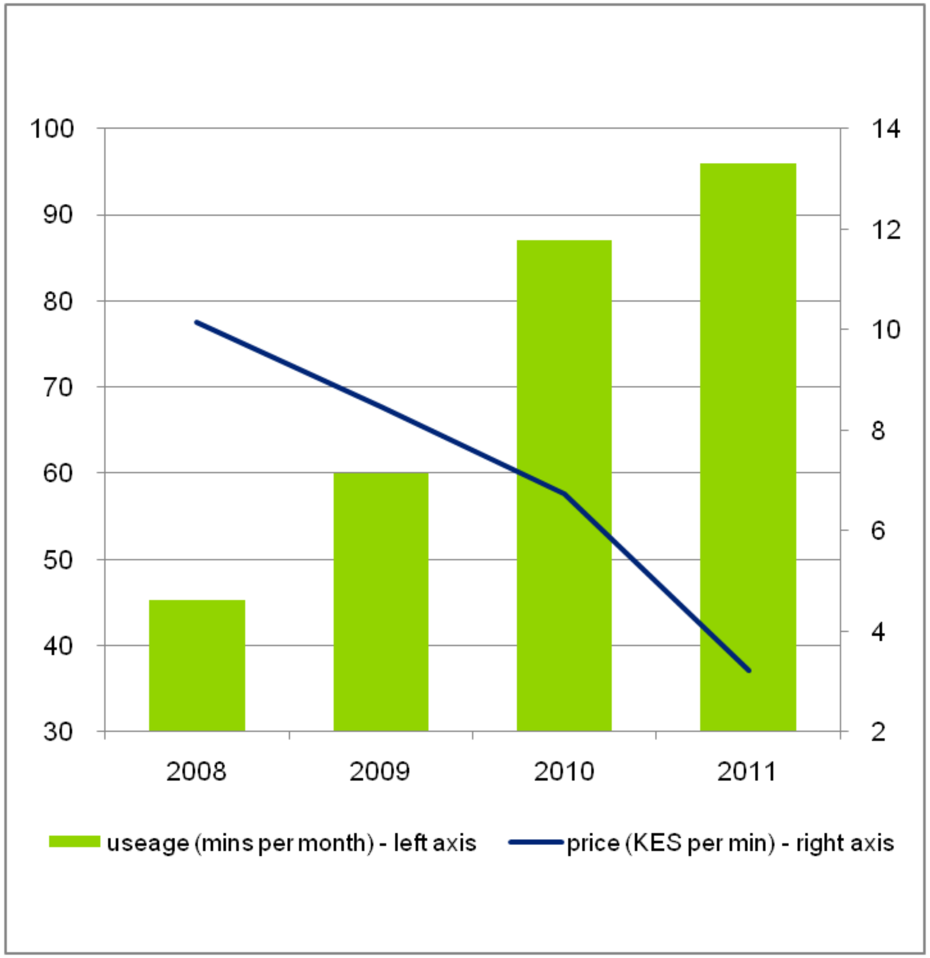
Lowering tax increased penetration and handset circulation



Source: Wireless Intelligence, Deloitte analysis

- Kenya recognised that the handset price represented a barrier to the development of the sector
- In June 2009, the 16% VAT on mobile phone handsets was removed
- Since then, handset purchases have increased by more than 200% and mobile penetration has increased from 50% to 70%

Tax reductions and healthy competition have lowered prices



Source: Wireless Intelligence, Deloitte analysis

- In the last three years prices have fallen by 70%
- Usage of mobile services has risen by 113% (average minutes of use per user per month)
- Through increased handset circulation, a higher share of consumers has received access to high-value mobile services:
  - M-Banking
  - M-Agriculture
  - M-Health

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3 Despite the tax cut, mobile operators contribute more tax!

- In 2011, mobile operators in Kenya will contribute more than KES 40 billion to the government
- This is an increase of 33% compared to 2008
- An example other governments should follow!

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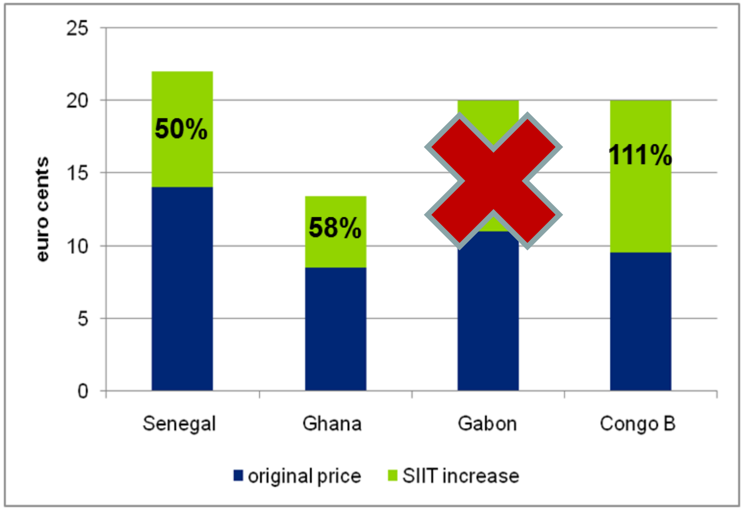
Additional taxes on international traffic could be counter-productive

- Some countries are considering additional charges on international incoming traffic
  - Charges are fixed by government and not set competitively creating market distortions
- Raises call prices
  - Increases the cost of calling the country
  - Other countries may reciprocate increasing the cost of calling other countries
- Negative unintended consequences
  - Reduces level of cross-border economic activity
  - Creates opportunities for arbitrage
  - Damages international reputation and raises questions on compatibility with global obligations
  - Significant implementation costs for no added value

Proposed charges significantly increased international termination charges
Gabon did not go ahead with its proposal



Source: GSMA/Deloitte Report on Surtaxes on International Incoming Traffic (2011)

Governments should carefully consider the negative consequences of taxing international traffic

- Taxing international callers could negatively impact local consumers and businesses and citizens abroad
- Damages international reputation and reduces global competitiveness
  - Might affect a significant proportion of intra-regional traffic and risks a domino effect in the region
- Setting charges for international termination through competitive market mechanisms leads to better outcomes that setting high fixed charges
  - Significant monitoring costs might not result in value-add for the national economies

Governments should move towards an optimal tax regime for mobile telecoms

- An optimal taxation policy balances government revenue, socio-economic development goals and international competitiveness
  - Taxing mobile telecoms as a luxury good is not aligned with the other policy goals
  - Revenues from high taxes might not outweigh the lost GDP and socio-economic benefits

- Countries should consider the abolishment/reduction of sector-specific taxes on mobile services
  - Higher taxes on mobile services send the wrong signals for consumption and investment
  - Increasing the taxation levels are not aligned with the goal of creating a digital economy
  - Reducing the tax burden would benefit the country

- Countries should be aware of the unintended negative impacts of taxes on international traffic
  - Taxing international traffic is not aligned with the direction of travel towards a liberalised telecommunications environment