



# **ITU Workshop on “Taxation of Telecommunication Services and Related Products”**

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## **TAXATION OF TELECOMMUNICATION SERVICES IN CAMEROON**

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# contents

- 1. General**
- 2. Main taxes and duties payable by telecommunication operators in Cameroon**
- 3. Fiscal contribution of the telecommunication sector**
- 4. Contribution of the telecommunication sector to the national economy**
- 5. Recommendations**

# 1- General

- 1.1-Presentation of Cameroon
- 1.2-Main telecommunication market indicators in Cameroon
- 1.3-Legal framework governing the taxation of goods, services and persons in Cameroon

## 1.1-Presentation of Cameroon

- Cameroon is a country in central Africa, north of the Equator.

It is bounded:

- to the west by Nigeria;
- to the north-east by Chad ;
- to the east by the Central African Republic; and
- to the south by Congo, Gabon and Equatorial Guinea

# 1.1-Presentation of Cameroon

- Capital: Yaoundé
- Surface area : 475 650 km<sup>2</sup>
- Population in 2009 : 19 406 100
- GDP per capita : estimated at USD 2 300 in 2009
- GDP growth rate estimated at 3.8% in 2011
- Monetary unit: CFA franc (XAF).

# 1.2-Main telecommunication market indicators

- The key features of the telecommunication market as at end 2010 are :
  - presence of two mobile-telephone operators: Orange Cameroon and MTN Cameroon, operating GSM networks
  - One fixed-telephone operator, CAMTEL, operating a wired network and a CDMA network
  - **9 223 718 telephone subscribers, of which 8 684 214 GSM mobile-telephone service subscribers**
  - 65% coverage of inhabited territory
  - 47.5% telephone service penetration

# 1.2-Main telecommunication market indicators

- GSM mobile-network operators hold 86% of market share in value terms, as against 14% for the incumbent operator CAMTEL
- aggregate turnover estimated at XAF 433 billion, of which XAF 363 billion generated by the mobile-telephone operators
- XAF **72 billion** of investment
- process of opening up the market to new competitors is under way.

## 1.3-Legal framework governing the taxation of goods, services and persons in Cameroon

- The legal framework governing the taxation of goods, services and persons in Cameroon is set by the General Tax Code ([www.impôts.cm](http://www.impôts.cm) )
- This code comprises three books and final provisions
  - Book 1 covers the various types of taxes
  - Book 2 governs tax procedures
  - Book 3 contains the local fiscal system



## **2-Main taxes and duties payable by telecommunication operators**

- 2.1- Fiscal characteristics of telecom sector businesses
- 2-2- Standard operating taxes payable by telecom sector businesses
- 2.3- Specific contributions relating to electronic communication activities

## 2.1- Fiscal characteristics of telecom sector businesses

- These are generally major enterprises: Section 113 of the General Tax Code defines major enterprises in Cameroon as those with a turnover of not less than XAF 1 billion
- They are assessed on the basis of actual earnings, and to this end must keep accounts pursuant to the simplified accounting requirements set forth in the OHADA accounting law.
- Telecom operators holding public service concessions are also subject to the tax regime for public service concessions.

## 2.2- Standard operating taxes payable by telecom sector businesses

Taxes paid by all companies under common law implanted in Cameroon and meeting the above-mentioned fiscal criteria:

- **Value-added tax (VAT)** : Telecommunication products and services are subject to the general VAT rate of 19.25% of turnover before tax (since 2005). This tax is paid by the end consumer.
- **Personal income tax (PIT)** : Personal income tax is deducted at source for wage-earners.

## PIT tax scale

<b>Income bracket</b>	<b>Rate</b>
0 to 2 000 000	10%
2 000 001 to 3 000 000	15%
3 000 001 to 5 000 000	25%
> 5 000 000	35%

## 2.2- Standard operating taxes payable by telecommunication sector businesses

- **Company tax (CT)** : Taxable turnover is taxed at a flat rate of 35% (38.5% inclusive of CAC).
- **Tax on income from stocks and shares (SSIT)** : This tax is levied on proceeds from shares, stocks and similar income and on undisclosed income. It then replaces the PIT or the CT and is deducted at source. The tax rate is 16.5%.

## 2.2- Standard operating taxes payable by telecommunication sector businesses

- **Special income tax (SIT)** : This tax is levied on the provision of services billed abroad. Under tax agreements, it may be tax-deductible in the foreign country. The tax rate is 15% (under the Franco-Cameroon tax agreement, 7.5% if the company is registered in France).
- **Additional council taxes (ACT)** : These are an additional 10% tax on the following taxes and duties: VAT, CT, PIT and SSIT.

▪ **Business licence tax:** Tax levied by the local councils, payable by any natural person or corporate body exercising a commercial activity in Cameroon. The tax scale is as follows:

Turnover	Class	Rate
≥ XAF 2 billion	1 <sup>st</sup>	0.0875 %
≥ XAF 1 billion to < XAF 2 billion	2 <sup>nd</sup>	0.100 %
≥ XAF 500 million to < XAF 1 billion	3 <sup>rd</sup>	0.108 %
≥ XAF 300 million to < XAF 500 million	4 <sup>th</sup>	0.116 %
≥ XAF 100 millions to < XAF 300 million	5 <sup>th</sup>	0.150 %
≥ XAF 15 millions to < XAF 100 million	6 <sup>th</sup>	0.160 %
< XAF 15 million	7 <sup>th</sup>	0.400 %

## 2.2- Standard operating taxes payable by telecommunication sector businesses

- **Registration fee** : This is a tax on contracts (except employment contracts) and private instruments.



## 2.3- Specific contributions relating to electronic communication activities

### Provisions of the General Tax Code

- Chapter 4 of the General Tax Code relates to the specific tax regime for public service concessions.
- Section 249 of the General Tax Code of Cameroon provides that « concession holders ... shall, subject to the provisions ... laid down in the specifications, be governed by the tax rules defined under ordinary law. »

## 2.3- Specific contributions relating to electronic communication activities

- Section 255 provides that « Besides payments made for depreciation, the concession holder may deduct from his taxable profits an amount for depreciation of renewable depreciable property conceded by the concession holder. Such property must be freely returned to the conceding authority at the end of the concession. »

## **2.3- Specific contributions relating to electronic communication activities**

- Unlike the petroleum, mining and forestry sectors, which have their own specific tax provisions, the telecommunication sector, apart from a few specific items stipulated in the law on electronic communications, is still governed by the common-law regime.

## **2.3- Specific contributions relating to electronic communication activities**

- **Entry and renewal fees for concessions and licences**

Pursuant to Law 98/014 of 14 July 1998 on telecommunications in Cameroon, the entry fee granted operators a right to operate for a period of 15 years. This term was reduced to 10 years after reform of the regulatory framework in 2010.

## 2.3- Specific contributions associated with electronic communication activities

- When the telecom market was opened up in 1998, the two mobile-telephone operators paid an entry fee of XAF 20 billion. These amounts were settled in several annual instalments. The sum involved represents less than 2.7% of the aggregate turnover of the two mobile-telephone operators over their first five years of operation, and barely 14.6% of the profits made by the operators over the same period.
- **Registration of concessions and licences is free of charge.**

## 2.3- Specific contributions relating to electronic communication activities

### ■ Fees for the use of scarce resources

- **Spectrum usage fees:** GSM mobile-telephone operators, which are the main users of the radio-frequency spectrum, pay an annual flat-rate fee of XAF 200 million.

## **2.3- Specific contributions relating to electronic communication activities**

A study commissioned by MINPOSTEL shows that the frequencies assigned to the GSM mobile-telephone operators are extremely generous, nearly twice the amount generally assigned for GSM internationally (8 MHz or 42 channels in Cameroon as against 5 MHz or 25 channels internationally);

- Fees for the usage of numbering resources.

## 2.3- Specific contributions relating to electronic communication activities

### ■ Contribution to the special telecommunication fund

- The fund was established by the Law on electronic communications
- The operators' contribution to the fund was increased from 2% of their turnover in 1998 to 3% at end 2010.



## **2.3- Specific contributions relating to electronic communication activities**

- The fund is used in particular:
  - for the development of broadband infrastructures in urban and rural areas;
  - for the development of universal access and service (e.g. establishment of multipurpose community telecentres) in rural areas, underprivileged urban areas and isolated areas.

## 2.3- Specific contributions relating to electronic communication activities

### ■ Contribution to regulatory expenses

Telecom sector operators contribute to the regulator's management expenses to the tune of 1.5% of their turnover.

## 2.3- Specific contributions relating to electronic communication activities

The purpose of the specific duties and fees set by the Law on electronic communications is:

- first, for arbitration in the choice of operators to operate on the market, in view of the scarcity of some resources (spectrum...) and the finite potential of the market;
- second, to promote broadband infrastructure in rural and urban areas and to increase access to ICTs in underprivileged areas through reinvestment of specific resources, such as the contribution to the special telecommunication fund, in development of the sector;
- in general, to expand service offering and boost demand.



## **3- Fiscal contribution of the telecommunication sector**

### **3.1- Evolution of various taxes and duties**

### **3.2- Taxes, fees and duties borne by the consumer**

## 3.1- Evolution of the various taxes and duties

- ❖ Fixed and mobile telecom operators' contribution to taxes and charges rose from XAF 53.3 billion in 2005 to XAF 74.6 billion in 2010
- ❖ Over the same period, the overall telephone penetration rate grew from 17.8% to 47.3%.

## 3.1- Evolution of the various taxes and duties

- The telecom sector's share of national taxes and duties amounts to 5.1% in 2010.

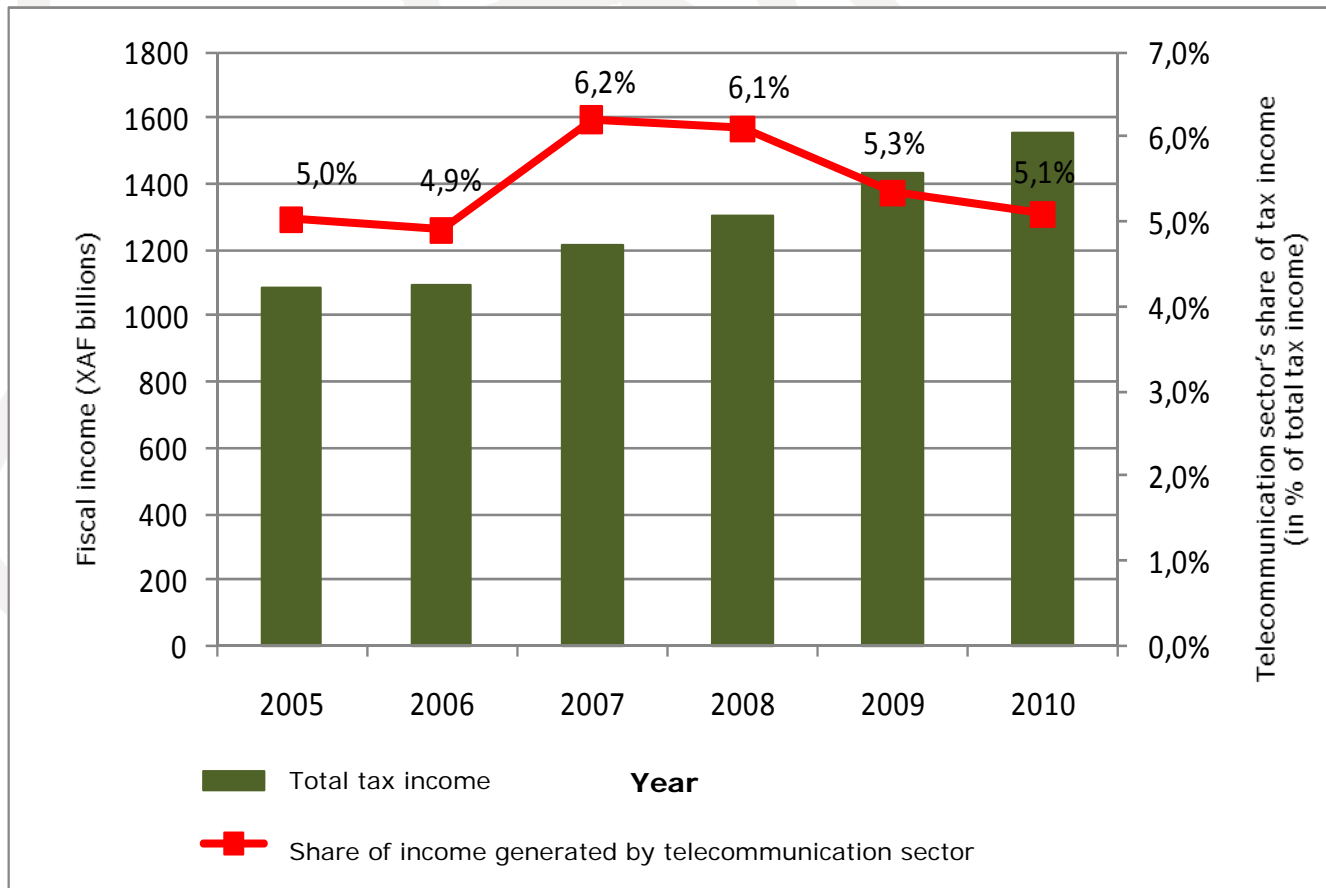
## 3.1- Evolution of the various taxes and duties

- Table 1: Fiscal contribution of fixed and mobile telephone operators in Cameroon (XAF billions)

<b>Taxes and duties</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>CT</b>	30.53	29.63	41.11	35.72	41.30	40.99
<b>VAT</b>	19.46	29.94	25.02	31.00	32.06	32.49
<b>Other taxes and duties</b>	3.32	2.81	5.10	3.31	4.74	1.11
<b>Total</b>	<b>53.30</b>	<b>62.38</b>	<b>71.23</b>	<b>70.03</b>	<b>78.09</b>	<b>74.60</b>

# 3.1- Evolution of the various taxes and duties

■ Chart 1 : Telecommunication sector's share of tax burden





## 3.1- Evolution of the various taxes and duties

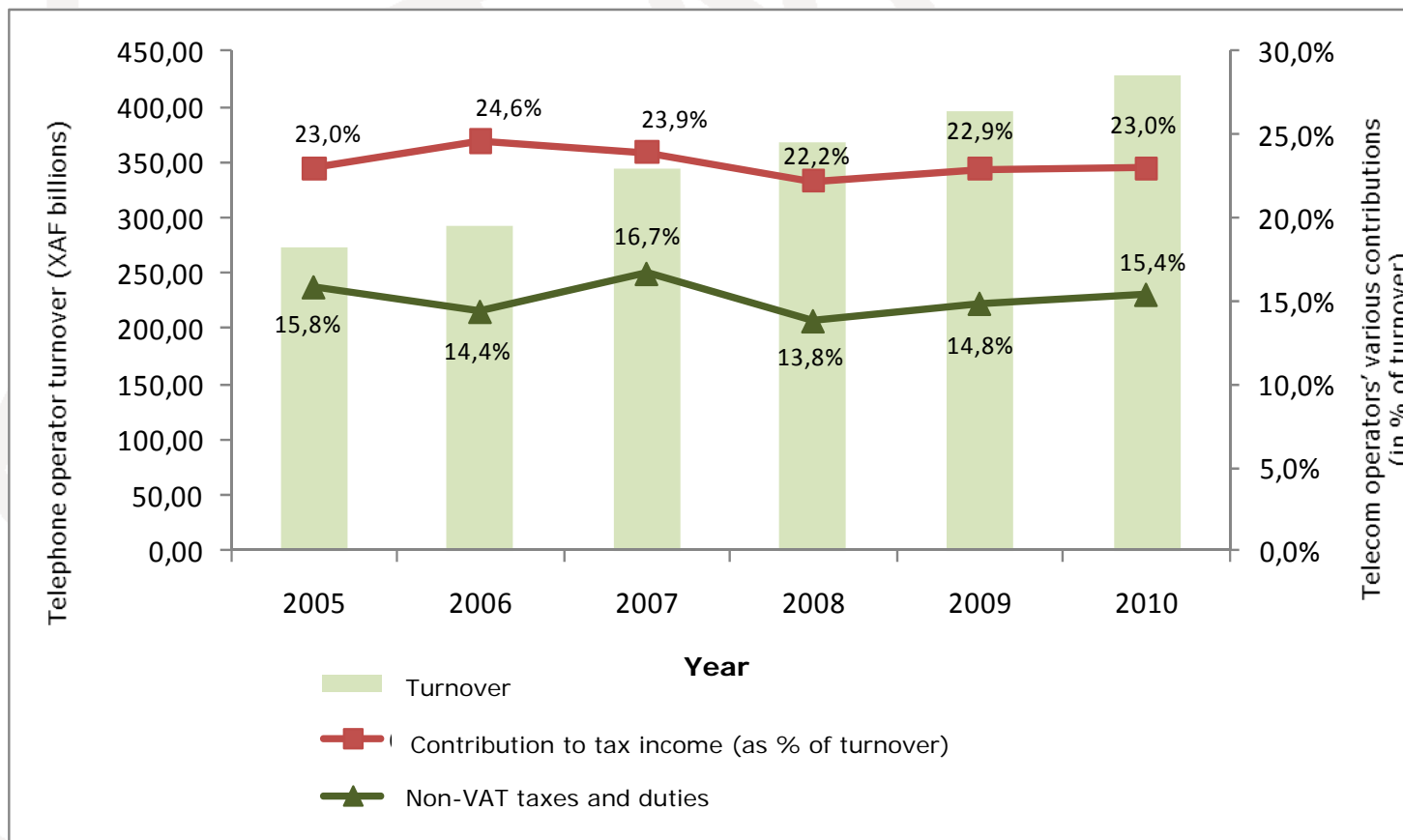
- Relative decrease in tax income from the telecom sector since 2008.
- Possible causes:
  - ➔ increase in investment ,  
but above all
  - ➔ increase in VAT on foreign technical assistance.

## 3.1- Evolution of the various taxes and duties

- These two factors have increased deductible VAT for businesses in the telecom sector.
- The sector's fiscal contribution does not yet appear to be at the level that may be expected from a sector considered to be a driver of the national economy.

# 3.1- Evolution of the various taxes and duties

***Chart 2 : Taxes and duties paid and collected by fixed and mobile operators (in % of turnover)***



## 3.1- Evolution of the various taxes and duties

- The operators' share of fiscal contribution, including VAT, is around 23% on average, as shown in the chart above.
- Considering that VAT is a tax levied on the consumer, operators' fiscal contribution will represent around 15% of their turnover on average.

## **3.2- Taxes, duties and fees borne by the consumer**

### **3.2.1- VAT**

- In reality, telecom sector operators are only VAT collectors: the tax is paid by the end user.
- Despite a rise in the VAT rate from 18.7% to 19.25% in 2005, the penetration rate grew strongly over the same period.

## **3.2- Taxes, duties and fees borne by the consumer**

### **3.2.1- Taxes and duties on handsets and telephone refill cards**

- Customs duties range from 0 to 35%
- Customs duties on telephone refill cards and on software are around 35%
- Type-approval labels for terminals issued by ART cost XAF 500 per terminal.

# **4- Sector's contribution to the national economy**

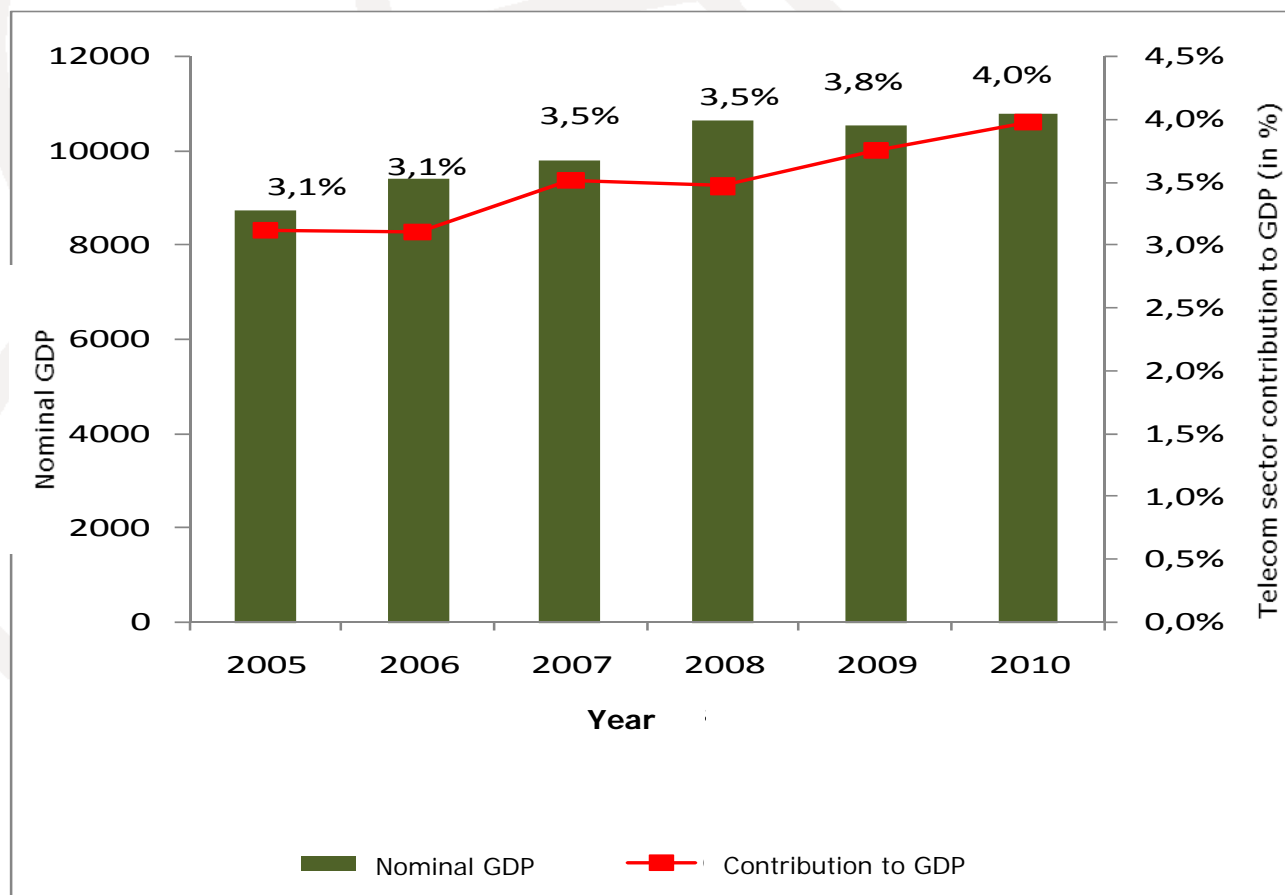
**4.1- Trend in the contribution to the national economy in figures**

**4.2- Impact of a variation in taxes and duties on the sector's contribution to GDP**

**4.3- Impact of taxes and duties on the evolution of teledensity**

## 4.1- Trend in the contribution to the national economy in figures

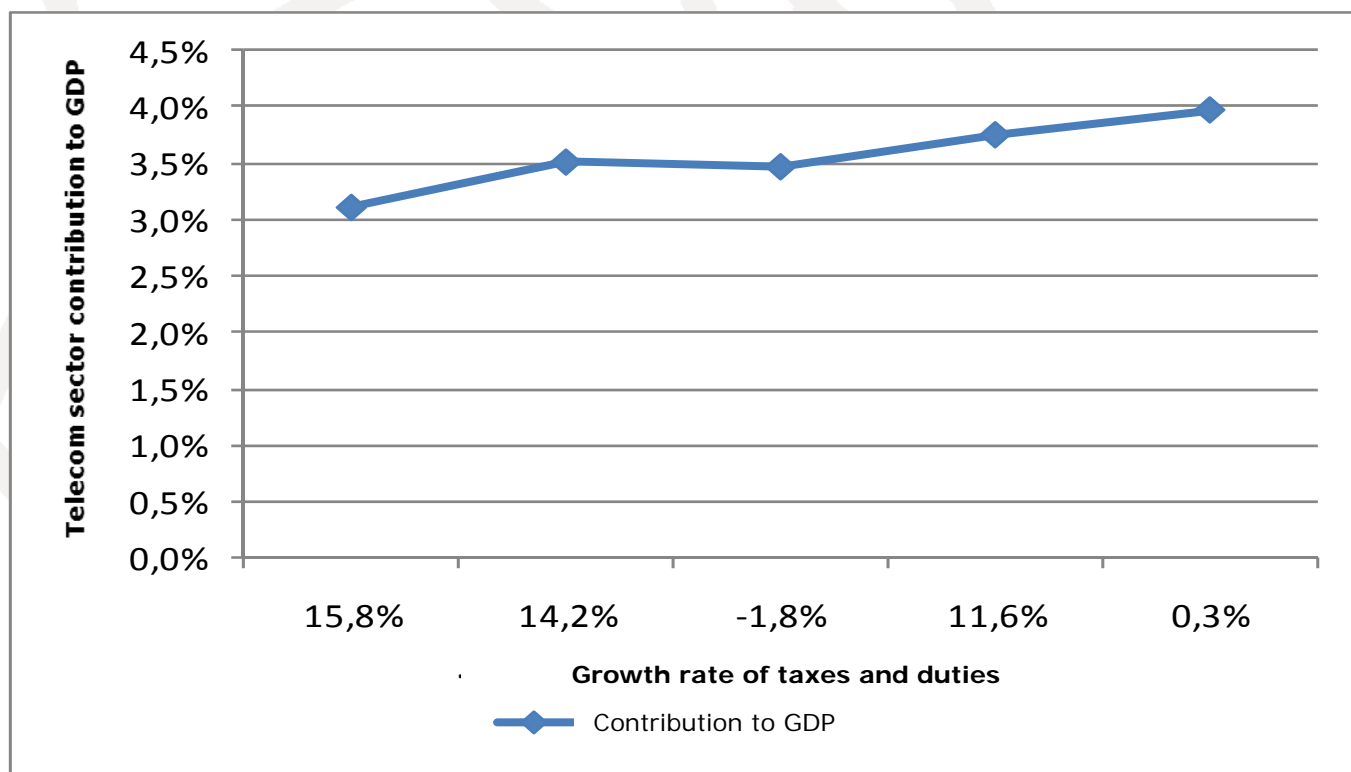
- **Chart 3** : Telecommunication sector's contribution to the national economy





## 4.1- Trend in the contribution to the national economy in figures

- **Chart 4 :Relationship between rate of growth of taxes and duties and the sector's contribution to the national economy**



## **4.3- Impact of taxes and duties on the evolution of teledensity**

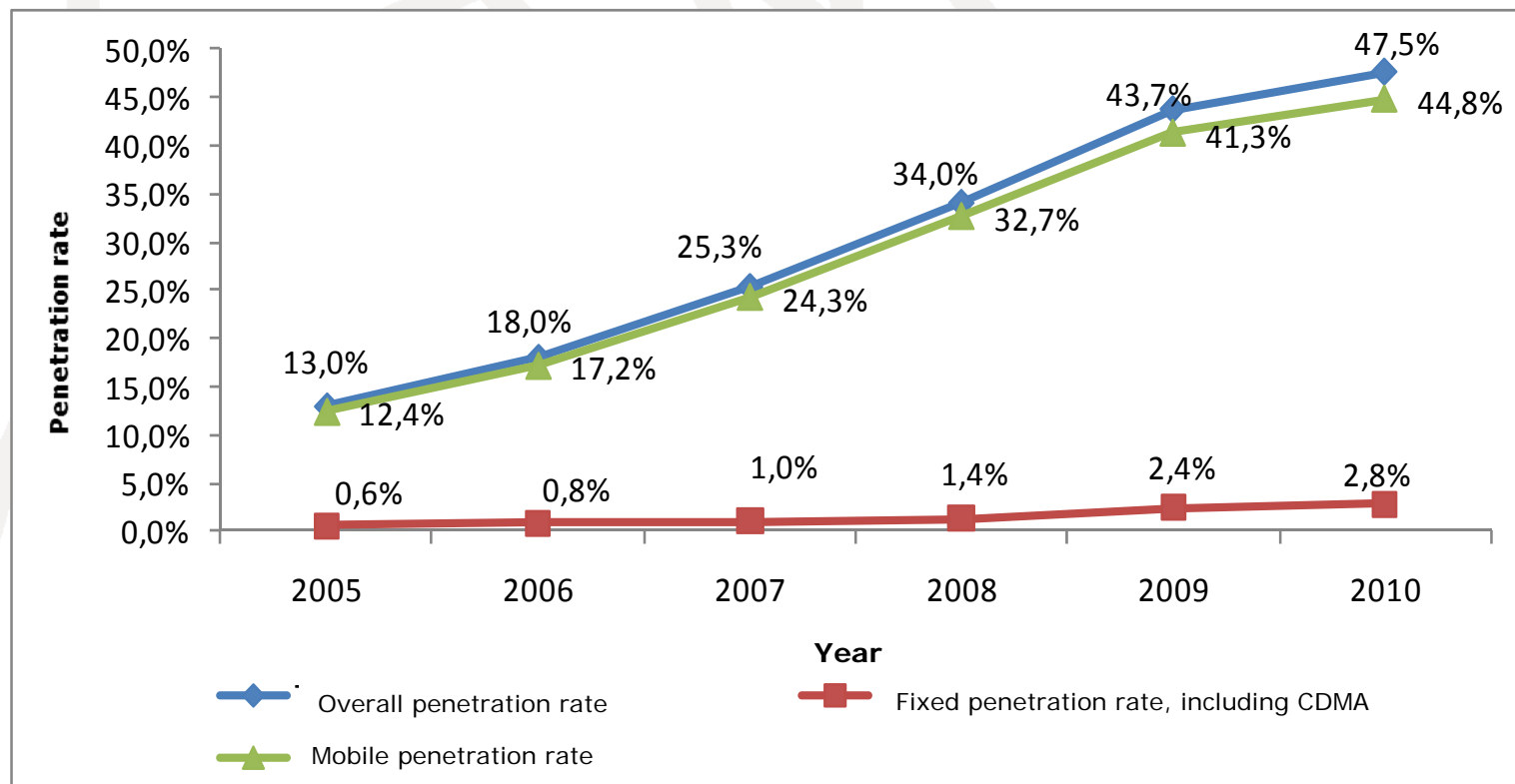
- A study commissioned by GSMA in 2007 concluded that the penetration rate of the mobile-telephone service in Cameroon would be 43% by 2017 if all non-VAT taxes and charges were eliminated.
- However, at end 2010, the penetration rate for the two mobile-telephone operators is over 44%, and the overall penetration rate stands at 47.5%.
- The rate was only 17% in 2006.

## 4.3- Impact of taxes and duties on the evolution of teledensity

- Although operators' tariffs were considered high during this period, this was apparently not due to a particularly high taxation rate, ...
- ... but to larger margins set by the operators.
- An instruction from the regulator leading to a 15% tariff reduction in 2008 had an extremely beneficial effect on increasing teledensity without any need to take fiscal measures.

## 4.3- Impact of taxes and duties on the evolution of teledensity

### ■ Chart 5 : Telephone penetration rate in Cameroon

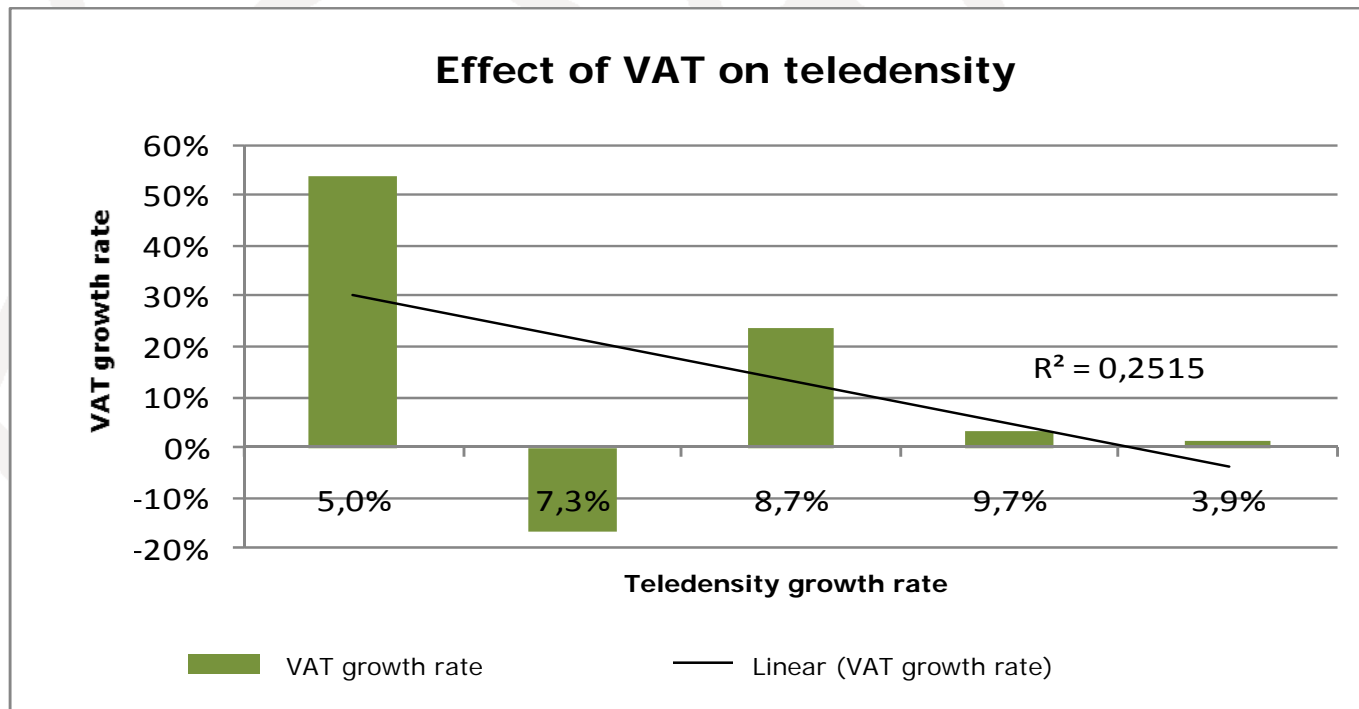


## 4.3- Impact of taxes and duties on the evolution of teledensity

- While there is a negative correlation between VAT and penetration rate, VAT has only little impact on the evolution of teledensity, as shown in the chart below.

## 4.3- Impact of taxes and duties on the evolution of teledensity

**Chart 6** : Effect of VAT on teledensity



## 5- Possible recommendations

- In Cameroon, the regulator has not taken any steps to verify the accuracy of traffic declared by operators. **Measures should be taken to avoid fraud leading to under-declaration of traffic, both national and international**

## 5- Possible recommendations

- Declaring less actual traffic results in a lower actual turnover and hence a reduction in the taxes and duties payable.
- The taxes and duties payable by telecom operators must be more of a national issue.



# THANK YOU FOR YOUR ATTENTION

■ **QUESTIONS?**