

Impact of taxation on the ICT sector from the perspective of Sonatel

Saliou Touré
E-mail:saliou.toure@orange-sonatel.com

OVERVIEW

1. Summary of taxes applicable to the sector
2. Tax on incoming international calls
3. Share versus surcharge
4. Impacts of the surcharge
5. Surcharge going against the grain of TAR evolution
6. Conclusion

Summary of main taxes applicable within the sectors

Taxes	Description	Rate	Born by
Corporate tax	Corporate tax = 25% of profit	25%	Operator
VAT (tax on turnover)	Value-added tax (on turnover)	18%	Consumer
RUTEL	Tax applied to telephony user	5%	Consumer
Contribution to universal service	Applied to turnover	3%	Operator

In addition to VAT, a tax known as the telephone usage fee (RUTEL) was introduced in 2001.

Initially set at 2%, it has stood at 5% since October 2010.

Other equally weighty taxes are applied to operators and other companies: non-commercial profits (15 to 20%), trading licence (0.3% of turnover for head office, 19% for other locations), customs duties, land tax...

Tax on international incoming calls

- ❑ On 28 May 2010, by Decree 2010-632, the Government of Senegal introduced, as from 1 August 2010, a control and charging system for incoming telephone calls in Senegal.
- ❑ The decree sets the floor price for a one-minute incoming call at CFAF 141 (EUR 0.21) for both fixed and mobile networks. This represents an increase of 53% for mobile (previously CFAF 92 (EUR 0.14)), and 117% for fixed (previously CFAF 65 (EUR 0.10)).
- ❑ This corresponds to a share of CFAF 75.44 (EUR 0.115)/min for fixed and CFAF 49.2 (EUR 0.075)/min for mobile to be paid to the State.

Impacts: a 14% drop in the volume of international incoming traffic, a 9% shortfall in revenue.

The average 60% increase in the charge for international calls to both fixed and mobile resulting from the decree has had a negative elasticity effect on traffic entering Senegal.

- The loss in terms of the volume of international incoming traffic expected in 2010 is as follows:
 - Loss in % of annual traffic: 6%
 - Loss during the five months of the surcharge: 14%
 - Variance between forecast and actual:
- Consumer reaction to the tariff increase has been growing, as can be seen from the following table

Variance between forecasts and actual (%)	Aug	Sept	Oct	Nov	Dec	Total
	-11%	-11%	-15%	-16%	-17%	-14%

Impacts: Fraud and alternative solutions

The increase has also favoured the development of alternative solutions (Skype, magicJack) and fraud.

The scope for fraud and its profitability are directly related to the gap between the official price of a call to Senegal and the customer price for one minute of call time on the national network. With the surcharge, that gap rose from CFAF 13 (USD 0.028)/min to CFAF 66 (USD 0.146)/min => **creation of an economic space conducive to fraud.**

The number of SIM boxes, virtually zero prior to the decree, has increased as follows:

	Oct/Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11
SIM boxes	185	274	225	598	675	349

Impacts:

The application of reciprocity by our international correspondents causes our charges to rise and entails the risk of an increase in end-user tariffs

- ❑ The surcharge has led to reciprocity on the part of eight of our correspondents, essentially African
- ❑ The application of reciprocity by African operators as from 1 August led to an **18%** increase in our international outgoing traffic charges over the remainder of 2010.
- ❑ One of the immediate effects of the surcharge is the risk of a “single network” being offered, encouraged by subregional organizations and implemented by certain operators. Under a single network offer, subscribers are able to use their mobile number in those countries in which the operator is present under the same conditions as on their home network.

Impacts: Despite the suspension of the decree as from 21 November 2010, the market remains troubled and traffic is still diminishing

The announcement on 21 November 2010 of suspension of the surcharge was accompanied by a mailing to all our international correspondents informing them of a return to the former tariffs as from 22 November 2010.

However, end users are only gradually benefiting from the reduction, for the following reasons:

- ❑ Not all retailers (issuers of prepaid cards, VoIP operators, etc.) have passed on the reduction.
- ❑ With prices in this market not being regulated, some players have preferred to bide their time before passing on the reduction made by wholesalers in order to benefit for as long as possible from the huge profit margins.

The return to normality will happen gradually through the effects of competition.

Surcharge going against the grain of TAR evolution since 1998

During the 1998 Telecommunication Policy Forum, an ad hoc group set up to look at the subject of the TAR was able to find a compromise in Annex E to Recommendation ITU-T D.140. Annex E sets out indicative targets for settlement rates in 2000 on the basis of teledensity (in regard to fixed telephony).

Teledensity	Settlement rate
0-1	0.327 SDR
1<5	0.251
5<10	0.210
10<20	0.162
20<35	0.118
35<50	0.088
50+	0.043

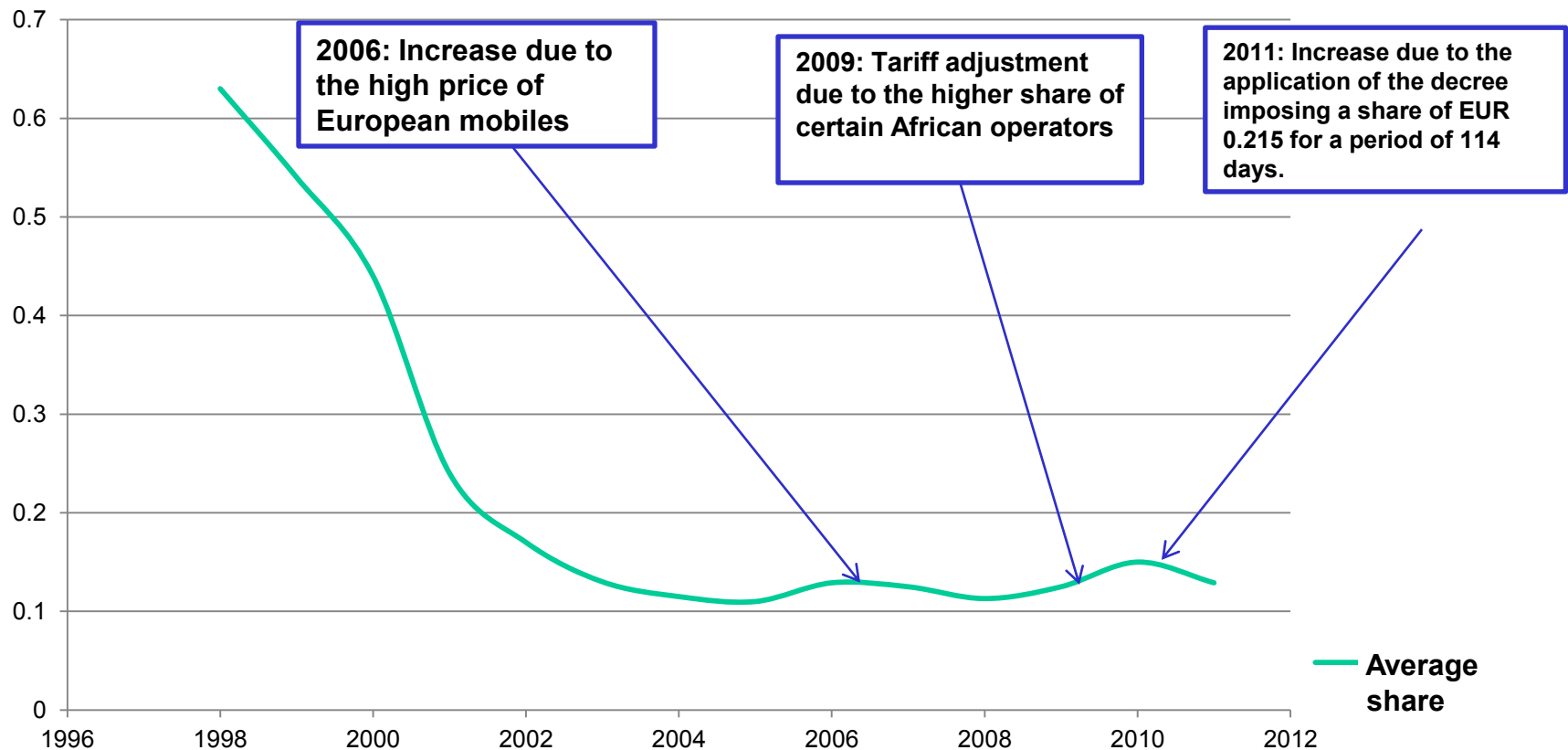
It also establishes the transition period as a function of dependence on traffic balances.

It enables negotiation of an asymmetric allocation of the TAR.

Since then, TARs have been falling, as can be seen from the evolution of the average (fixed and mobile) termination charge on Sonatel's network since 1998.

Evolution of the average termination share since 1998: As the graph shows, this surcharge is regressive, having driven the average share back to its 2001 level

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Average share	0.63	0.54	0.44	0.24	0.17	0.13	0.115	0.11	0.129	0.125	0.113	0.125	0.15	0.129



Surcharge going against the grain of TAR evolution since 1998: a steady reduction apart from a number of tariff adjustments

The curve describes the fall in TARs since 1998, reflecting the desire to make them cost-oriented in line with D.140.

This trend has been disturbed on two occasions owing to small tariff adjustments by Sonatel:

- In late 2005, owing to European mobile termination charges deemed at the time to be high;
- In late 2009, owing to the surcharge and to the high shares of certain African operators.

Analysis of the TOP 5 for incoming traffic shows that it derives essentially from countries to which emigration is high: Italy, Spain, France and the United States. These four countries represent 54% of total incoming traffic.

This goes to show that the surcharge is essentially borne by Senegalese from the diaspora, who have reacted by reducing their call volumes and resorting to alternative solutions.

Surcharge going against the grain of TAR evolution since 1998: very high termination charges in Africa – 3.3 times that of Europe and 33 times that of the United States/Canada

Analysis of the TOP 10 for outgoing traffic shows that they represent 86% of the outgoing total, among which seven are African (57% of the total) and three European (29%).

- ❑ The average termination charge (fixed and mobile) to these seven African operators is EUR 0.167/min.
- ❑ It is EUR 0.05/min to the networks of the three European operators, with a termination charge to the fixed network of between EUR 0.0052 and 0.008/min.

For purposes of comparison, the termination charge towards:

- ❑ the United States ranges from EUR 0.002 and 0.005/min
- ❑ China is EUR 0.0045
- ❑ India is EUR 0.00 (fixed) and EUR 0.0072 to 0.008 (mobile)
- ❑ Brazil is EUR 0.0218 (fixed) and EUR 0.0276 to 0.0645 (mobile)
- ❑ South Africa is EUR 0.0197 (fixed) and EUR 0.074 to 0.107 (mobile)

Conclusion: one tax too many, with a good deal of collateral damage

A surcharge designed to generate additional revenue for certain African States (an incongruous situation found only in Africa), and entailing:

- ❑ a drop in incoming traffic (elasticity effect)
- ❑ an increase in the burden on operators, with the risk of its being passed on to customers who already pay VAT (double taxation of calls)
- ❑ a rise in retail tariffs that is detrimental to the diaspora
- ❑ an end to one-network offers with cost-free call reception when roaming and preferential end-user tariffs
- ❑ a higher incidence of fraud
- ❑ increasing recourse by consumers to alternative VoIP solutions to the detriment of operators
- ❑ a tax which goes against the grain of TAR evolution, exacerbating the tariff divide and making our economies even less competitive

It is one tax too many.

Thank You