Taxation of mobile telecoms

Sector-specific taxes on consumption and international traffic

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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

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

- 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%

Source: Wireless Intelligence, Deloitte analysis
Tax reductions and healthy competition have lowered prices

- 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

Source: Wireless Intelligence, Deloitte analysis

www.gsmworld.com/tax
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!
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

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