

# ITU 4<sup>th</sup> Global Industry Leaders Forum

20<sup>th</sup> – 23<sup>rd</sup> SEPTEMBER 2011,

**Session 1: Taxation of Telecommunication  
services and products**

**Dr Windfred MFUH**

Warwick Business School

*[mfuhw@regents.ac.uk](mailto:mfuhw@regents.ac.uk)*

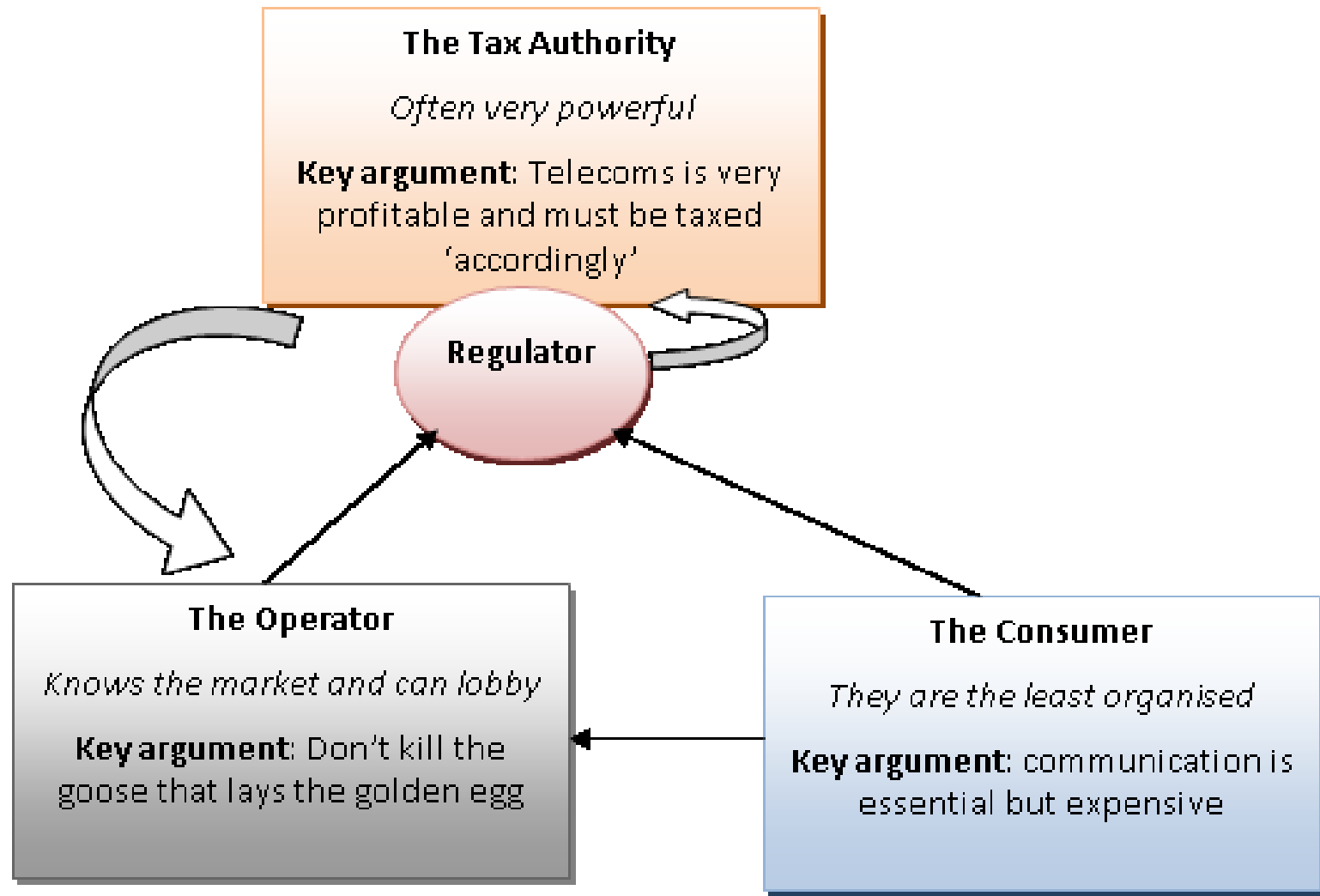
# Two quotations

- ⌘ **Benjamin Franklin:** “In this world, nothing can be said to be certain, except death and taxes.”
- ⌘ **Jean Baptiste Colbert :** “The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.”

# **This session's goals**

- ▣ To outline the types of telecommunications taxes
- ▣ To show the variation in tax rates
- ▣ To set out some issues in the effects of tax and the evaluation of tax policy

# The tax pressure curves



Tax consultation can relieve pressures

# Forms of taxation

- ▣ Standard taxes on all goods and services
  - ▣ – such as VAT; these would normally cover all forms of expenditure on telecoms services and equipment
- ▣ A special additional fixed or percentage tax on all telecoms services
- ▣ A special tax paid to begin service – e.g to open up a SIM card

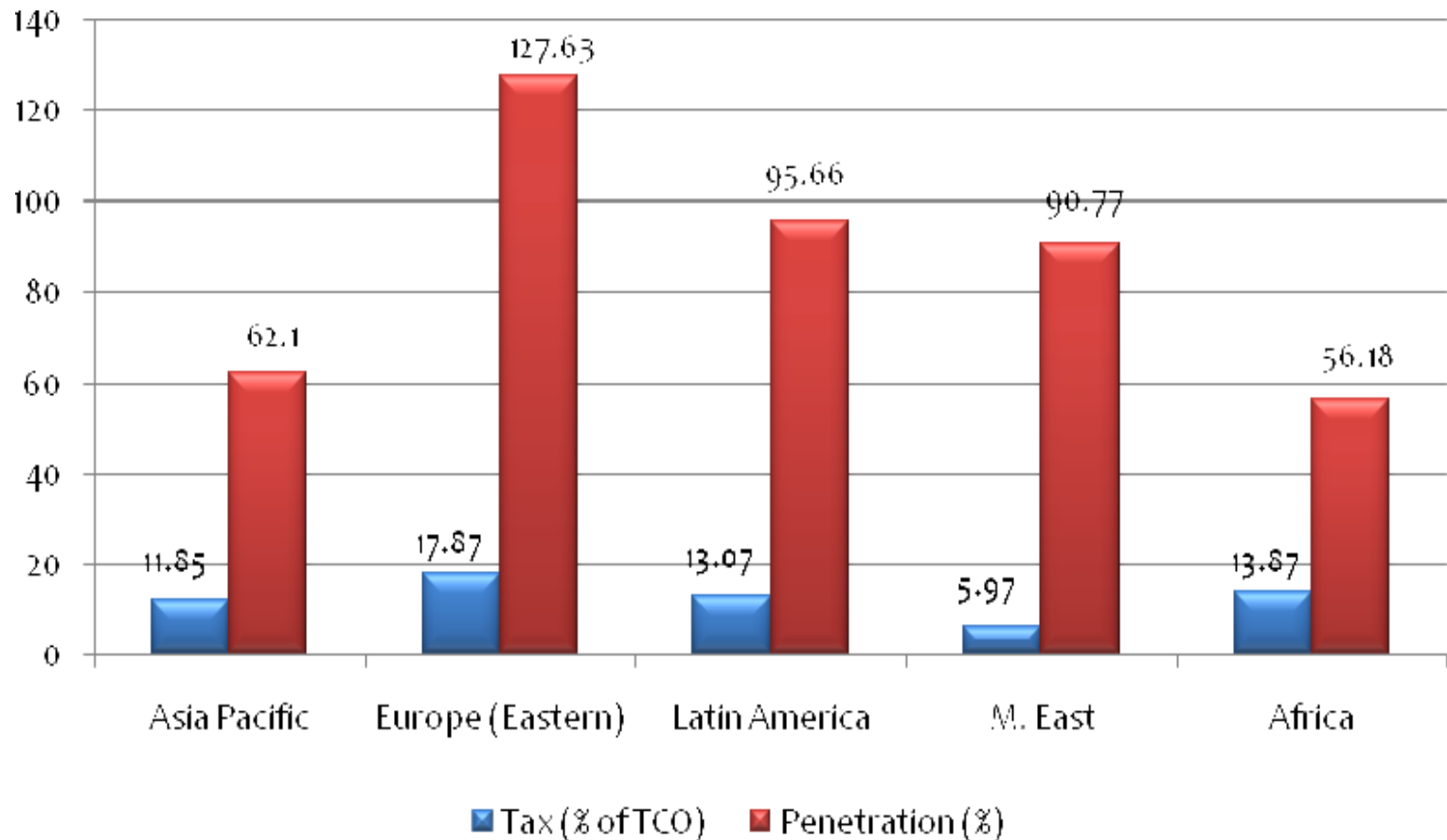
# Forms of taxation...

- ▣▣▣ A special tax on handsets or devices
- ▣▣▣ A customs tax on the import of handsets or telecommunications equipment
- ▣▣▣ Payments by operators into a universal service fund which is not spent to subsidise telecommunication services
- ▣▣▣ Excessive charges for access to service or spectrum licences

## How much tax is paid?

- ❑ The best metric seems to be calculation of total identifiable tax payments as part of the total cost of ownership (TCO) of a –normally- mobile phone
- ❑ Internationally comparable data have been computed
- ❑ These figures show significant inter-country and inter –regional differences

# Tax rates and mobile penetration



Data source: Wireless Intelligence

Note that many other factors than tax affect penetration of mobiles



# Telecoms role in the tax base

- ⌘ The modern expenditure tax orthodoxy is to have one or two standard rates on most goods, together with a few higher luxury or 'sin' tax rates
- ⌘ This may appear to imply no special telecoms taxes
- ⌘ However, there are two additional considerations:
  - ⌘ - the cost of collection issue
  - ⌘ - a possible special role for telecoms in economic growth

# Factors determining the form of taxes I

- ⌘ **Distribution:** who pays the tax – rich or poor?  
When mobile diffusion is 100%, almost everyone pays; before then the better off pay, but others benefit by receiving calls. There is also the question of whether the firm is domestically or foreign-owned
- ⌘ **Tax production or tax consumption?**  
Tecom service are used in both. High taxes on productive inputs are bad for business development and efficiency

# Factors determining the form of taxes II

**The cost of collection:** taxes differ in the ease with which they can be collected. Many taxes are very difficult to collect: this reduces the tax take and leads to evasion and avoidance. Taxes imposed by large telecoms firms are acknowledged as being relatively easy to collect.

## Factors determining the form of taxes III

- ⌘ **The incidence of the tax:** it is usually assumed that the tax will fall on the consumer. But in some cases the firm will 'subsidise' the tax – i.e pay part of it itself.
- ⌘ This sounds a good outcome, but not if it enhanced competition among firms following from the tax rise pushes the firms into loss and stifles investment.
- ⌘ At the opposite end, firms may increase their pre-tax price when a tax is imposed, but this is not likely.

# Factors determining the form of taxes IV

- ▣ **Efficiency of taxes:** taxes impose an extra or 'excess' burden on an economy if they significantly curtail a valuable activity. Consumers substitute other forms of spending for the taxed item, and revenue is reduced. It is thus best to tax items the demand for which does respond to price. Where do telecoms services stand compared with other goods and services? It is not clear

# The place of telecoms taxes in the tax base

- ⌘ The modern orthodoxy on expenditure taxes favours one or possibly two 'standard' VAT rates, combined with higher luxury and 'sin' tax rates.
- ⌘ This might argue against exceptional treatment for telecoms services, but there two special factors:
  - ⌘ -the cost of collection issue (noted above),
  - ⌘ - a special role for telecoms in economic development (for later consideration).