Connected Society

Realising the full potential of mobile connectivity in Colombia: reforming taxation of the mobile sector to support affordability, economic growth and fiscal stability

Mobile services today connect over **33 million** people in Colombia, positioning the country as the fourth largest mobile market in Latin America

By contributing **US$5.7bn** to the country's economy, almost **2%** of GDP, mobile plays a major role in the country's development

Industry sources report that operators in Colombia have invested **70%** of their profits in networks.[1] Continued investment in the sector has spurred the growth of a diverse and growing local ecosystem, including app developers and value added service providers

However, with **16.4 million** Colombian without access to mobile services, mobile internet subscriber penetration is lower than the Latin America and OECD countries averages

The Colombian Government **"Vive Digital"** strategy has set a target of achieving 100% 4G coverage by 2018

To achieve the ambitious goals of the national "Vive Digital" strategy, the GSMA report "Digital inclusion and mobile sector taxation in Colombia", identifies a number of priorities for reforming mobile sector taxation. Affordability of mobile services for the poorest segments of the population is key, with a recent GSMA consumer survey indicating that 49% of non-users list affordability as a barrier to mobile adoption:[2]

- Traditional voice and SMS services represent 3.1% of average annual income per capita, which is 47% higher than the Latin American average.[3]
- For the poorest 20% of Colombians, mobile broadband costs represent 19% of their income, which is nearly four times the 5% affordability threshold suggested by the Broadband Commission and ITU.
- A basic smartphone represents 6% of annual income for the poorest quintile, going up to approximately 24% for a premium smartphone. Import duties and VAT in Colombia account for approximately 20% of the cost of a handset.

1. Deloitte analysis on GSMA Intelligence data, 2016
2. GSMA, 2016, Connected Society: Digital inclusion in Latin America and the Caribbean
3. Deloitte analysis on ITU and World Bank

Deloitte.

Investment in infrastructure is constrained by excessive tax burdens on the mobile sector:

In 2014, the mobile sector contributed over US$1.36bn in taxes and fees to the Colombian government, representing over 26% of market revenues.[4] 37% of these taxes were mobile sector specific.

In addition, mobile operators face other regulatory fees such as the regulatory commission fee and recurring annual spectrum fees.

Tax reform is required to allow the mobile industry to develop and fully deliver the benefits of digital inclusion. The GSMA report "Digital inclusion and mobile sector taxation in Colombia", identifies a number of priorities for policy changes and their potential impact by 2021. The proposed tax reform scenarios also align with the OECD's assessment of Colombia's telecommunications policy.

	Total mobile connections*	Mobile broadband connections*	New Sites / upgraded Sites	GDP	Employment	Total tax revenues
Removing the Consumption Tax on Voice Usage	+ 440 000	+312 000	100/170	+ US$1400 million	+ 1,200	+US$100 million
Removing the FONTIC^ contribution	+ 250 000	+178 000	340/590	+US$900 million	+ 2,700	+US$119 million

*Note: * Additional cumulative effect over 2016-2020, otherwise figures show additional effect in 2021; ^FONTIC: Fund for information and communication technologies*

The Colombian government could also consider removing VAT on mobile handsets and smartphones, similarly to the approach adopted for laptops and computers.

By transitioning to a taxation structure that is more aligned with best practice principles, the Colombian government can further boost mobile connectivity which in turn will foster digital inclusion, increase productivity and generate economic growth and employment.

4. Deloitte, GSMA, 'Mobile Taxation Global Survey, 2016'

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