Taxation in Internet of Things

GSMA Industry Position

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Governments should reduce or remove mobile-specific taxes because the resulting social impact and long-term positive impact on GDP, and hence tax revenues, will outweigh any short-term contributions to governments' budgets.

Taxes should align with internationally recognised principles of effective tax systems. In particular:

- **In general, taxation should be broad-based:** Taxation alters incentives for production and consumption, and so economic distortions will generally be minimised where the burden of taxation is spread evenly across the economy. In practice, this equates to adopting broadly defined bases for taxation, rate variations that are limited and effective enforcement of tax compliance.

- **Taxes should account for sector and product externalities**[1]: The case for taxation to address negative externalities, such as those arising from tobacco consumption, is well recognised. However the same logic also applies in the case of sectors and products with positive externalities.

- **The tax and regulatory system should be simple, easily understandable and enforced**: Uncertainty and a lack of transparency over taxation systems and liabilities may deter investors and are also likely to increase enforcement costs for government.

We have also identified that for IoT:

- **Dynamic incentives for investment should be unaffected**: Taxation should not disincentivise efficient investment or competition. In situations where the tax system fails to incentivise investment, economic growth, productivity and tax revenue could be significantly reduced in the long run.

Taxes on IoT connected services and devices fail to meet many of these criteria. In particular, such taxes, if applied, are likely to be distortive, to deter investment and innovation, and to be detrimental to the development of IoT connected services. These concerns are discussed below, along with the potential ramifications for the sector and the wider economy.

GSMA HEAD OFFICE
Floor 2
The Walbrook Building
25 Walbrook
London EC4N 8AF
United Kingdom
Tel: +44 (0)20 7356 0600
Fax: +44 (0)20 7356 0601