



## Mobile telephony and taxation impact in Latin America

Key findings  
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## Mobile telephony and taxation impact in Latin America

Mobile telecommunications makes a significant socio-economic contribution, estimated as more than USD 177 billion across nine Latin American countries, including Brazil, Mexico, Argentina, Colombia, Chile, Peru, Ecuador, Uruguay and Panama. However, high taxation on mobile consumers and operators has a damaging impact on this potential. Lowering the taxation levels could benefit consumers, businesses and governments by encouraging take-up and use of new services (e.g. mobile broadband and Machine-to-Machine (M2M)), improving productivity and boosting Gross Domestic Product (GDP) and tax revenues.

### **High sector-specific taxation is hindering the mobile telecoms potential**

Take-up of mobile services has increased rapidly in the last 10 years across Latin America. The majority of the population in each country now has access to mobile telephony compared to less than 20% in 2000. The take-up of 2G is significant and there is substantial scope for development of 3G and 4G services. The mobile telecommunications industry generates significant economic and social benefits.

**Contribution across  
nine countries:**

**USD 177 billion  
contribution to GDP**

**890,000 FTE  
employment created**

Mobile operators and the wider ecosystem make direct contributions to a country's GDP.

Further economic benefits are also created through productivity gain and intangible benefits. Despite these widely acknowledged advantages, in some Latin American countries mobile consumers face special communication taxes and operators are also burdened by numerous taxes and fees. These punitive sector-specific taxes are distortionary and counterproductive to the digital economy and growth agenda. Policymakers and governments are beginning to recognise the potential of the mobile industry and the harmful impact of excessive taxes.

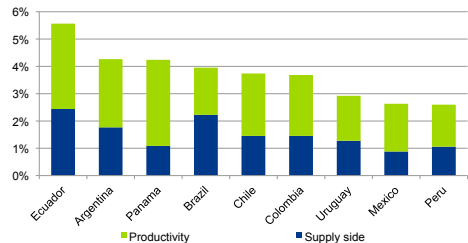
*“We have a very high taxation for the sector.... We are working to improve the tax load for the industry... I think, if we lower taxes, the market will not grow over 130% as in the past 15 months, it will grow 250%.”*

Mr Paulo Bernardo

Brazilian Communications Minister  
(as quoted in newspapers, May 2012)

## Mobile telecommunications creates significant socio-economic benefits

The Latin American mobile telecommunications industry generates significant economic benefits through effects on the supply side of the economy, employment creation, productivity improvement and intangible benefits gained by consumers. In 2011, mobile operators were estimated to have provided a direct contribution of USD 27.7 billion to the nine Latin American economies through wages, dividends, taxes and other corporate activities. The broader impact through payments to the mobile ecosystem and the wider economy made the total supply side contribution at more than USD 84 billion in 2011. The spread of mobile



**Figure 1: Total economic impact of mobile ecosystem as a proportion of GDP, 2011**

telecommunication services across Latin America also creates spill-over effects in the wider economy through improving the productivity of employees and generating social benefits for citizens. The productivity gain boosted the total economic contribution to USD 177 billion in 2011.

In 2011, mobile operators in the nine countries employed 107,000 Full Time Equivalents (FTEs) across the operations. More than 890,000 employment opportunities were created through support services such as airtime sellers and supply of support services to operators.

## **Taxing mobile services as a luxury item is detrimental to building a digital economy**

Despite the positive impact of mobile telecoms, consumers and operators in Latin America suffer from taxation regimes which impose a significant burden on them. In particular, there are a number of cases where mobile telephony is taxed more heavily than other sectors of the economy.

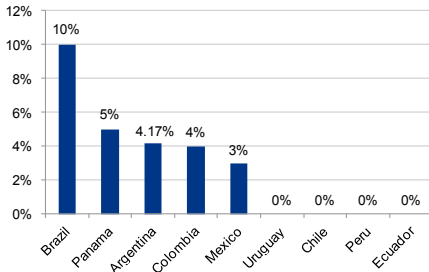
Among the countries surveyed, mobile consumers in Brazil face the highest levels of consumption tax, accounting for more than 1/3 of mobile service charges.

Mobile telecoms services in Brazil are subject to a higher sales tax (ICMS) rate. This rate varies from 25% to 35% across the states and is considerably higher than the standard ICMS levied on other goods, which averages at 17%. This is also the case in Colombia where the VAT on mobile services is 20%, 4% higher than the standard rate. Mobile specific taxes such as higher VAT, Mexico's IEPS, Argentina's excise tax ("impuestos internos") and Panama's ISC discourage usage and raise the entry barriers for low income segments. Handsets are also subject to hefty import duties (in addition to sales taxes

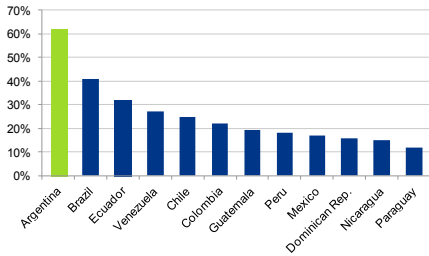
in Latin America) and in Argentina, could represent up to 60% of the price.

Sector-specific taxes are discriminatory and distortionary. Mobile-specific taxes send negative signals on consumption as demonstrated by the lower use of mobile services in countries with relatively high taxation. Deliberating higher taxes on handsets risks disconnecting the citizens from the connected economy. While 3G coverage is offered by mobile operators to vast majority of the population across Latin America, take-up is low highlighting the detrimental effect of handset and usage taxes.

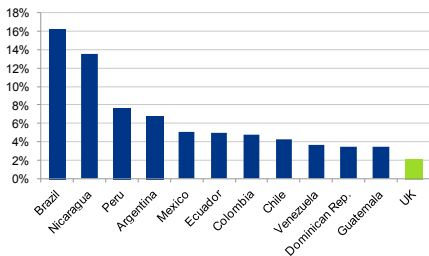
Operators also face other sector-specific taxes, including turnover taxes, license fees, universal service fund levies and other regulatory fees. These numerous charges reduce operators' profitability and discourage investments by sending the wrong signals about the return on the large fixed investments required to build and upgrade networks.



**Figure 2: Additional taxation rates on consumption of mobile services. 2011**



**Figure 3: Tax as a percentage of handset cost, 2011**



**Figure 4: Total Cost of Mobile Ownership as a proportion of GDP per capita**

Tax	Rate
Corporation tax	35% of profits
Stamp duty	1% of revenues
Turnover tax	5.2% on revenues from calls and SMS 4.06% on revenues from data usage 3.7% of revenues from SIM cards and handsets
Tasa derechos radioelectricos	2.55 pesos for each post pay customer 3.57% of revenues from pre pay users
USF + Tasa de Control, Fiscalización y Verificación	1.5% of revenues

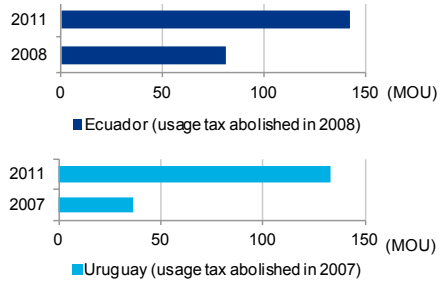
**Table 1: Taxes on Argentine mobile operators**

## Lowering the taxation burden could benefit consumers, businesses and governments

Several studies have shown a positive relationship between mobile service take-up and an increase in GDP per capita.

Some countries across the region are beginning to recognise the benefits of lowering taxes and are starting to remove this distortion. Until 2008, Ecuadorian mobile consumers were subject to a 15% telecommunications excise tax that applied on mobile usage and subscriptions in addition to a 12% VAT. This luxury tax, at the time, was amongst the highest in the world. Mobile phone take-up and use, and the supply side's share of GDP have increased since the tax was abolished.

Conversely, in Mexico and Panama, mobile take-up and use has been negatively impacted where mobile-specific taxation has recently increased.



**Figure 5: Impact on minutes of use (MOU) per user per month of tax reductions in Uruguay and Ecuador**

In countries such as Brazil where mobile taxation has been characterised as excessive, lowering the taxes has the potential to provide numerous benefits. For example, if an ICMS tax reduction of 17%, matching the rate that applies to standard services, led to use in Brazil increasing to the average level of Ecuador and Uruguay (138 MOU), the government would have gained an extra BRL 1.4 billion in 2011 from widening the usage base alone. There will be further tax receipts from the economic activities created in the wider economy. Brazil is recognising this positive impact of lower taxes and has recently reduced the taxation burden on M2M communications.

Similarly, Panama has announced that it will remove the discriminatory higher corporation tax on mobile operators from 2014.

Higher taxes discourage consumption and investment in the mobile sector and reduce the socio-economic benefits. A reduction in taxation levels can have a positive impact on the economy, society and government tax receipts.

*In addition to the increased GDP contribution and generation of socio-economic benefits, it could also add to the government tax receipts. The growth in mobile service consumption that results from lowering of the taxation levels can compensate for the initial loss in tax receipts.*





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