Delivering mobile connectivity in MENA: A review of mobile sector taxation and licence extension

May 2017

Contents

Scope of this report

- This report provides an overview of the tax and fee regime applied to mobile in seven MENA countries: Algeria, Egypt, Morocco, Tunisia, Jordan, Turkey and Saudi Arabia. The overview covers key general taxes, such as VAT and corporation tax and import duties, as well as sector-specific taxes and regulatory fees.
- The tax and fee regimes in these countries are compared to other international benchmarks. The first set of metrics analyses the composition of taxes and fees, including:
  - Relative share of general/mobile-specific tax and fee payments;
  - Relative share of consumer/operator tax and fee payments;
  - More granular analysis by type of tax/fee.
- The contribution and impacts of mobile sector taxation is examined using these metrics:
  - Tax and fee payments as a share of revenue, which is a key measure of the overall level of taxation;
  - Tax and fee payments expressed relative to total tax revenues, and mobile sector revenue as a proportion of GDP, which gives an indication of the sector’s fiscal contribution relative to its economic footprint;
  - Tax and fee payments per subscriber, expressed relative to incomes.
- This report estimates the potential impacts of tax reform from previous studies in MENA countries, to illustrate how reform may improve affordability and investment, as well as the wider economic impacts.
- The final section discusses the benefits of longer licence duration and a transparent, predictable licence renewal process, including examples from MENA and Europe. The potential benefits of licence extensions are discussed, with theoretical and practical examples.

Data sources and definitions

- This report makes use of several country studies conducted since 2013 and two global surveys conducted by the GSMA and Deloitte:
  - **2015 data**: Algeria, Argentina, Bangladesh, Brazil, Cameroon, Chad, Democratic Republic of Congo, Ecuador, Egypt, Ghana, Hungary, Italy, Jamaica, Jordan, Mexico, Niger, Pakistan, Rwanda, Senegal, Sierra Leone, South Africa, Sri Lanka, Tanzania, Tunisia.
  - **2014 data**: Colombia, Dominican Republic, Greece, Guatemala, India, Madagascar, Malaysia, Morocco, Nigeria, Peru, Spain, Turkey, United Kingdom, Uruguay.
  - **2013 data**: Saudi Arabia.
- For the seven MENA countries in scope, some more recent changes in taxation have been identified through desk research.

MENA:

MENA is defined to include the following countries:

Algeria, Comoros, Djibouti, Egypt, Libya, Mauritania, Morocco, Somalia, Sudan, Tunisia, Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar Saudi Arabia, Syria, Turkey, UAE and Yemen.

This is consistent with the approach used in GSMA (2016), 'The Mobile Economy: Middle East and North Africa'.

Other data sources:

- Sector data, including revenue and number of subscribers, was provided by GSMA Intelligence.
- Country-level data on variables such as GDP and GNI was retrieved from the World Bank.
- Additional data was collected from third-party sources in relation to tax rates and changes in taxation.

Digital inclusion and mobile sector taxation

Mobile penetration in MENA

Room for improvement in subscriber growth and substantial opportunity to grow mobile internet

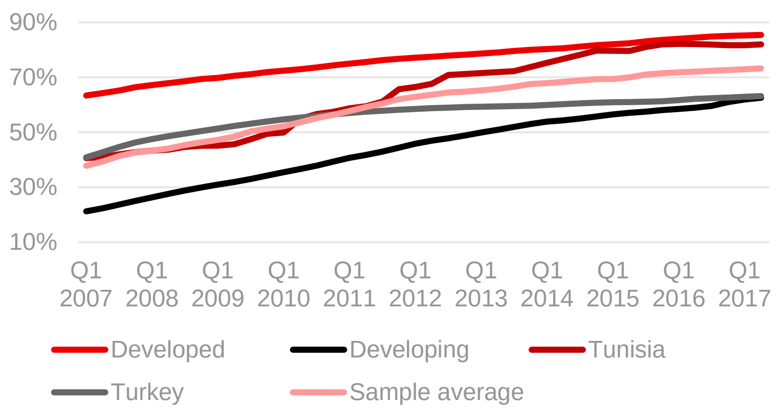
Sluggish market penetration growth recently

- Market penetration growth has been subdued for countries in our sample since 2014.
- As of Q2 2017, market penetration is between the average of developed and developing countries.
- There is room for improvement, with Tunisia being closer to developed world penetration levels but Turkey being at average developing country penetration levels.

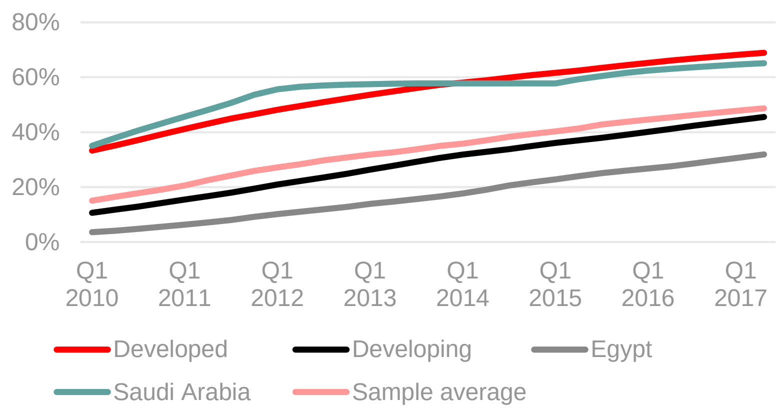
Mobile internet penetration has lagged behind

- The MENA countries in our sample are doing worse in terms of mobile internet penetration.
- On average, they are much closer to developing world standards, performing worse, relatively, in comparison to overall penetration.
- Saudi Arabia is an exception, being at par with developed countries, while Egypt, on the other hand has less than one third of its population connected.

Unique subscriber penetration



Mobile internet penetration



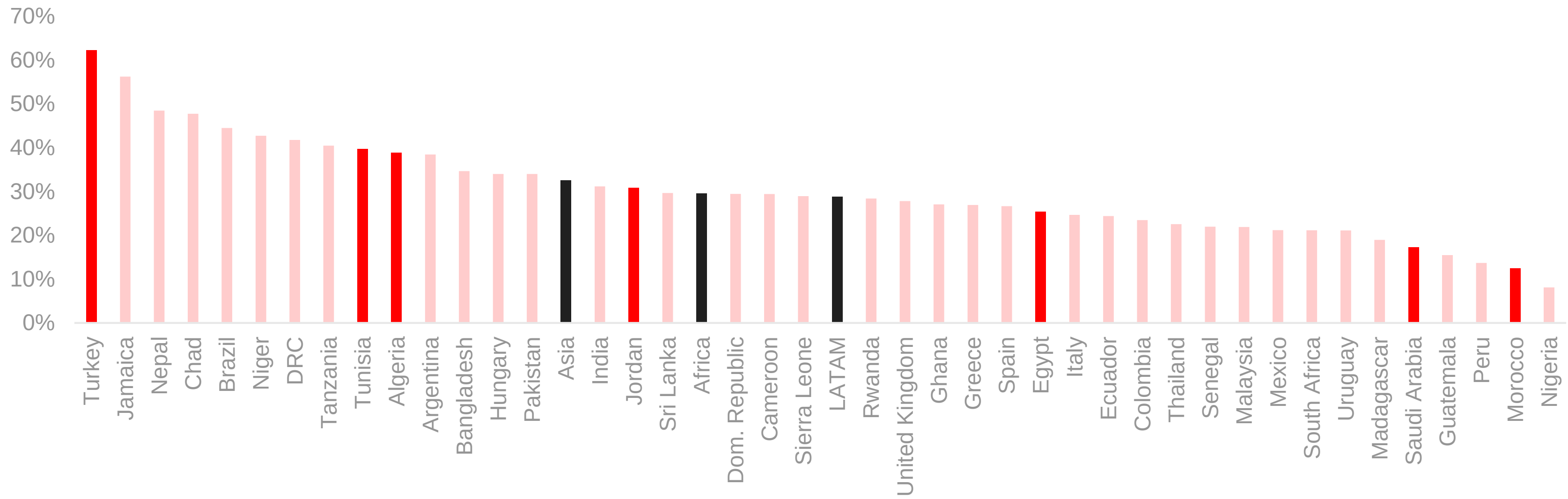
Source: GSMA Intelligence.

Tax and fee payments as a share of sector revenue

Tax and fee payments account for a relatively high share of revenue in Turkey, Tunisia and Algeria.

The burden of taxation has been increasing

- In Tunisia, tax as a percentage of revenue has increased from 35% in 2013 to almost 40% in 2015.
- In Turkey, tax as a percentage of sector revenue has increased from 58% to 62%. This is the highest level observed in our sample.
- Disproportionately high levelscan create affordability issues and distortions, especially when the taxes are specific to the sector.

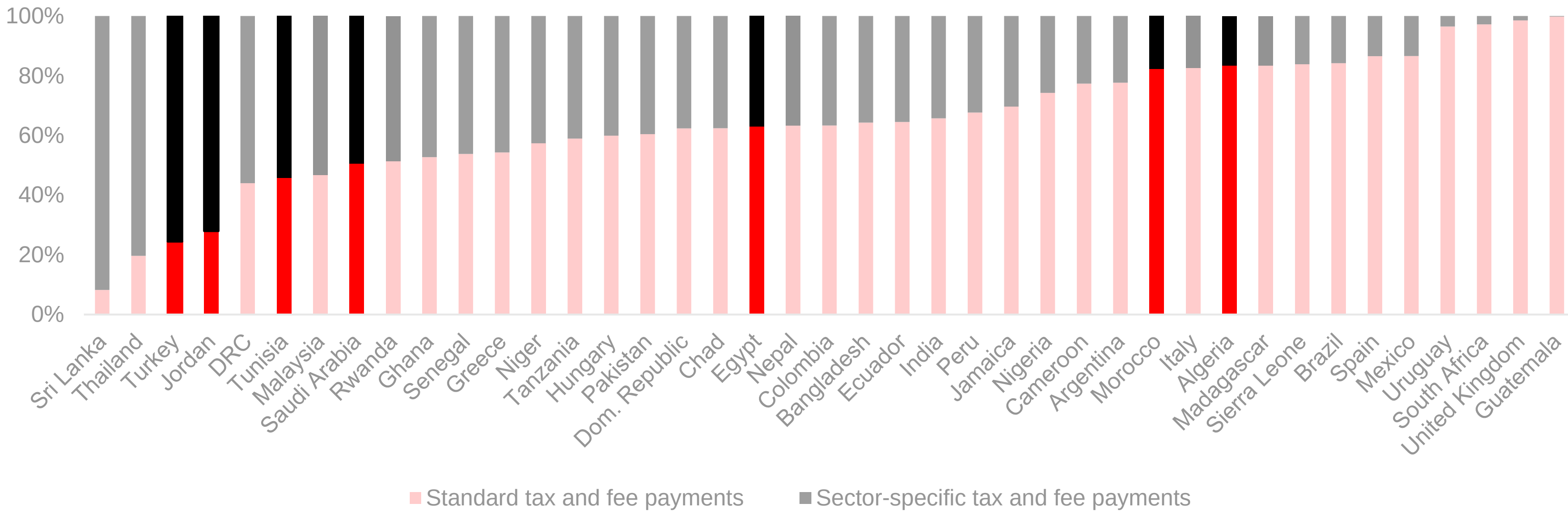


Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence and desktop research

*Averages are provided for illustration only, based on 2013-2015 data for 10 countries in Asia, 12 in the Americas and 19 in Africa

Sector-specific vs general taxes and fees

Sector-specific taxes and fees are prominent in the Middle Eastern countries, compared to North African countries for which data is available



Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence and desktop research

Taxation has become more distortionary in recent years

- Mobile-specific taxation as a share of total taxation payments, has increased in most countries with available data since 2013. In Turkey it has remained the same, but at an extremely high 76%.
- Notably, in Jordan, this percentage increased from 26% to 72%, while in Tunisia it grew from 40% to 54% (from 2013 to 2015).

Mobile-specific taxes are common across MENA

Examples of mobile-specific taxes include increased VAT or corporation tax, excise duties and regulatory fees

VAT

Algeria increased the general rate from 17% to 19% and removed the exemption on mobile broadband, raising the rate to 19% from 7% (whereas fixed broadband is currently exempt).

Egypt: Mobile faces a higher rate: 21% in 2016, rising to 22% in 2017, compared to 15% previously under a sales tax regime.

Jordan: Removed an exemption on broadband, raising the rate from 8% to 16%.

Corporation tax

Tunisia has a general corporation tax rate of 25% but mobile pays 35%.

Jordan has a general corporation tax rate of 20% but mobile pays 24%.

Excise taxes

Tunisia, Jordan and Turkey all have excise taxes on usage.

Egypt has an annual subscriber charge.

Jordan imposes a form of new connection charge.

Turkey imposes an activation fee.

Regulatory fees

Fees of 10% or higher are levied in **Turkey**, **Jordan** and **Saudi Arabia**; other Middle Eastern countries such as **UAE** and **Oman** use royalty fees on revenue.

Egypt, **Algeria** and **Tunisia** impose numbering fees.

Algeria and **Morocco** have a USF fee.

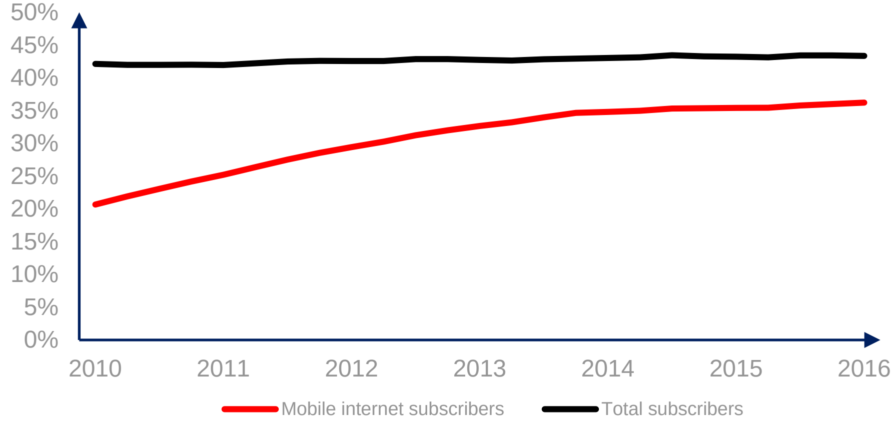
Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD and desktop research

High mobile-specific taxation in Turkey

Tax policy may have contributed to limited growth in mobile penetration

- Taxes and fees in Turkey accounted for 62% of the market's revenue in 2014, one of the highest rates measured across countries, and 76% of the tax and fee payments were sector-specific.
- High levels of sector-specific taxation may reduce the affordability of services, potentially contributing to keeping the poorer sectors of the population unconnected.
- For the poorest 20% in society in 2014, the yearly cost of a mobile bundle would account for over 8% of annual income.
- Whilst other developments in the country may have affected mobile usage, GSMA Intelligence data shows that following years of rapid penetration increases, unique mobile subscriber penetration in Turkey has stabilised at around 43% since 2010.
- This has occurred at a time of rapid economic growth for the country and may indicate that the affordability barrier continues to keep many Turks unconnected.

Unique subscriber penetration



Source: Deloitte analysis of operator data 2014, GSMA Intelligence, ITU and World Bank

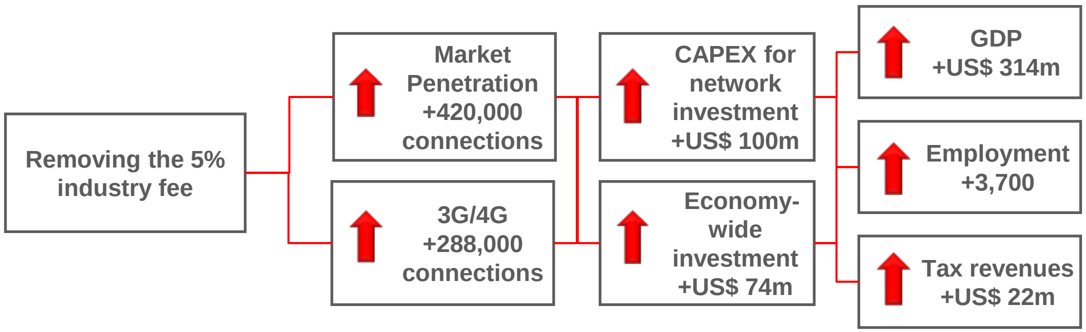
Mobile-specific taxes and fees in Turkey:

- Excise tax of 25% on voice and SMS, 5% on data.
- Connections are subject to an activation fee of TRL 46 (US$ 15.2), and an annual wireless licence fee and annual usage fee of TRL 18.95 (US$ 6.3) each.
- Imported handsets are subject to a 25% tax.
- Treasury Share fee of 15% of revenue.
- Regulatory authority share from net sales of 0.35% of revenue.
- Universal Service Fund (USF) of 1.5% of revenue.
- Licence and usage fees set by the regulator.

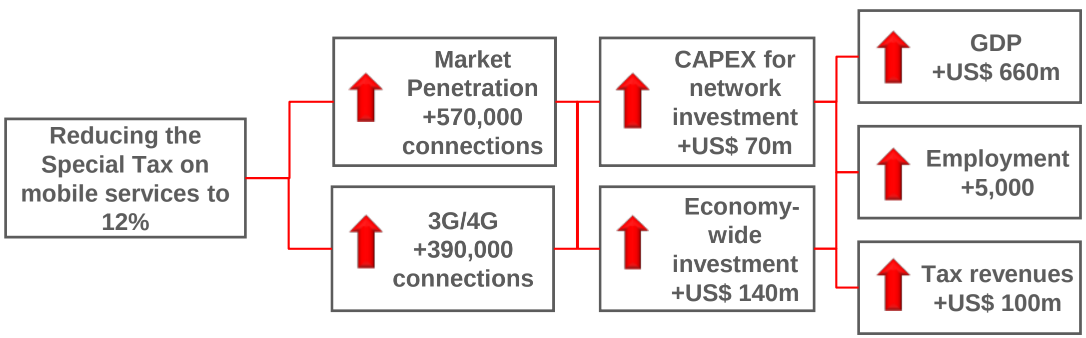
Potential impacts: Reducing excise taxes

Tax reform may improve affordability and increase digital inclusion

Impacts in 2020 of removing the 5% industry fee in Tunisia, relative to no tax change (analysis undertaken in 2016)



Impacts in 2020 of reducing the special tax to 12% in Jordan, relative to no tax change (analysis undertaken in 2015)



By potentially affecting prices, taxes and regulatory fees on mobile services may add to the affordability barrier and lower the consumption of such services.

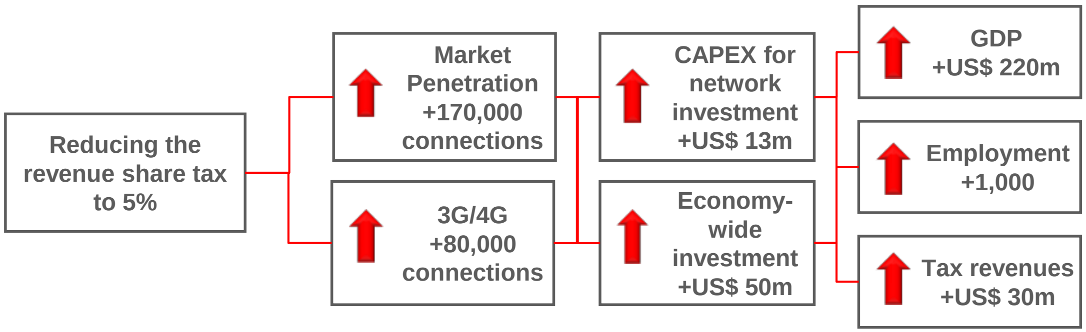
Handsets often represent the biggest cost barrier for the poorest sectors of the population and taxes on handsets increase this barrier, which will likely penetration and reduce externalities mobile services generate.

Source: Deloitte/GMSMA (2016); Digital inclusion and mobile sector taxation in Tunisia
Deloitte/GMSMA (2015); Digital inclusion and mobile sector taxation in Jordan

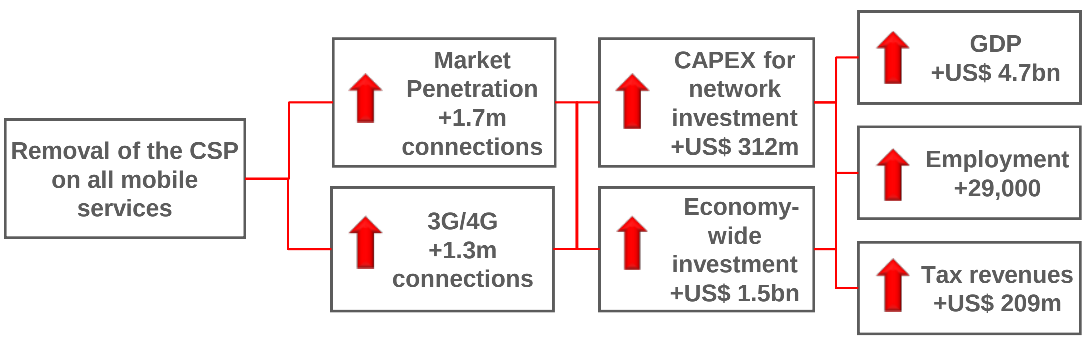
Potential impacts: Reducing revenue taxes and fees

Tax reform may lead to higher investment and improved network coverage

Impacts in 2020 of halving the revenue sharing fee in Jordan, relative to no tax change (analysis undertaken in 2015)



Impacts in 2020 of eliminating the CSP in Saudi Arabia, relative to no tax change (analysis undertaken in 2014)



Taxes and fees applied on revenues directly reduce the profitability of all operators, independent of their level of investment. These fees are also inefficient for the government as they produce lower market volumes and higher prices than a revenue equivalent tax on profits.

A large number of fees may increase tax complexity, potentially increase operator's costs and raise uncertainty, which could have significant impacts on investment due to the long payback period.

Source: Deloitte/GMSMA (2015); Digital inclusion and mobile sector taxation in Jordan
Deloitte/GMSMA (2014); Economic analysis of mobile sector taxation in the Kingdom of Saudi Arabia. Not published

Overview of taxes and fees

Taxes and fees in selected MENA countries

Operators are subject to both general and specific taxes and fees

General taxes

- General taxes apply to standard goods and services (e.g. VAT), or to all companies (e.g. corporation tax).
- Consumers and operators pay several general taxes in the MENA countries in our sample:
  - VAT is charged on usage and handsets. In several countries, the mobile sector is subject to differential rates of VAT.
  - Corporation tax is levied on the profit of operators. In two of the MENA countries in our sample, operators faced rates above the general rate of corporation tax.
  - Some Middle Eastern countries make limited use of general taxation.
  - Operators may face other taxes such as property taxes, withholding taxes and stamp duties.

Sector-specific taxes and fees

- Sector-specific taxes and fees are applied to the sector in addition to general taxes; for example excise duties and regulatory fees.
- Consumers and operators in the MENA countries in our sample were required to pay several different types of sector-specific taxes:
  - Excise duties on usage, handsets and SIM cards. These taxes can distort consumer choices by raising prices and reducing the affordability of these services.
  - Import taxes on handsets and network equipment which can raise the price of handsets and network expansion.
  - Regulatory taxes and fees such as licence fees, spectrum fees and numbering fees, which can limit the funds and incentives of operators for investment.

General taxes: VAT

Egypt levies a higher rate of VAT on mobile

Country	Mobile-specific VAT			Standard VAT
	Voice/SMS	Broadband	Devices	
Algeria	19%	19%	19%	19%
Egypt	**22%**	**22%**	**22%**	14%
Jordan	16%	16%	16%	16%
Morocco	20%	20%	20%	20%
Saudi Arabia	0%	0%	0%	0%
Tunisia	18%	18%	18% phones / **12% tablets / 6% dongles**	18%
Turkey	18%	18%	18%	18%

Continent	Standard VAT
Eastern Europe and Central Asia	19%
MENA	14%
Sub-Saharan Africa	16%
LATAM	16%
Asia Pacific	12%
EU 27 (+2)	21%

Recent changes:

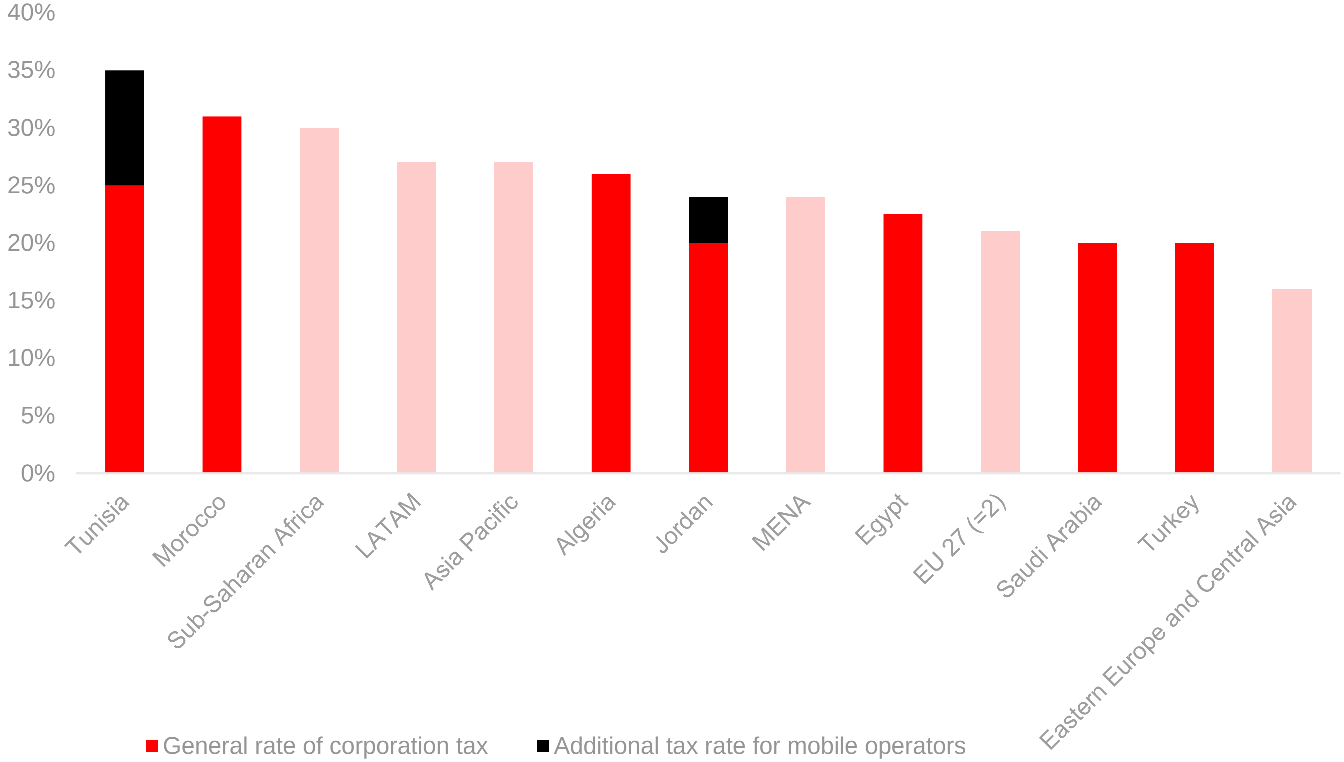
- **Algeria** increased the general rate from 17% to 19% and removed the exemption on mobile broadband, raising the rate to 19% from 7% (whereas fixed broadband is currently exempt).
- **Egypt** replaced a sales tax with a VAT system, increasing the general rate from 10% to 13% in 2016 and 14% in 2017. Mobile faces a higher rate: 21% in 2016, rising to 22% in 2017, compared to 15% previously under the sales tax regime.
- **Jordan:** Removed an exemption on broadband, raising the rate from 8% to 16%
- **Saudi Arabia** plans to introduce VAT at 5% in 2018.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD and desktop research

*Averages are provided for illustration only, based on 2015-2016 data for 9 countries in Eastern Europe and Central Asia, 9 in MENA, 29 in SSA, 18 in LATAM, 17 in Asia Pacific and 29 in EU 27 (+2).

General taxes: Corporation tax

Tunisia and Jordan levy higher rates of corporation tax on mobile operators



Recent changes

- **Algeria** increased the general rate of corporation tax from 23% to 26% in 2016.
- **Egypt** reduced the general rate of corporation tax from 30% to 22.5% in 2015.
- **Morocco** introduced a progressive system in 2016, with a maximum rate of 31%.
- **Tunisia** added a 7.5% exceptional tax on all companies 2016 taxable income.

Source: Deloitte analysis of operator data, GSMA Intelligence and desktop research. Saudi Arabia does not include Zakat tax of 2.5%. Tunisia does not include exceptional 7.5% tax on 2016 profits.

*Averages are provided for illustration only, based on 2015-2016 data for 9 countries in Eastern Europe and Central Asia, 9 in MENA, 29 in SSA, 18 in LATAM, 17 in Asia Pacific and 29 in EU +2.

General taxes: Import duty

Of the seven countries, only Morocco appears to charge import duty on handsets, while several countries charge duties on network equipment

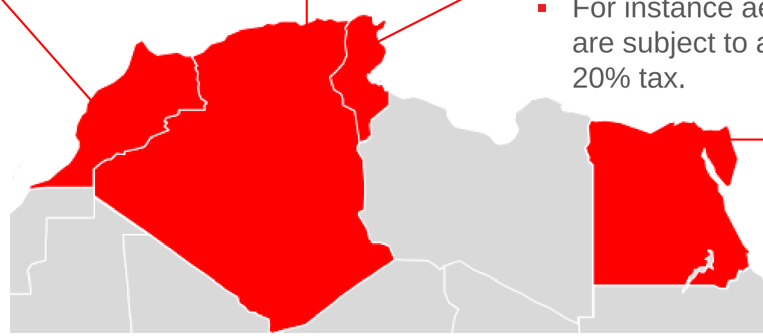
Morocco:
- Import duty on handsets of 2.5%.
- Import duty on network equipment of 2.5%.

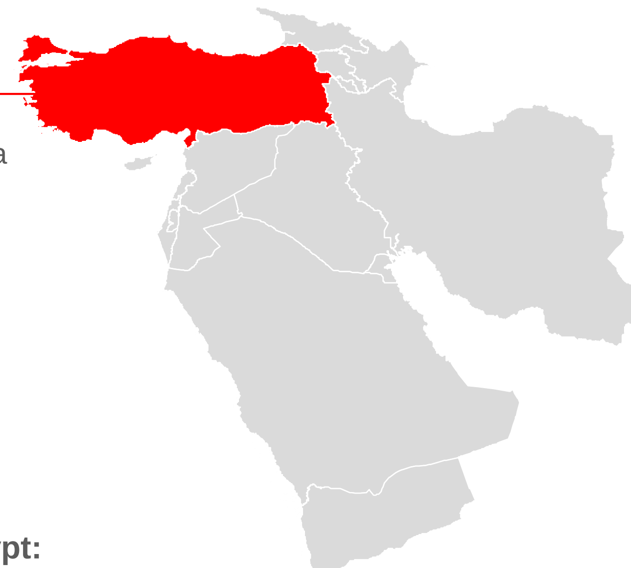
Algeria
- Import duty is charged at rates of up to 15%. For instance base stations and top-up cards are charged at 5%.

Turkey:
- Network equipment is subject to tariffs of up to 20%. For instance transceivers are subject to a 5% import charge.

Tunisia
- Import duty on network equipment varies from 0-30%.
- For instance aerials are subject to a 20% tax.

Egypt:
- Import duty on network equipment of 3-15%.





Source: Deloitte analysis of operator data, WITS, European Commission

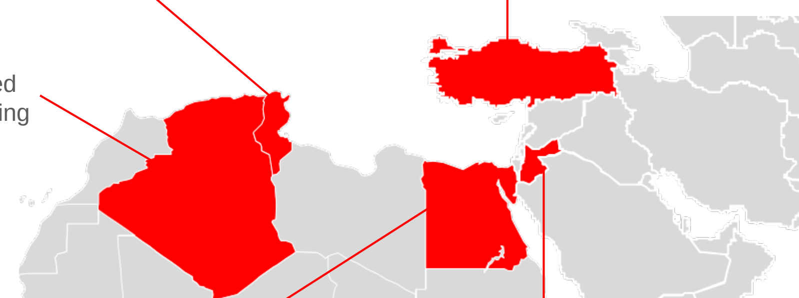
Excise taxes

Sector-specific taxes are applied in various forms, except in Morocco and Saudi Arabia

Tunisia:
- 5% on usage and handsets. Unlike many countries, the tax base is not net of interconnection costs.
- 10% telecom stamp duty on invoices, increased from 8% in 2014.

Turkey:
- Excise tax of 25% on voice and SMS, reduced to 5% for data in 2009.
- Connections are subject to an activation fee of TRL 46 (US$ 15.2), an annual wireless licence fee and an annual usage fee of TRL 18.95 (US$ 6.3) each.
- Imported handsets are subject to a 25% tax.

Algeria:
- Mobile prepaid recharges are taxed at a rate of 7%, rising from 5% in 2017.



Egypt:
- 6.1 EGP (0.34 US$) charged per subscriber per *year*.

Jordan:
- 26% on usage, increased from 12% in 2013 and 24% in 2017.
- Handsets exempted in 2014 but were then made subject to the 16% GST.
- Mobile phone subscription service for each new line sold: 2,600 Fils per line.

Excise tax on:

Handsets:
May reduce affordability of handsets, reducing penetration and economic spillovers

Usage:
May reduce affordability of usage, limiting use of beneficial services, especially for those at the bottom of the economic pyramid

Activations/ connections:
May reduce affordability of phone ownership and thereby reduce penetration

New services e.g mobile money:
May reduce take up of innovative services, reduce positive spillovers

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD and desktop research

Regulatory taxes and fees: Middle East

Fees of 10% or higher are levied in Turkey, Jordan and Saudi Arabia; other Middle Eastern countries such as UAE and Oman use royalty fees on revenue

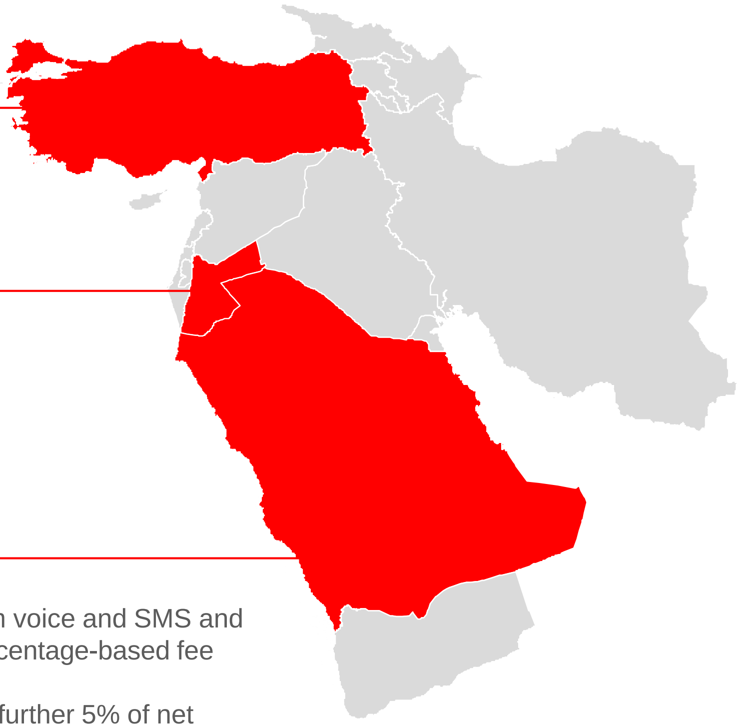
Turkey:

Regulatory fees based on revenue:

- Treasury Share: 15%.
- Regulatory authority share from net sales: 0.35%.
- Universal Service Fund (USF): 1.5%.

Operators are also subject to:

- Licence and usage fees which are set by the regulator.



Jordan:

Regulatory fees based on revenue:

- Regulatory fee: 10%.

Operators are also subject to:

- Spectrum fees determined by the regulator.
- Licence fees of up to 1% of the capital value.
- Numbering fees which are based on the value per block.

Saudi Arabia

Operators pay several fees based on revenue:

- Communications services provision (CSP) fee of 15% of net operating revenue from voice and SMS and 8% of net operating revenue from data. Discussions to introduce a progressive, percentage-based fee on all services applied to net operating revenue and reaching up to 11%.
- Annual licence fees of 1% of revenue and after the extension of licences in 2016, a further 5% of net income for the extension period.
- USF fee of 1%.

Operators are also subject to:

- Annual spectrum fees depending on bandwidth demand density, power and antenna height.
- Numbers use and allocation fees.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD and desktop research

Regulatory taxes and fees: North Africa

A range of sector-specific regulatory fees are levied in the North African countries for which data is available

Algeria:
Regulatory fees based on revenue:
- USF: 3%.
- Licence fee:1%.
- Turnover of mobile business: 1%.
- Research and normalisation: 0.3%.
- Numbering fees: 0.2%.

Operators are also subject to:
- Annual spectrum fee.
- Fees per base station.
- Authorisation fees for GPS and IPS.

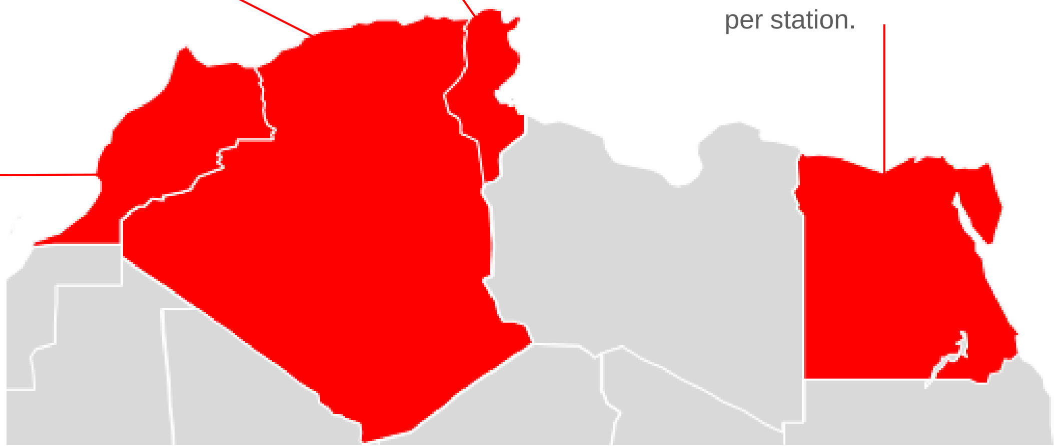
Morocco:
Regulatory fees based on revenue:
- USF: 2%.
- Research and training fund: 1%.

Operators are also subject to:
- Annual fees for spectrum licences.

Tunisia
Operators face several fees:
- Annual licence and spectrum fees.
- Numbering fees.
- 10% fee on the rent value of network websites.

Egypt
Regulatory fees based on revenue:
- 3G licence fee: 2.4%.
- ITDA regulatory fee :1%.
- Training fund.

Operators are also subject to:
- Annual licence fees based on the capital value.
- Annual spectrum fees.
- Numbering fees of EGP 1-1.5 per number.
- Subscriber ID fees.
- Licence fees for base stations: EGP 300 per station.



Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD and desktop research

Regulatory taxes and fees (including recurring spectrum fees) as a proportion of revenue

Regulatory fees account for a relatively large share of revenue in the Middle Eastern countries for which data is available

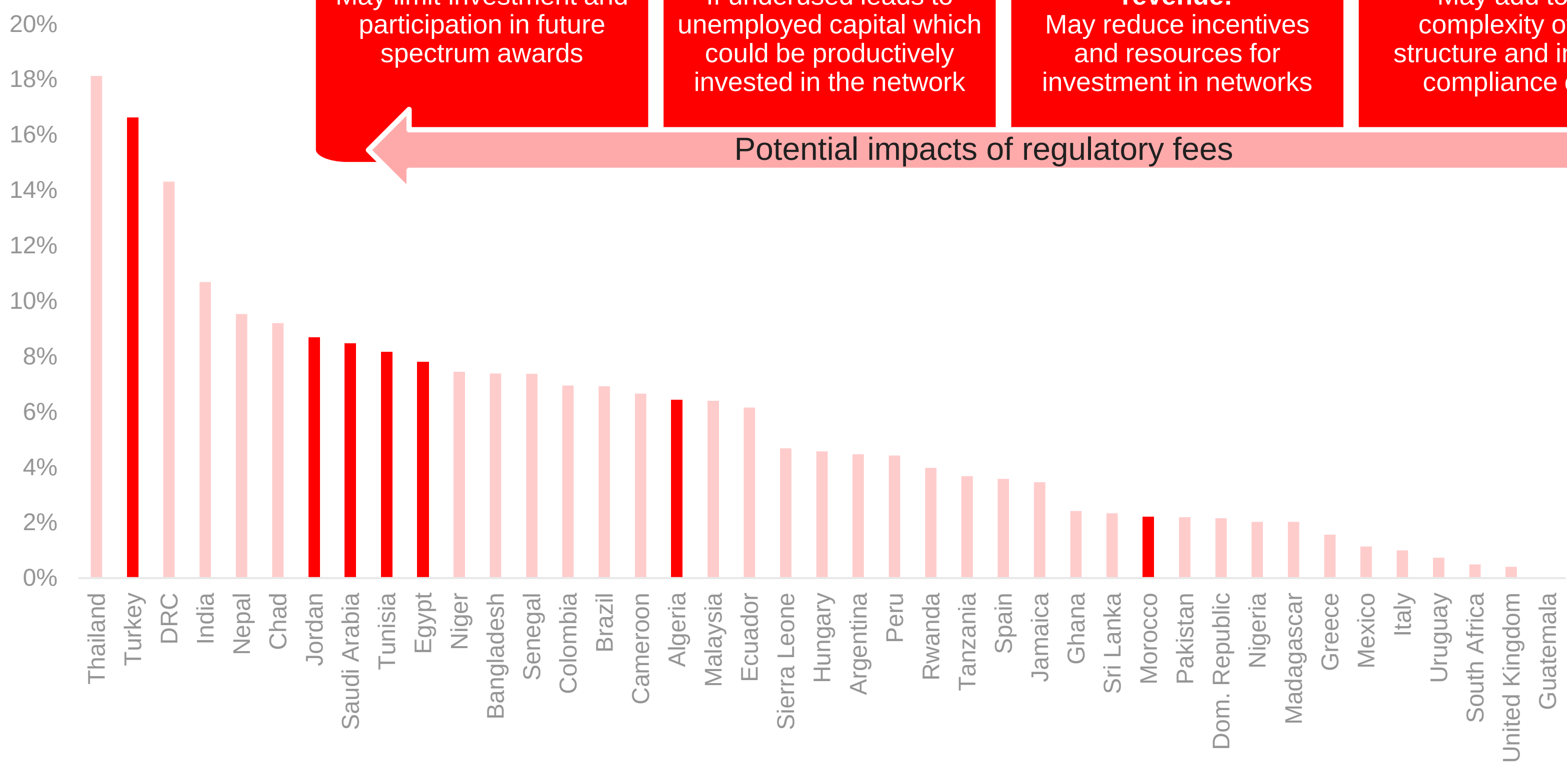
Spectrum fees: May limit investment and participation in future spectrum awards

USF: If underused leads to unemployed capital which could be productively invested in the network

Regulatory fees on revenue: May reduce incentives and resources for investment in networks

Other regulatory fees: May add to the complexity of fees structure and increase compliance costs

Potential impacts of regulatory fees



Source: Deloitte analysis of operator data 2013-2015 and GSMA Intelligence

Recent changes

There have been several changes in taxation and fees in recent years, including excise tax increases in Jordan and Tunisia

General taxation

VAT

Algeria increased the general rate from 17% to 19% and removed the exemption on mobile broadband, raising the rate to 19% from 7% (while fixed broadband is currently exempt).

Egypt replaced a sales tax with a VAT system, with the mobile-specific rate rising from 15% to 22% by 2017.

Corporation tax

Algeria increased the general rate of corporation tax from 23% to 26% in 2016.

Egypt reduced the general rate from 30% to 22.5% in 2015.

Morocco introduced a progressive system in 2016, with a maximum rate of 31%.

Tunisia levied a 7.5% exceptional tax on 2016 profits.

Sector-specific taxation

Excise taxes

Algeria: The tax on mobile prepaid recharges rose from 5% to 7% in 2017.

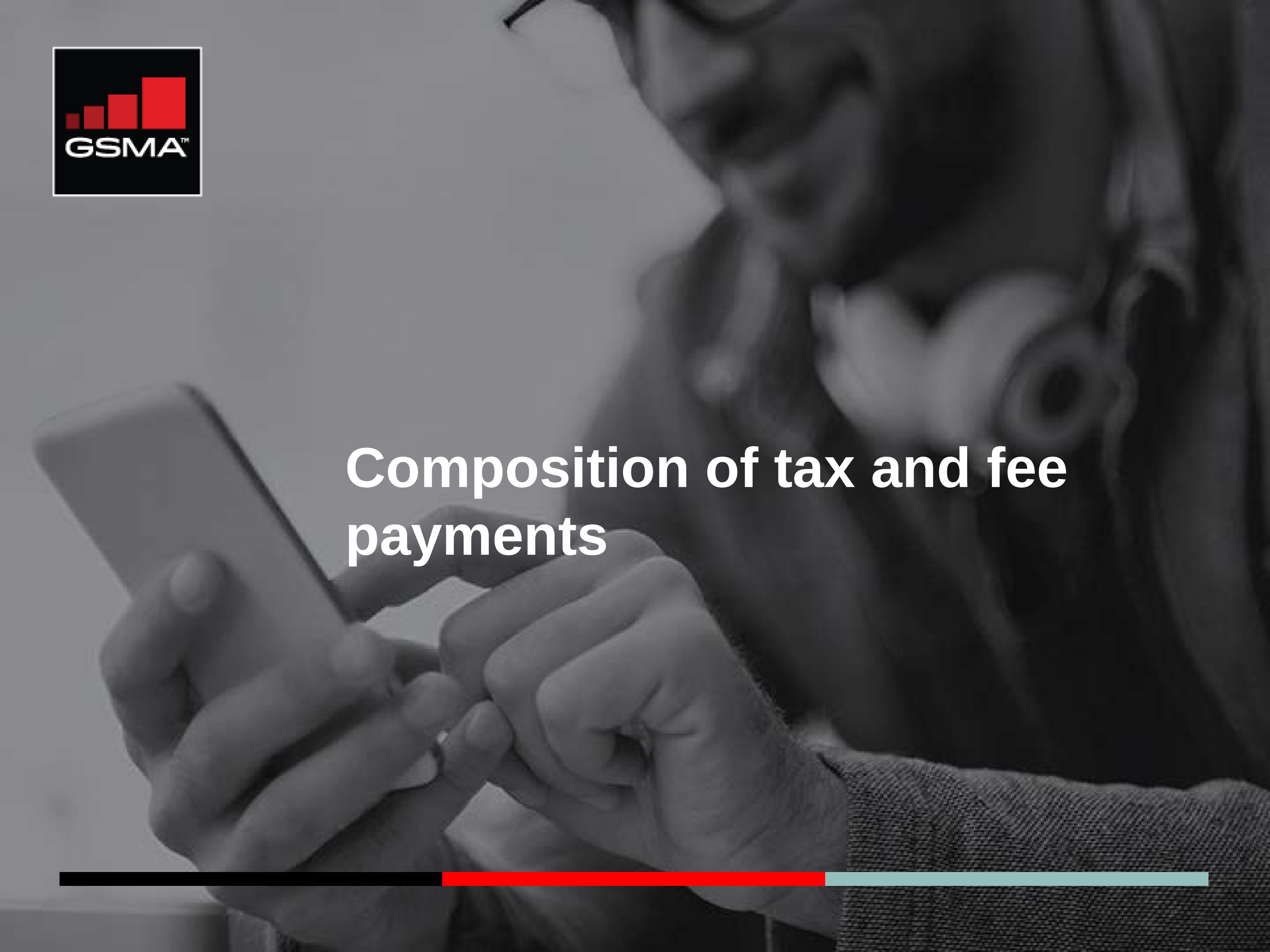
Jordan: The excise tax on usage has increased from 12% to 24% in 2013, and to 26% in 2017.

Tunisia: The telecom stamp duty was increased from 8% to 10% in 2014.

Regulatory fees

Saudi Arabia: When the licences were extended the licence fee increased to a further 5% of net income for the extension period.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD and desktop research



Composition of tax and fee payments

Overview of metric: General vs. sector-specific taxes and fees

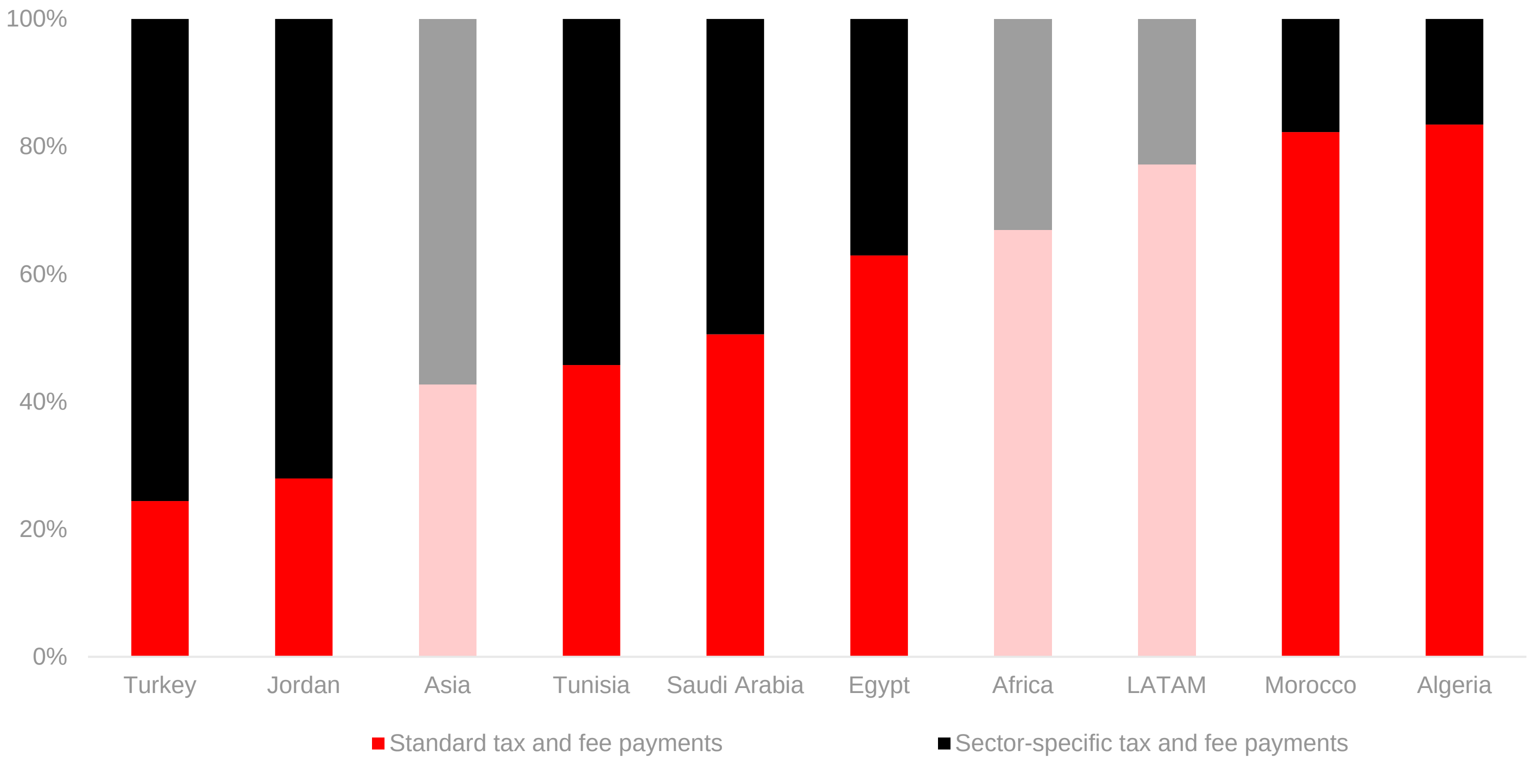
Each tax and fee paid by operators is categorised based on this classification:

- **General taxes** apply to standard goods and services (e.g. VAT), or to all companies (e.g. corporation tax). This includes cases where the rates of such taxes are higher for the mobile sector.
- **Sector-specific taxes and fees** apply specifically to the mobile or telecom sector; for example excise duties and regulatory fees.

- General taxes are less likely to cause distortionary effects, while taxes and fees that only apply to specific goods and services may distort consumer and business behaviour.
- Distortionary taxation is not supported by taxation best practice, especially when it may reduce consumption of goods and services that generate benefits for the economy, such as mobile.
- By distinguishing general and sector-specific taxes and fees, it is possible to measure the extent of sector-specific taxation in each country. This distinction identifies those countries where sector-specific taxes and fees are particularly prevalent, meaning that the mobile sector faces substantial additional taxation compared to other sectors, potentially with negative effects for consumers.

Sector-specific vs general taxes and fees

Sector-specific taxes and fees are particularly prevalent in Turkey and Jordan compared to regional averages



Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence and desktop research

*Averages are provided for illustration only, based on 2014-2015 data for 10 countries in Asia, 12 in the Americas and 19 in Africa.

Overview of metric: Consumer vs operator taxes and fees

The extent to which taxes and fees fall on consumers, or are absorbed by operators, may depend on specific market conditions, but also on the nature of each tax or fee.

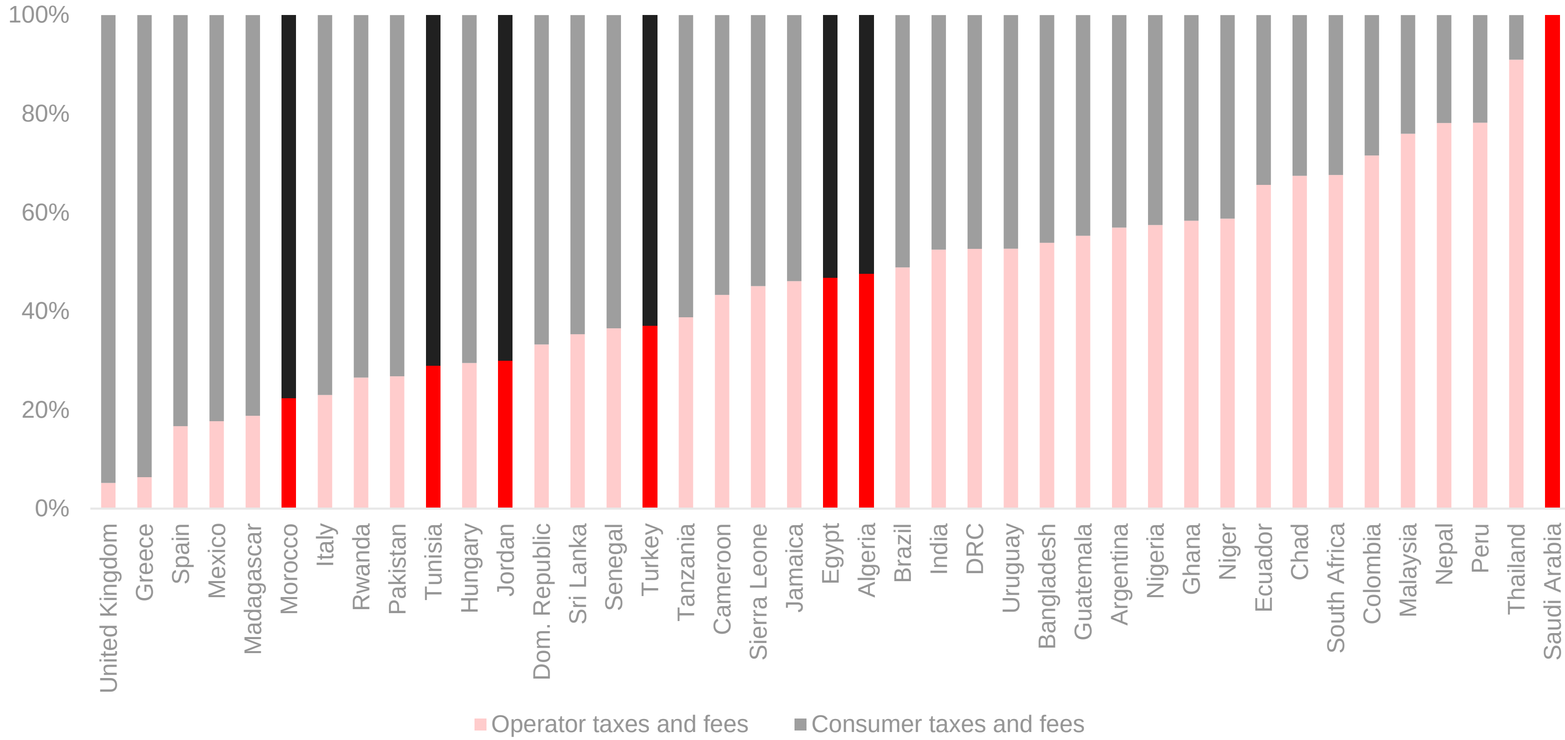
Each tax and fee paid by operators is categorised based on this classification:

- **Operator taxes and fees** include corporate taxes, regulatory taxes and fees, import duties on network equipment, and taxes related to property holdings and royalties.
- **Consumer taxes and fees** include sales taxes, such as VAT, excise duties on usage, activation charges, and import duties on handsets and SIM cards.

- This analysis produces a snapshot of the nature of taxation in each country and whether it is focused primarily on operators or consumers.
- While there are several factors at play, taxes on consumers may tend to have a larger impact on the affordability of mobile services, whereas taxes on operators may be more likely to be absorbed and therefore particularly restrict operator investment.

Consumer vs operator taxes and fees

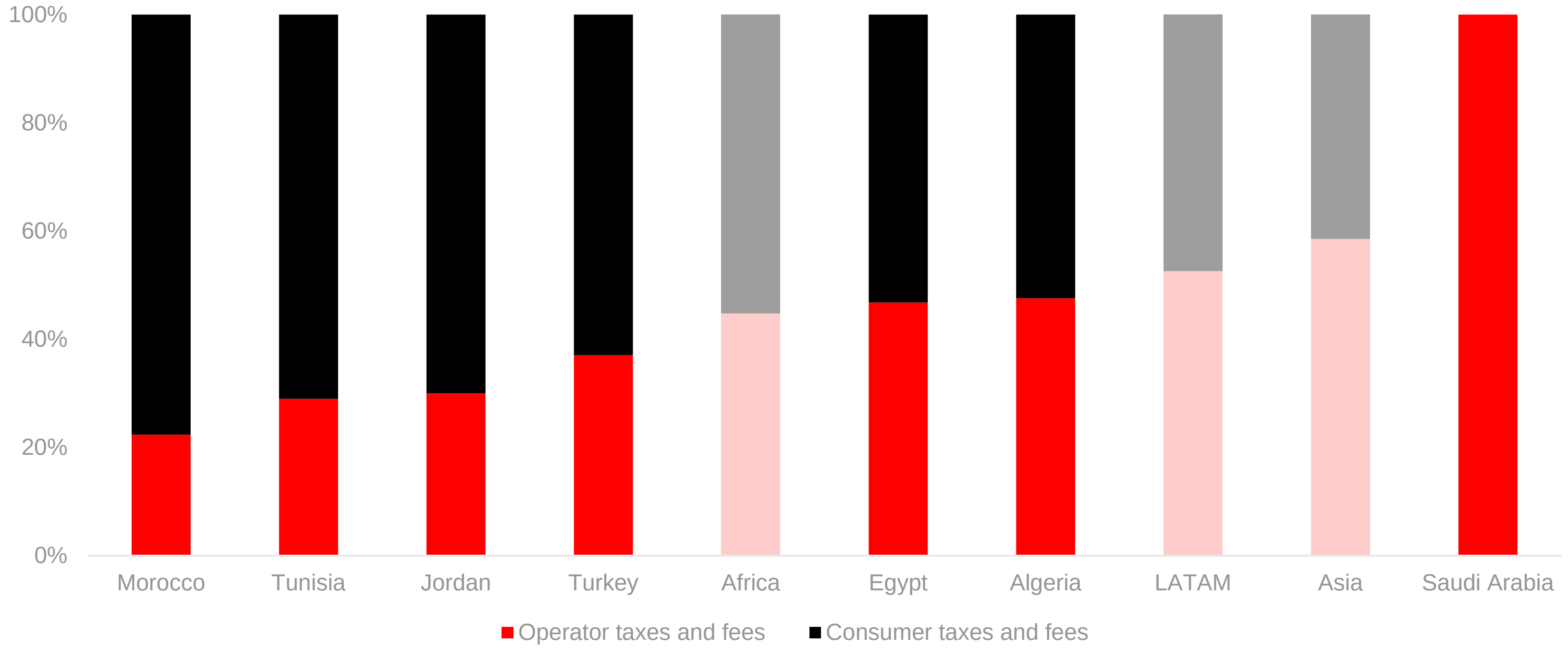
Saudi Arabia relies exclusively on operator taxes and fees, whereas consumer taxes are relatively prevalent in the other MENA countries in the sample



Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence and desktop research

Consumer vs operator taxes and fees

Consumer taxes are prevalent in Morocco, Tunisia, Jordan and Turkey compared to regional averages



Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence and desktop research

*Averages are provided for illustration only, based on 2014-2015 data for 10 countries in Asia, 12 in the Americas and 19 in Africa

Overview of metric: Composition of taxes and fees

Consumers and operators face a variety of taxes and fees, some as part of general taxation and some as sector-specific taxation.

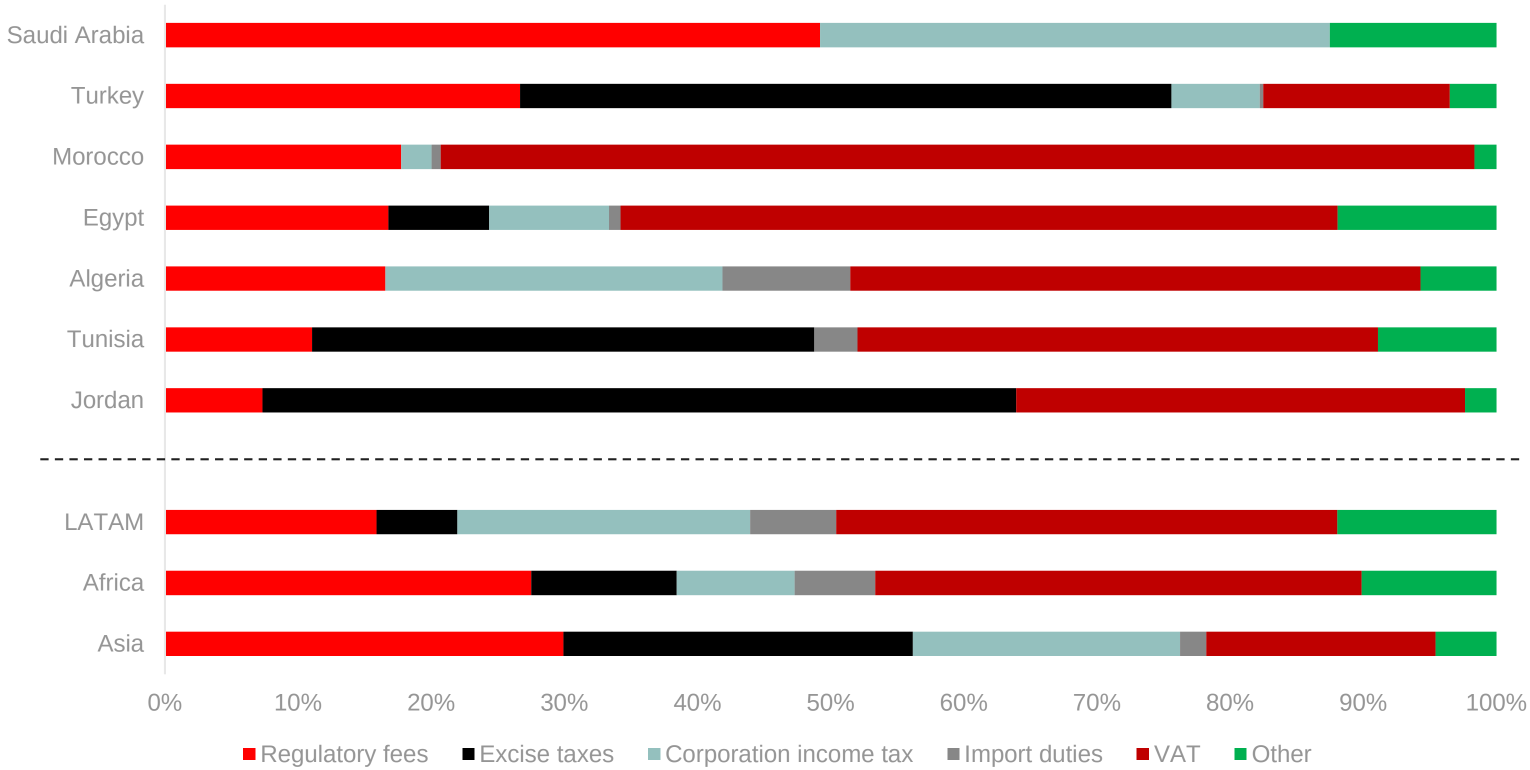
Each tax and fee paid by operators is categorised based as followed:

- **Regulatory taxes and fees:** Taxes and fees charged by the regulator for licences etc.
- **Excise taxes:** Taxes and fees on mobile services and devices.
- **Corporation tax:** Tax on operator's profits.
- **Import duties:** Taxes and fees on goods and equipment imported from abroad.
- **VAT:** Indirect general tax.
- **Other:** Other taxes and fees such as general fees for training and research fund.

- This analysis produces a snapshot of the nature of taxation in each country and the taxes governments most use.

Composition of tax and fee payments

In Saudi Arabia regulatory fees account for around half of payments, whereas excise taxes are prominent in Turkey and Jordan; otherwise, as expected, VAT comprises the largest share



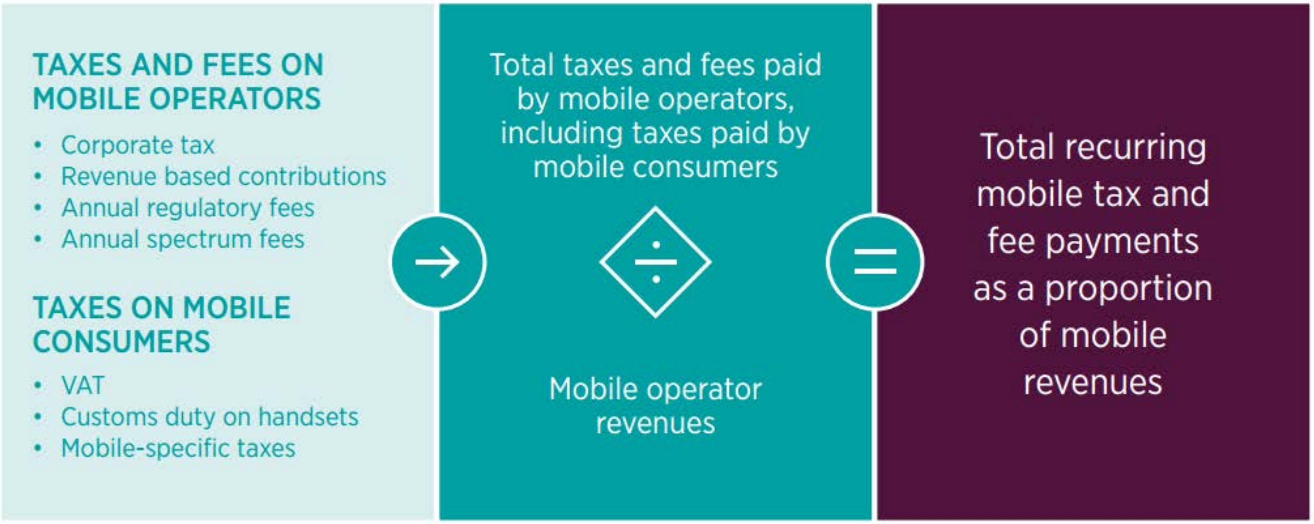
Source: Deloitte analysis of operator data, GSMA Intelligence and desktop research

*Averages are provided for illustration only, based on 2014-2015 data for 10 countries in Asia, 12 in the Americas and 19 in Africa.

Tax and fee contribution of the mobile sector

Overview of metric: Tax and fee payments as a share of sector revenue

- The total tax and fee payments made by the mobile sector in each country can be put into context by expressing them as a proportion of market revenues.
- This metric gives a clear snapshot of the overall tax and fee contribution made by the sector.



Data sources:

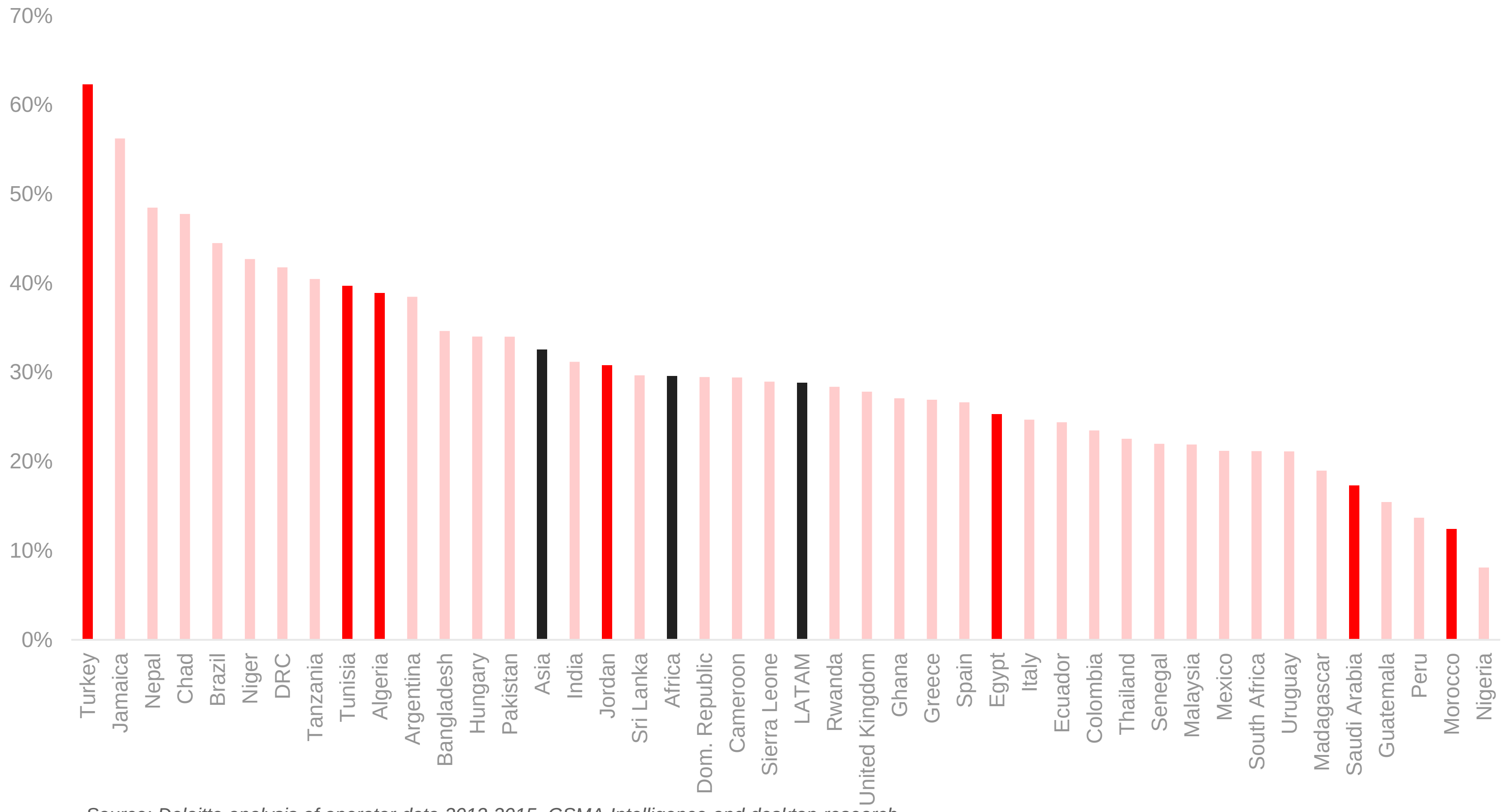
Payments made by the mobile sector are based on operator data and revenue is based on GSMA Intelligence data.

Source: Deloitte/GSMA (2015): 'Digital inclusion and mobile sector taxation 2015'

Where payments represent a particularly high share of revenue, it is more likely that taxes and fees may be limiting the incentive and ability for operators to invest, as well as contributing to making mobile services less affordable.

Tax and fee payments as a share of sector revenue

Tax and fee payments account for a relatively high share of revenue in Turkey, Tunisia and Algeria



Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence and desktop research
*Averages are provided for illustration only, based on 2013-2015 data for 10 countries in Asia, 12 in the Americas and 19 in Africa

Overview of metric: Fiscal and economic contribution of the mobile sector

International organisations* suggest that effective taxation may be achieved by minimising the distortive effects of taxation, for example by:

- using low rates on broad tax bases;
- giving the same treatment to similar/competing sectors.

A measure of distortionary taxation can be calculated by dividing:

- Mobile sector tax and regulatory fee payments, based on operator data, as a proportion of total tax revenues, based on World Bank and IMF data; by
- Mobile revenues, based on GSMA Intelligence data, as a proportion of GDP, based on World Bank data.

For example, if the mobile sector contributes 4% of total tax revenues, but sector revenues are only 2% of GDP, then the ratio is equal to 2.

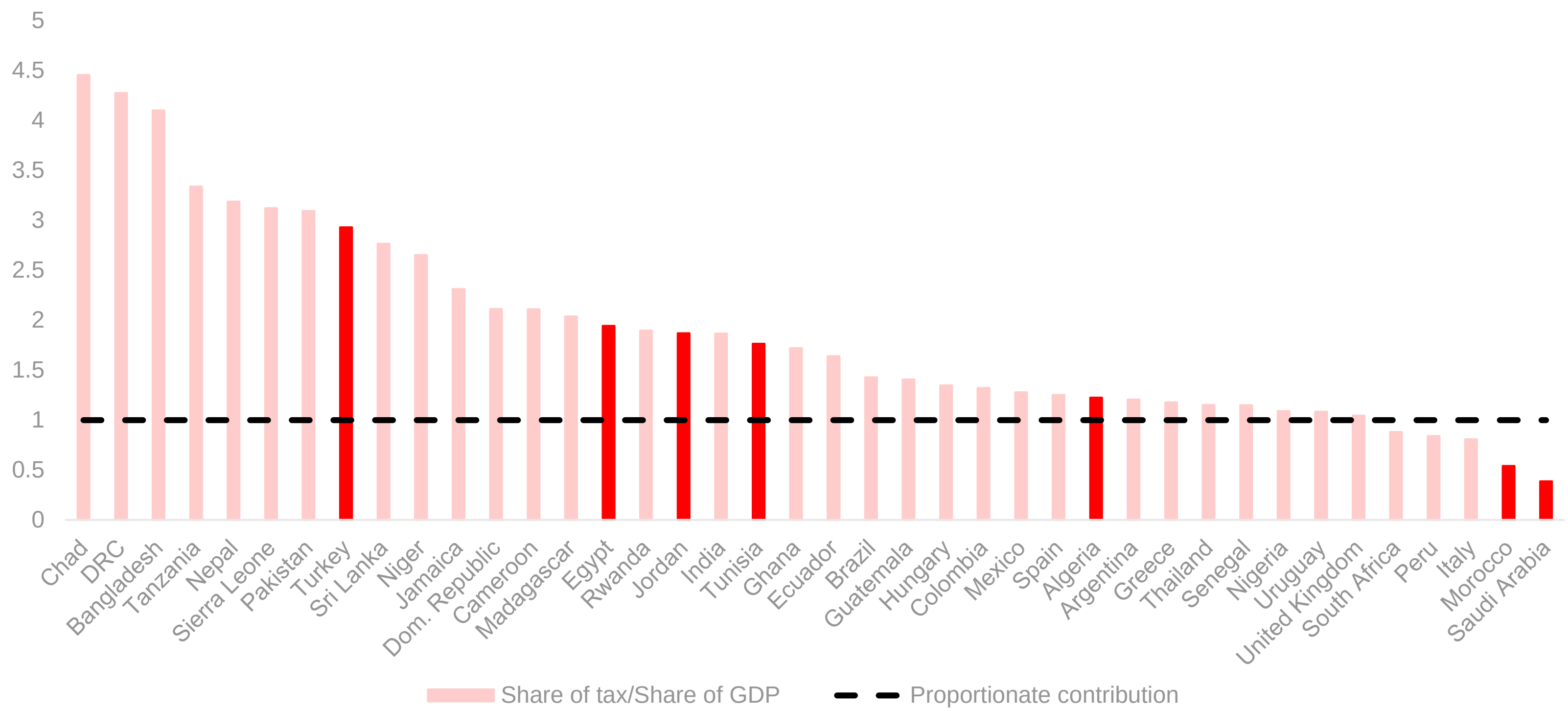
A value greater than 1 indicates that the sector over-contributes to tax revenue relative to its economic size. Large values may indicate uneven treatment of different sectors.

It is recognised that in countries with large informal economies this metric may not be fully representative.

*For example, see course on Practical Issues of Tax Policy in Developing Countries, World Bank, April 28-May 1, 2003 and OECD, 2014, ‘Fundamental principles of taxation’

Fiscal and economic contribution of the mobile sector

Mobile operators in Turkey, Egypt, Jordan, Tunisia and Algeria over-contribute to government revenue, relative to their economic footprint



Share of tax = mobile sector tax and fee payments divided by total tax revenues
Share of GDP = mobile sector revenue divided by GDP
The line indicates a proportional contribution
Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence, World Bank and IMF

Overview of metric: Tax and fee payments per subscriber, as a share of GNI per capita

Affordability is a key barrier to wider use of mobile, especially for the poorest consumers and in least developed countries. Taxes and fees may play a part in making mobile services unaffordable for many.

Analysing tax and fee payments per subscriber helps to show the potential impact on affordability.

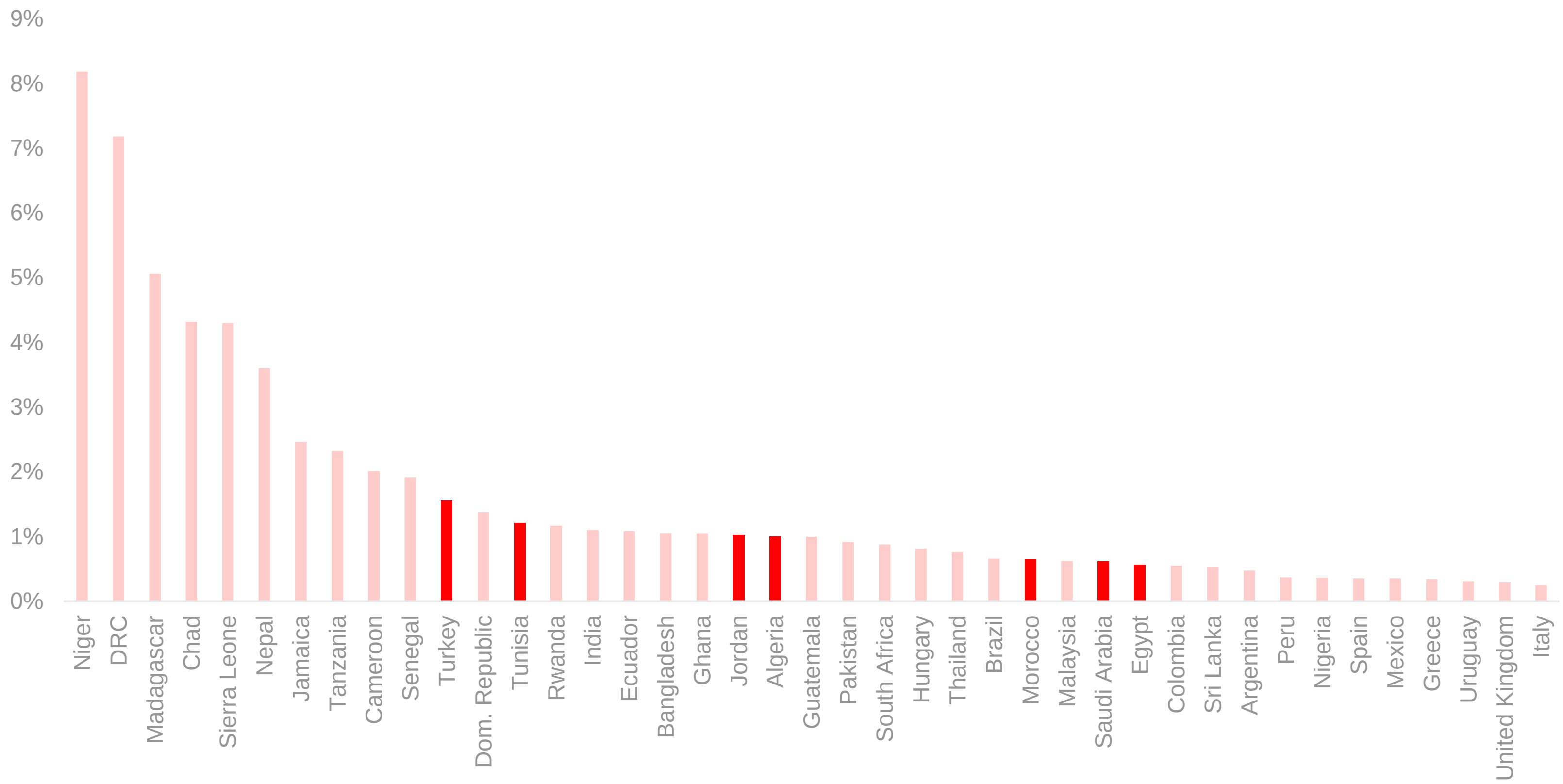
- The affordability metric used here is calculated by dividing the amount of taxes and fees paid – based on operator data – by the number of subscribers – based on GSMA Intelligence data.
- To put this measure into context, it can be expressed as a proportion of average income (GNI per capita, as measured by the World Bank). This approximates the impact of taxes and fees on the average consumer.

In countries where taxes and fees per subscriber is high, there may be the strongest case for tax reductions as a measure to improve affordability of mobile services, to the benefit of the economy and society.

*Course on Practical Issues of Tax Policy in Developing Countries, World Bank, April 28-May 1, 2003 and OECD (2014): ‘Fundamental principles of taxation’

Tax and fee payments per subscriber, as a share of GNI per capita

Tax and fee payments per subscriber represent a smaller percentage of income in the Middle Eastern countries than in some less developed countries



Source: Deloitte analysis of operator data 2013-2015, GSMA Intelligence and World Bank
Analysis for the lowest quintile is not included due to unavailable data on income distribution

Spectrum license duration, renewal and extension

Licence duration and renewal processes

Relatively short licence terms and opaque renewal processes could have negative impacts in MENA

Longer licences	▪ Longer licences may give greater certainty to operators ▪ Potentially increases investment in both spectrum award processes and in networks
Transparent renewals	▪ More transparent and predictable renewal processes may help ensure investment incentives are maintained as licences near the end

Examples of licence duration

Some recent spectrum awards in MENA have used 15-year licences:

- **Egypt:** 4G licences awarded in 2016 have an original term of 15 years, with potential renewal periods thereafter.
- **Algeria:** 3G licences awarded in 2013 have an original term of 15 years, with potential renewal periods thereafter.

In Europe, there appears to be a trend towards longer licences:

- The European Commission recently recommended minimum licence terms of 25 years.
- In the UK, 4G licences are indefinite, though after 20 years they can be removed with a 5 year notice.

Examples of licence renewals

Renewal processes in MENA may be relatively opaque and uncertain

- **Yemen**: MTN paid US$ 36.4 million for a 29-month extension because a long term deal had not been agreed.
- **Jordan:** Orange disputed the level of fees the TRC requested for the licence renewal. This led to a temporary 5-year deal being agreed in 2014, which was extended by another 10 years in 2016.

Licence extension

Where licences are extended long before the expiry date at low (or no) fees, there may be benefits to operators, consumers and governments

Licence extensions result in reduced annual amortisation costs for operators and consequently, higher EBIT margins, which may lead to:

- Increased corporation tax payments, boosting government revenue
- Increased spectrum usage
- Increased network investment, leading to improved network coverage and quality
- Increased scope for operators to reduce prices, improving affordability

Examples of licence extensions

- **Saudi Arabia:** licences were unified to cover use of fixed, mobile and internet services, and extended by 15 years to 2047 which is estimated to save Zain SAR 433 million per year (US$ 115 million) and Mobily 260 SAR million (US$ 69 million), in return for a new fee of 5% of net income during the extension period.
- **Palestine:** Wataniya had their GSM licence extended in 2015 by 5 years to 2022 for no cost.
- **Algeria**: GSM licences were free to renew for two 5 year periods, although in 2016 operators have requested 15 year licence extensions.

Illustrative example: Impact of licence extension

An operator holds a 20-year licence, originally valued at US$ 1 billion. When there are 15 years of the licence term remaining, the licence is extended by 10 years, so it then expires in 25 years' time.
The longer remaining licence term reduces annual amortisation costs:

	Original licence			After extension	
Value	Duration (years)	Annual amortisation	Amortisation balance after 5 years	Years left after extension	New annual amortisation
US$ 1 billion	20	US$ 50 million	US$ 750 million	25 years	US$ 30 million

As amortisation costs are US$ 20 million lower, EBIT increases by this amount, which contributes to higher corporation tax collection. Therefore, the extension may have direct benefits for governments, as well as potential benefits for operators and consumers.

Increase in EBIT	US$ 20 million
Corporation tax rate	20%
Increase in annual tax revenue	**US$ 6 million**

The analysis assumes that the licence is extended free of charge and that operators make positive taxable profits.

Annex: Overview of taxes and fees by country

Algeria

Algeria increased the excise tax on mobile prepaid recharges in 2017

	VAT	Corporation tax	Import duty
General taxation	VAT is charged at a rate of at 19%, in line with the general rate.	Corporation tax is charged at 26%, in line with the general rate.	Import duty is charged at rates of up to 15%.

	Excise taxes	Regulatory fees on revenue	Regulatory fees - other
Sector-specific taxation	Mobile prepaid recharges are taxed at a rate of 7%, rising from 5% in 2017.	▪ USF fee: 3%. ▪ Licence fee:1%. ▪ Fee on turnover: 1%. ▪ Research and normalisation contribution: 0.3%. ▪ Numbering fees: 0.2%.	▪ Annual spectrum fee. ▪ Fees per base station. ▪ Authorisation fees for GPS and IPS.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD, European Commission and desktop research

Egypt

Mobile is subject to a higher rate of VAT than standard goods and services, in addition to sector specific taxes and fees

General taxation

VAT	Corporation tax	Import duty
VAT is charged at 22%, 8% above the general rate of 14%.	Corporation tax is charged at 22.5%, in line with the general rate.	Import duty is charged between 3% and 15%.

Sector-specific taxation

Excise taxes	Regulatory fees on revenue	Regulatory fees - other
6.1 EGP (US$ 0.34) charged per subscriber per year.	▪ 3G licence fee: 2.4%. ▪ ITIDA regulatory fee: 1%. ▪ Training fund contribution.	▪ Annual licence fees based on the capital value. ▪ Annual spectrum fees. ▪ Numbering fees of EGP 1-1.5 per number. ▪ Subscriber ID fees. ▪ Licence fees for base stations: EGP 300 per station.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD, European Commission and desktop research

Jordan

Jordan uses several sector-specific taxes, including a 10% revenue fee, and applies a higher rate of corporation tax on mobile

General taxation

VAT

VAT is charged at a rate of at 16%, in line with the general rate.

Corporation tax

Corporation tax is charged at 24%, above the general rate of 20%.

Import duty

Import duty is not charged on mobile equipment or phones in Jordan.

Sector-specific taxation

Excise taxes

There is a tax of 26% on usage, increased from 12% in 2013 and 24% in 2017.

Handsets were exempted from this excise tax in 2014 but were then made subject to the 16% GST.

A tax of 2600 Fils (US$ 3.7) per line is charged for each new mobile phone subscription service.

Regulatory fees on revenue

Operators are charged a regulatory fee amounting to 10% of revenue.

Regulatory fees - other

- Spectrum fees determined by the regulator.
- Licence fees of up to 1% of the capital value.
- Numbering fees which are based on the value per block

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD, European Commission and desktop research

Morocco

In Morocco there are no excise taxes on mobile services and relatively low regulatory fees compared to other countries in this study

	VAT	Corporation tax	Import duty
General taxation	VAT is charged at a rate of at 20%, in line with the general rate.	Corporation tax is charged based on a progressive system up to 31% for companies with taxable income about MAD 5 million.	Import duty on handsets and network equipment is charged at 2.5%.
	Excise taxes	**Regulatory fees on revenue**	**Regulatory fees - other**
Sector-specific taxation	There are no mobile sector excise taxes in Morocco.	▪ USF fee: 2%. ▪ Research and training fund: 1%.	Annual fees for spectrum licences.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD, European Commission and desktop research

Saudi Arabia

VAT and excise taxes are not levied, but regulatory fees include a 15% charge on voice and SMS revenues

	VAT	**Corporation tax**	**Import duty**
General taxation	VAT is currently not charged but a 5% rate is being introduced in 2018.	Corporation tax is charged at 20% on the non-Saudi shareholding. Operators are also subject to a 2.5% tax on the Zakat base (a measure of net worth), which is on the Saudi shareholding.	Import duty is not charged on mobile equipment or phones in Saudi Arabia.
	Excise taxes	**Regulatory fees on revenue**	**Regulatory fees – revenue & other**
Sector-specific taxation	There are no mobile sector excise taxes in Saudi Arabia.	▪ Communications services provision (CSP) fee of 15% of net operating revenue from voice and SMS and 8% of net operating revenue from data. ▪ Annual licence fees of 1% of revenue and after the extension of licences in 2016, a further 5% of net income for the extension period. ▪ USF fee: 1%.	▪ Discussions to introduce a new, progressive Communications Provision Fee (CPF) on net operating revenue reaching 11%. ▪ Annual spectrum fees depending on bandwidth demand density, power and antenna height. ▪ Numbers use and allocation fees.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD, European Commission and desktop research

Tunisia

Operators in Tunisia are subject to a higher rate of corporation tax than other businesses

General taxation

VAT	Corporation tax	Import duty
Most mobile services are subject the general rate of VAT (18%). Tablets are subject to a rate of 12% and 3G dongles 6%.	Corporation tax is charged at 35%, higher than the general rate of 25%. An exceptional tax of 7.5% was levied on 2016 taxable profits for all companies.	Import duty on network equipment varies from 0-30%. For example aerials are subject to a 20% tax.

Sector-specific taxation

Excise taxes	Regulatory fees on revenue	Regulatory fees - other
5% on usage and handsets. Unlike many countries, the tax base is not net of interconnection costs. 10% telecom stamp duty on invoices, increased from 8% in 2014.	Operators are not subject to regulatory fees on revenue.	▪ Annual licence and spectrum fees. ▪ Numbering fees. ▪ 10% fee on the rent value of network websites.

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD, European Commission and desktop research

Turkey

The mobile sector is subject to a range of sector-specific taxes and fees

	VAT	Corporation tax	Import duty
General taxation	VAT is charged at a rate of at 18%, in line with the general rate.	Corporation tax is charged at 20%, in line with the general rate.	Network equipment is subject to tariffs of up to 20%. For example transceivers are subject to a 5% import charge.

	Excise taxes	Regulatory fees on revenue	Regulatory fees - other
Sector-specific taxation	Excise tax of 25% on voice and SMS, reduced to 5% for data in 2009. Connections are subject to an activation fee of TRL 46 (US$ 15.2), an annual wireless licence fee and an annual usage fee of TRL 18.95 (US$ 6.3) each. Imported handsets are subject to a 25% tax.	▪ Treasury Share: 15%. ▪ Regulatory authority share from net sales: 0.35%. ▪ USF: 1.5%.	▪ Licence fees ▪ Usage fees

Source: Deloitte analysis of operator data, GSMA Intelligence, IBFD, European Commission and desktop research


GSMA