Taxation and mobile money in Tanzania

October 2017
Over half of Tanzanian adults have gained access to financial services, thanks to the mobile money revolution.

Sources: InterMedia FII data, 2015; World Bank – Tanzania Economic Update, April 2017; Bank of Tanzania Monetary Policy Statement, February 2016

% of the adult population that has a mobile money account | % of the adult population that is financially included

2006: 11% | 11%
2013: 44% | 44%
2015: 61% | 62%
2017 target: 80%

Note: the financial inclusion figures include an overlap, where some mobile money users may have bank accounts and vice-versa. However, mobile money has been a principal driver for financial inclusion in Tanzania.
The benefits of using mobile money extend far beyond financial inclusion

<table>
<thead>
<tr>
<th>Individuals</th>
<th>Government</th>
<th>Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased employment and investment – directly and via supply chains</td>
<td>Higher tax base and receipts due to sector revenue and employment</td>
<td>Higher per capita income due to rising productivity and employment rates</td>
</tr>
<tr>
<td>Wider access to financial services: credit, savings, insurance and payments</td>
<td>Lower risk of fraud and theft via direct transfer of social subsidies</td>
<td>Efficient monetary policy due to less money held outside of banks</td>
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<tr>
<td>Empowerment of women and rural communities</td>
<td>Greater access to government services for under-served areas</td>
<td>Investment in education and healthcare, enabling human capital development</td>
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</tbody>
</table>

Yet, mobile and mobile money services are taxed at a rate similar to products that generate significant negative externalities...

<table>
<thead>
<tr>
<th>Sector</th>
<th>Consumption tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>35%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>32%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>27%</td>
</tr>
</tbody>
</table>

*The 28% tax rate comprises 18% VAT and a 10% excise duty on money transfers (Source: Tanzania Revenue Authority)

Note: agents are liable to a withholding tax of 10% on mobile money commission received, thus spreading the mobile money tax burden further.
...and mobile operators therefore contribute disproportionately to Tanzanian public revenues

Revenue from mobile operators makes up **2.6%** of Tanzanian GDP*

Taxes paid by mobile network operators amounted to **7.2%** of total tax revenue in Tanzania... equivalent to around one-quarter of the country’s spend on education**

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* Within the 2015-2016 fiscal year. Source: IMF WEO 2015

Note: 7.2% of total tax revenue in 2015/16 equates to TSh 890.1 billion (USD 407 million)
Source: GSMA – Tax reform in Tanzania: Improving mobile access by lowering affordability barriers, 2015; GSMAi data; Tax payment data from operators
The claim that 52% of GDP flows through mobile money has spurred confusion about the public benefits of taxing the service.

Steps for a TZS 70,000 P2P transfer

Cash-in
P2P transfer
Transfer received
Cash-out

(TZS 70,000)
(TZS 70,000)
(TZS 70,000)
(TZS 70,000)

Transfer value / transaction fees

TZS 280,000

(Mis-)calculated transfer value in the GDP comparison

TZS 70,000
TZS 70,000
TZS 70,000
TZS 70,000

Illustrative example of resulting tax base (from fees levied*)

TZS 0
TZS 550
TZS 0
TZS 2,275

In a transfer of TZS 70,000, the value generated is:

TZS 2,825

This represents 1% of the TZS 280,000 that has been transferred through the system.

*Using an average of the fees charged by all Tanzanian mobile money services

In reality, the potential contribution of mobile money to public finances is small...

Government expenditure
US$ ~9.23 billion

Mobile network operator fees
US$ ~87 million

Value of agent commission
US$ ~44 million

Tax levied on operator fees
US$ 8.7 million

~0.09% Operator fees as a proportion of total government expenditure

Note: Operator fees refer to the total value of fees and charges levied on customers by the provider through all types of mobile money transactions excluding any revenue share arising from mobile credit, savings or insurance services. All figures refer to Q3 2016 data.

Sources: IMF – World Economic Outlook estimates, April 2017; Tanzania Revenue Authority Quarterly Tax Revenue Collections 2016-17
...and there is much to gain by supporting mobile money growth, including by digitising government payments

The Kenyan National Transportation Safety Authority doubled its monthly revenue by using eCitizen, Kenya’s e-Government platform

<table>
<thead>
<tr>
<th>Month</th>
<th>Revenue ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2015</td>
<td>1.1 million</td>
</tr>
<tr>
<td>October 2016</td>
<td>2 million</td>
</tr>
</tbody>
</table>

There is a better way - the replacement of sector-specific taxation with broad-based alternatives would deliver more to Tanzanians.

1. Taxation should be broad-based… Mobile money-specific taxes may lead to inefficiently low consumption and investment in the mobile (money) sector in Tanzania.

2. ...consider sector and product externalities… Mobile sector taxes fail to account for the positive effects and spillovers into other sectors (agriculture, healthcare & education).

3. ...be simple, understandable and enforceable… Frequent tax increases could curtail and deter future investment.

4. ...incentivise competition and investment… Taxes on total operator revenue reduce the incentives for investment in infrastructure and quality of service improvements.

5. and avoid regressive impact. Taxes on mobile hit poorer Tanzanians harder and risk excluding them from the benefits of digital and financial inclusion.

Source: GSMA & Deloitte – Digital inclusion and mobile sector taxation in Tanzania, February 2015