Mobile telephony and taxation in Turkey

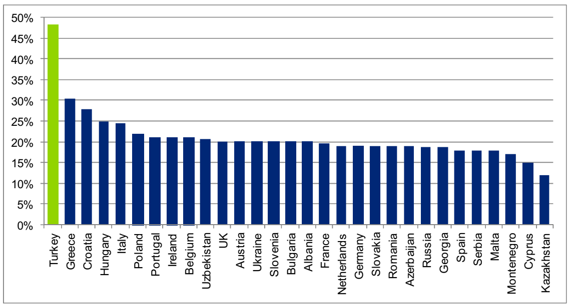
Executive summary

Economic impact

- In 2011 the mobile communications industry has contributed TRY 28.8 billion to the Turkish economy, around 2.3% of GDP (direct contribution of TRY 11.3 billion, indirect TRY 9.2 billion, and additional multiplier effect of TRY 8.2 billion).
- The industry directly employed nearly 150,000 Full Time Equivalents ('FTEs') and an additional 55,800 FTEs are employed indirectly.

Consumer taxation: Turkey levies the highest tax rates world-wide

Figure 1: Tax as a percentage of TCMO, 2011

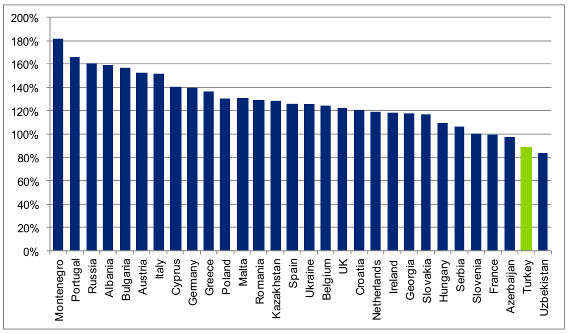


Source: Deloitte/GSMA Global Mobile Tax Review 2011

- As Figure 1 shows, taxes represented 48.2% of the Total Cost of Mobile Ownership ('TCMO')[1] for the average Turkish consumer against a global average of 18.2%. Turkish mobile consumers are taxed as follows:
  - ***Usage:*** 43% (25% communication tax and 18% VAT) for voice and SMS and 23% (5% communication tax and 18% VAT) for data.
  - ***Handsets:*** 49%
  - ***Activation:*** TRY 47.2 in 2011 rising to 51.56 in 2012.
  - ***Annual charge on each subscription:*** TRY 13.2 in 2011 rising to TRY 14.56 in 2012.

- The high tax rates negatively impact market development. Not only does mobile penetration in Turkey lag other European and neighbouring countries (Figure 2) but also an analysis of countries that had a lower penetration than Turkey in 2000 shows that penetration in all of them has outpaced Turkey by 2011 (Figure 3).

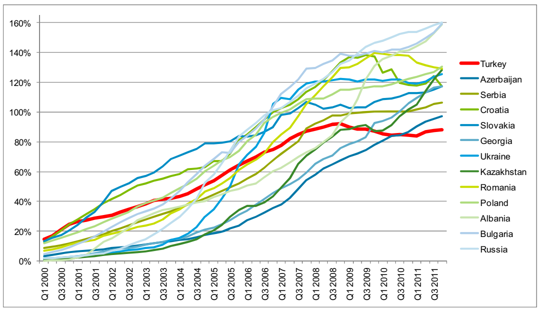
Figure 2: Mobile penetration in a sample of European and neighbouring countries, 2011



Source: Wireless Intelligence

[1] The TCMO is derived from handset costs, connection costs, rental costs (typically for post-pay services) and call and SMS usage costs. Handset and connection costs in Turkey are amortised over a three year period

Figure 3: Penetration in a sample of European and neighbouring countries, 2000-2011



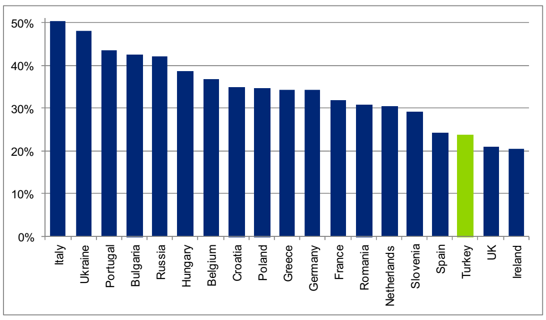
Source: Wireless Intelligence

Business Taxation: Discriminatory and Distortionary

- In addition to 20% corporate tax, mobile operators pay a 15.35% treasury share and contribution fee to the national regulatory authority on revenues. Its implementation raises a number of concerns:
  - Unlike VAT or the Special Communications Tax which are collected from consumers by operators on behalf of the government, the treasury share and the contribution fee are levied on operators directly and are therefore not transparent to consumers.
  - The treasury share and contribution fee are discriminatory in their treatment of mobile operators relative to other industries, and as such are distortionary.
  - Whereas Turkey is introducing regulation consistent with the European Union (EU) framework in a number of areas, e.g. Mobile Termination Rates, no country in the EU applies a similar treasury share and contribution fee and this is not aligned with the EUs telecommunications framework.

    Operators need to provide substantive subsidies to customers in order to compete in the market including but not limited to activation and annual charges.
- Operators' net earnings are therefore negatively affected by both the treasury share and contribution fee and by tax related subsidies. Figure 4 demonstrates the comparison of Turkey's EBITDA margin with EU countries.

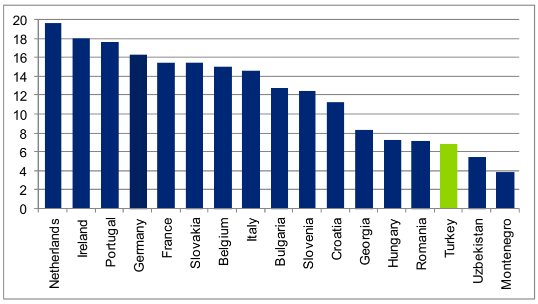
Figure 4: EBITDA margin, 2011



Source: Wireless Intelligence

- Low EBITDA margins in Turkey also raise concerns about the ability of the industry to recoup the large fixed infrastructure investments already made, and puts future investment at risk. Figure 5 shows that capital expenditure (capex) investment per capita in Turkey lags behind European countries.

Figure 5: Capex per capita, 2010, US$

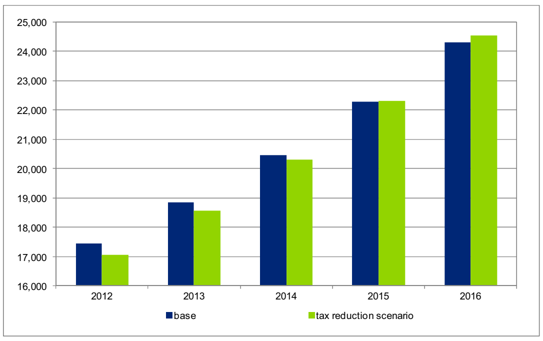


Source: Wireless Intelligence data

Reducing tax: A win win scenario

- In countries where taxation is high, reducing taxation has the potential to provide more positive effects than in countries where taxation is lower. A more lenient taxation regime in Turkey would increase mobile penetration and usage, expand the market and improve profitability and would also be revenue positive for the government in the medium term.
- A scenario analysis was modelled to compare a base case (whereby no tax changes occur) against a one off tax reduction in 2012, covering the period 2012 to 2016. The one off reduction comprised:
    - ***Usage:*** A reduction in communication tax on calls and SMS from 25% to 15% (the same level that is applied to fixed telecom services.
    - ***Activation:*** The elimination of mobile specific subscription charges, i.e. the Wireless Licence Fee (TRY 13.2 in 2011) and the fixed component of the Special Communications Tax (TRY 34 in 2011) on data only SIM cards.
    - A partial reduction of the Wireless Licence Fee and the fixed component of the Special Communications Tax on all other SIM cards.
- The results of lowering taxes are encouraging:
    - Mobile penetration would reach 104% in 2016 as opposed to 98% in the base case and 3G penetration would reach 72% in 2016 as opposed to 68% in the base case.
    - Data only SIM card sales would almost be double.
    - Total minutes of use and SMS would be 8% higher each year.
    - **Figure 6 shows that in 2015, government receipts from mobile and general taxation would be higher than in the base case and the increase will be maintained thereafter.**

Figure 61: Government tax revenues, 2012-2016, TRY millions



Source: Deloitte analysis

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