Rethinking Mobile Taxation in Tunisia: Achieving digital inclusion by supporting mobile affordability, growth and investment

Mobile services currently connect 58% of Tunisia's population and deliver widespread social and economic benefits.

By enabling greater productivity and exchange of information for business and social purposes, the mobile sector has the potential to promote both digital inclusion and economic growth, helping to increase living standards and to improve Tunisia's international competitiveness.

High-speed mobile Internet, in particular, provides access to cheap and innovative services that enhance social and economic development, especially in key areas such as health, education and financial services. Mobile initiatives and applications are already helping to improve educational and employment outcomes for young people in a country where youth unemployment is high. In addition, mobile banking applications extend financial services to the unbanked, and other initiatives such as Orange Tunisia's Developer Programme are promoting entrepreneurship and innovation.

However, significant gaps in digital inclusion exist in Tunisia:

- The majority of Tunisians lack access to mobile Internet, with 3G penetration at 20%. This is lower than the average of 25% for the Arab World[1] and lower than in Lebanon, Libya and Jordan where 3G penetration stands at over 30%

- In inland and rural regions, mobile network infrastructure is underdeveloped and 50% of the rural population are not covered by 3G networks. As such, Tunisians in these regions are at an increasing risk of being left behind in a digital divide

Supportive policies by the government, including a more balanced taxation structure, are required to allow the mobile industry to develop and deliver the benefits of digital inclusion. A recent study conducted for the GSMA by Deloitte[2] reviews the impact of mobile taxation in Tunisia, identifies a number of priorities for policy change and quantifies the potential socio-economic and fiscal benefits of rebalanced mobile taxation and fees in Tunisia.

1. Arab States for which data is available: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, South Sudan, Sudan, Syria, Tunisia, UAE and Yemen
2 GSMA/Deloitte, Digital Inclusion and Mobile Sector Taxation in Tunisia, 2016

The 5% industry fee charged on mobile services is a sector-specific tax that penalises mobile compared to other goods and services

Key findings

Taxes accounted for **23%** of the total cost of mobile ownership in Tunisia in 2013

In 2014 the mobile industry paid more than **US $433 million** in recurring tax and fee payments, representing **37%** of total sector revenues in Tunisia, equivalent to a **42%** effective tax rate

Tunisia is one of only three Arab States to impose a mobile-specific corporation tax

The corporation tax rate is **35%** compared to the standard rate of 25%, and this is the fourth highest in the Arab World

The mobile industry has a clear role in supporting economic growth, providing government revenues and therefore contributing to public services. Increased mobile adoption and usage could drive growth within the sector and its supply chain and increase productivity for new users. Imposing a greater burden of taxation on mobile relative to other goods and services, whilst potentially delivering short-term benefits to government revenues, could be detrimental to long-term socio-economic development.

Analysis carried out by Deloitte for the GSMA shows how rebalancing taxes on mobile would support the Tunisian government's objectives of promoting information and communications technology, investment and economic growth and would complement the wider economic reforms that are currently being implemented. The analysis shows how the government could recover tax revenues in the medium term, and enhance the tax base in the longer term. In particular:

- Phasing out the industry fee levied on all mobile services and sales has the potential to reduce the cost of mobile services for consumers, which could potentially increase mobile penetration by 2.2% leading to an additional 421,000 mobile connections by 2020, including 288,000 mobile broadband connections. As a result, Tunisian annual GDP could potentially increase by US$ 314 million while investment could increase by US$ 74 million. From enhanced economic activity and a broadening of the tax base, the government of Tunisia could potentially achieve revenue neutrality within three years and gain up to US$ 22 million in additional revenues in 2020

- Phasing out the VAT and industry fee on incoming international calls would reduce tax payments made by operators, which potentially could be passed through to consumers. This could potentially generate 118,000 new connections by 2020, including 81,000 3G connections. Through increased mobile ownership and use, GDP in 2020 could potentially increase by US$ 88 million, with a cumulative impact of an additional US$ 291 million over the period of 2016-2020

- Phasing out the industry fee on national interconnection services could potentially increase the number of connections in 2020 by 19,000, including 13,000 3G connections. In 2020 GDP could potentially increase by US$ 14 million and tax revenues could potentially be higher by US$ 0.5 million

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