

Reforming mobile sector taxation in Bangladesh: Enhancing mobile connectivity across Bangladesh through a more efficient tax system

Mobile telephone services play an increasingly important role in supporting and delivering development, economic growth and social inclusion.

In Bangladesh, the mobile market has expanded rapidly over the past decade and there is significant scope to further increase penetration. Despite this strong growth, Bangladesh still ranks below a number of regional peers when it comes to connectivity



The lack of affordability of mobile services is constraining the potential for further growth due to high levels of taxation in comparison to other sectors and regional benchmarks. Furthermore, the slow adoption of 3G and 4G acts as a barrier to usage and migration to new technologies.

The Bangladeshi mobile market presents significant scope for further growth...

unique subscriber penetration

51%

connection penetration

87%

11.4%

...but affordability of mobile services constrains mobile adoption...

The total cost of a **1GB** basket represents **11.4%** of the monthly income of the poorest **20%** of Bangladeshis

*This is higher than the affordability threshold of **5%** recommended by the UN Broadband Commission for Sustainable Development and the 2% target for 2025*

5%

...and is a barrier to technology migration



Only

21%

of Bangladeshis have access to mobile internet

Taxes contribute significantly to the affordability barrier and limit investments in 3G/4G

Share of total tax contribution of the mobile sector in its total market revenue:

46%*

This is high compared to Indonesia (**23%**), Malaysia (**20%**) and Thailand (**14%**)

Mobile operators are subject to the highest rate of corporation tax along with tobacco companies and a supplementary duty of **5%** on mobile services



Through policy reform, the government of Bangladesh has the opportunity to simplify and rebalance mobile sector taxation, leading to increased productivity across the economy, as well as increased digital and financial inclusion

Unless stated otherwise, data is from 2017.

*2014 data

Economic impacts of tax reform

The GSMA has commissioned EY to estimate the impacts of three potential reforms on the mobile sector and the wider Bangladeshi economy, using a model of the Bangladeshi mobile sector and a Computable General Equilibrium (CGE) model of the economy. The summary table below provides an overview of the main results.

Estimated impacts of tax reductions over a five-year period (2019-2023)

	Price of services	Additional investment in the economy	Total new unique subscribers	GDP growth	Total new jobs	Annual gain in tax revenue by 2023
Reduction of the corporation tax for non-public mobile companies from 45% to 40%, and for public mobile operators from 40% to 35%	-0.5%	+\$180m	+0.5 million	+\$131m	+7,900	+\$14m
Removal of the supplementary duty of 35%, and VAT of 15% on SIM cards	-1.7%	+\$468m	+2.3 million	+\$535m	+22,100	+\$123m
Removal of the supplementary duty of 5% levied on mobile services provided through SIM cards	-3.3%	+\$687m	+3.2 million	+\$749m	+33,500	+\$135m

WHAT IS THE IMPACT ON GOVERNMENT REVENUES?

These tax reforms are self-financing

The Government may face an initial cost in the first year following the reform, but tax reforms would boost productivity, leading to higher GDP and taxation revenue in the medium-term.

Over a five-year period, the cumulative fiscal gain would be:

- **\$29m** from the reduction of the corporation tax for non-public mobile companies from 45% to 40% and for public mobile operators from 40% to 35%.
- **\$397m** from the elimination of the supplementary duty of 35% and VAT of 15% on SIM cards.
- **\$397m** from the elimination of the supplementary duty of 5% levied on mobile services.



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