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.

Today about 49% of Bangladeshis are still excluded from mobile services.

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.
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.

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

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.